

Has Itanium Turned the Corner?

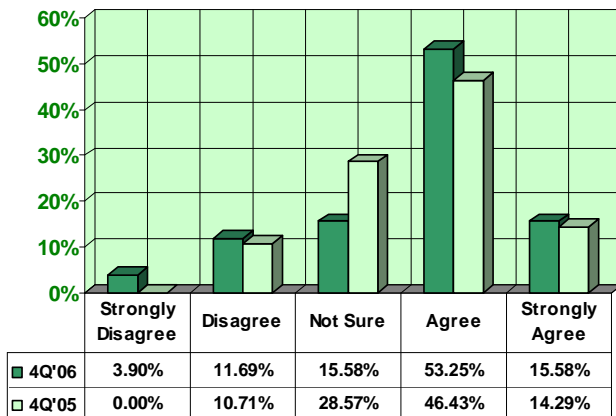
We recently released overall results from our 4Q'06 Unix Vendor Preference Survey, which asked 277 enterprise Unix customers to rate and rank the major Unix vendors (HP, IBM, and Sun Microsystems) on a wide variety of technical and customer support criteria. This is the second year that we've run this particular survey, and it has provided us with a wealth of data concerning how 'real world' customers perceive Unix system vendors and their offerings.

While much of the survey asks customers to rank the vendors against each other on various factors, the 'Installed Base Perceptions' section of the survey lets customers weigh in on how well (or poorly) their chosen Unix vendor is doing. The questions in this section are designed to test customer loyalty, often taking FUD directly from competitors' playbooks and PowerPoint presentations. This report takes a look at how Hewlett Packard's installed base perceives HP's strategy and the commitment of that base to HP systems going forward.

HP: Installed Base Perceptions

The biggest challenge for HP in the Unix market has been their ongoing transition from their HP 9000 servers based on home-grown PA-RISC processors to HP Integrity servers, based on Intel Itanium processors jointly developed by HP and Intel. Initial versions of the chip suffered from delays, performance shortfalls, and spotty ISV support. Hewlett Packard, along with Intel, has devoted considerable resources towards increasing Itanium performance and building a viable ecosystem. The success of this transition is critical to the future of HP's Unix business; if customers don't buy into the Itanium-based system strategy, then their HP-UX installed base will wither.

"We fully agree with HP's Itanium strategy and are migrating with all due speed"



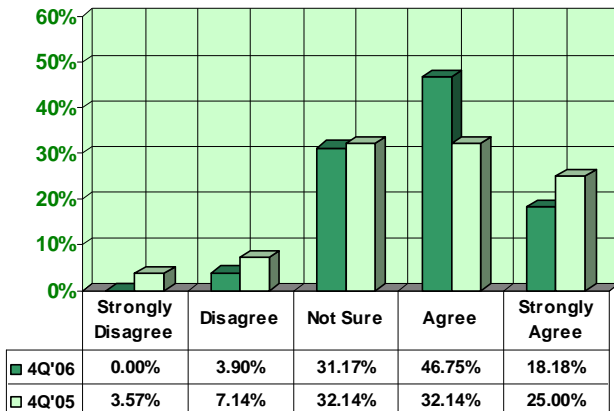
With this in mind, our first question to HP 'standardizers' was their opinion on the company's Itanium strategy. As can be seen on the chart at left, HP's installed base is more than comfortable with HP's Itanium strategy. In our 4Q'05 survey, just over 60% of respondents either agreed or strongly agreed with HP's strategy and said they were moving over to HP's Itanium-based Integrity systems. In our latest survey (4Q'06) this number has increased to almost 70% - a significant improvement. It is also important to note that the number of HP customers who outright disagree with the Itanium move is relatively small - around 11-15%.

Gabriel

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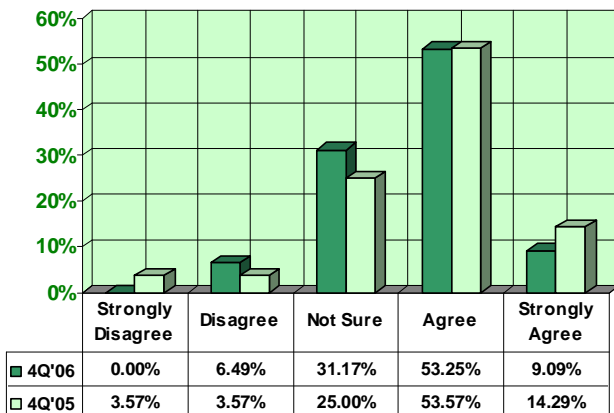
"Itanium sales are large enough to ensure a robust ecosystem..."



