

5th January 2005

A New EMC Direction

By Norman Bartlett

Introduction

EMC has presented its new face to analysts. It looks bright and shiny but is there a slight trembling of the lip, an uncertainty behind that sunny smile?

Rainer Erlat, EMEA SVP, made a strong pitch to European analysts in London. The main message: EMC is evolving from product-focused firm to solution-focused supplier. It will mean increased concentration on the channel and data was shown to illustrate that it was all working wonderfully.

In Q3 of 2004 EMC booked just over \$2 billion in sales, roughly a quarter of which was in EMEA. "Half of this is channel business", claimed Erlat, "And it is mainly Dell", he added, referring to the established partnership with the direct PC manufacturer.

To those analysts sceptical of a business model based on a partnership with a single dominant supplier, he went on to emphasise that across the globe channel sales through non-Dell partners were growing faster than Dell channel sales.

One of the aims of the strategy in EMEA is to build the public sector business. This is understandable as it is presently only 4% of sales and the public sector – as everyone paying their tax bill knows to their cost – is expanding enormously. Will the Dell partnership deliver the growth in the public sector that EMC wants or is a different approach required?

In Eastern Europe and Russia, EMC has not yet set out its shop. It is still deciding on the best partner structure for the geographical area.

Market Pillars

The three market pillars of the overall strategy are:

- Enterprise business with a potential in 2007 of USD 5.8 billion where EMC, with its own sales force, will be aiming for mail, database, ERP, business continuity, archive, content management and consolidation applications – information lifecycle management (ILM)
- Commercial business with a potential of USD 5.6 billion, addressed by EMC and its partners to find business continuity, recovery, archive, networked storage and application management opportunities.
- Small & medium business (SMB), with an estimated USD 3.8 billion, handled solely through the channel aiming for networked storage, business continuity, recovery and archive usage.

EMC believes it can make money in the SMB sector while acknowledging it is a high volume, low margin business. Analysts' scepticism about an overall dilution of margins was rejected. The product for the mass market is the Clariion AX100, a network storage system "that can be installed by the customer". While true, in most cases it is likely to be installed by a channel partner with the consequent opportunities for service add-on.

"By the end of the decade, a storage service will be delivered to customers which has EMC's tiered storage within a virtual environment over which information and content management is overlaid".

EMC has analysed the activities that go to make up a services offering. The planning and design stages are a business, which is declining, probably by about 20%. The build, migration and integration processes are bounding ahead at 50% growth rates. The established area of service – managed storage, education and training, support and maintenance – are also growing but at a rate of about 30%.

“Virtualisation is only a file” is an attractive verbal simplification of what is a complex process. It has been taken further than most by VMWare Inc, supplying eponymous software that enables ordinary PC networks to enjoy the flexibility and efficiency that virtual operating systems brought to mainframes. Now there is a community of 2.5 million VMWare users - mostly used in the Intel/Windows/AMD/Linux environment, though it is not restricted to that area. For the enterprise desktop market it offers the Assured Computer Environment and IBM, HP, Dell, NEC and Siemens-Fujitsu have all cosied up to the package.

With its strong market momentum, VMWare seems set to become an industry standard. EMC acquired VMWare in early 2004. The analogy may not be valid, but when AT&T (a large corporation like EMC) acquired Unix (a supplier of market standard software), the industry consensus rapidly shattered.

EMC has made over 20 acquisitions in recent months in order to build its technology and market position. It has also consolidated certain offerings so, for example, Legato and Documenta have been merged in one division. The company’s key software opportunities are identified as application storage management, enhancing recovery and managing reference data. Workflow – meaning continuous storage – will be the underlying theme of the next generation software development.

The storage business has been expanding enormously so that the impressive growth rates EMC has achieved must be measured against significant market expansion.

As Peter Cochrane, the IT guru and futurist has said, “Every major company is now saving all paper and electronic documents, including emails, letters and diaries, to satisfy the legal requirements of government and modern business regulation....security services and government departments recording more than we need to know and at home the personal collection of life-bits is escalating with digital cameras, movies, music, games and other forms of entertainment”.

Conclusion

Suppliers in the storage business are headed for a wild ride. EMC knows it and says, “EMC is still halfway on its journey of transformation from a single product company to an ILM provider.”

EMC has read the market well so far. Aside from one or two possibly questionable decisions and of course the quality of service perceived by the clients, it deserves to be a success over the next five years or so.

Every care is taken to ensure that all contents of this ViewPoint are accurate and opinions stated are based on information and sources we believe are reliable, but are not guaranteed. No liability can be accepted by TekPlus Limited, its directors, employees, or authors for any loss incurred as a result of using or failing to use anything contained in the report, conclusions stated or inferred.

TekPlus Limited
12th Floor York House
Empire Way, Wembley
Middlesex, HA9 0PA
United Kingdom

Tel: (44) 208 795 4500
Fax: (44) 208 795 5800
www.tekplus.com
info@tekplus.com