Another big knock on Itanium was that system sales weren't/aren't large enough to support a viable 'ecosystem' of systems, applications, developers, and all the other ancillary items needed to support a new processor architecture.

The HP customers in our survey, by a 65% majority, believe that Itanium-based system sales are strong enough to foster a solid ecosystem. This score is 13% higher than the 2005 result, when 57% agreed that the ecosystem was developing nicely. The negative responses on this question (the number of participants either disagreeing or strongly disagreeing with the statement) have dropped from 11% to only 3% - another vote of confidence from the Itanium community.

"Application availability on Itanium is not a problem..."

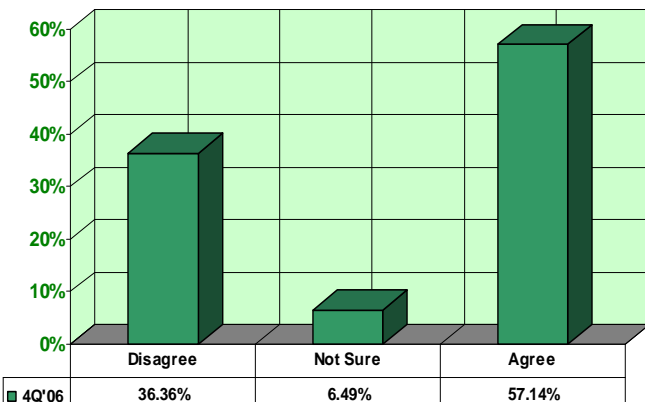


Delving deeper into the ecosystem issue, we asked customers if they were having any problems finding Itanium versions of the applications they need. The large majority of customers, 63% in '06 and 68% in '05, do not have any problems finding Itanium server applications. We followed up with some of the 'not sure' respondents and found that while they have the Itanium applications they currently need, they were uncertain about the status of Itanium flavor applications they might need in the future. With over 12,000 ISV applications available for the processor (divided among various operating systems, HP-UX, Linux,

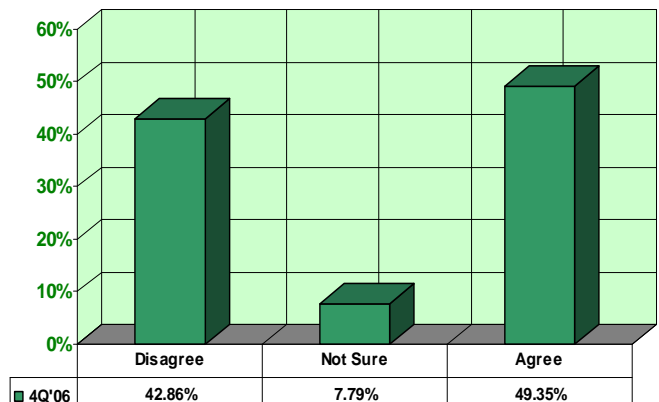
Windows, OpenVMS, and Non-Stop), most customers should be able to find the applications they need.

Given that the HP standardizers in our survey are behind HP's Itanium strategy, believe there is a robust ecosystem, and find plenty of applications to run on Itanium-based systems, the question becomes: are they voting with their dollars and actively migrating to HP Integrity systems? If so, what's their progress to date? The next set of charts covers these questions in depth...

"We have already migrated 25% of our HP-UX systems to Itanium"

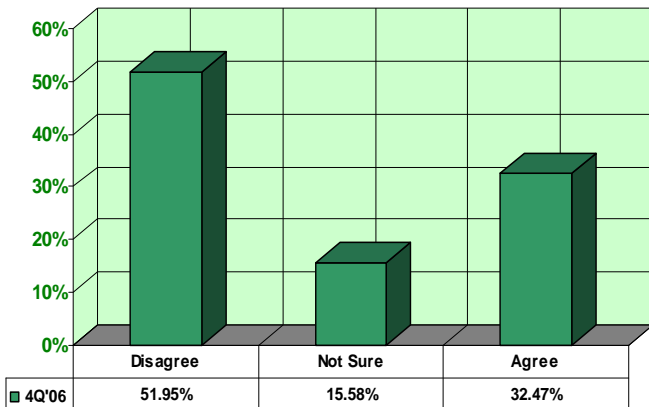


"We have migrated 25-50% of our HP-UX systems to Itanium"

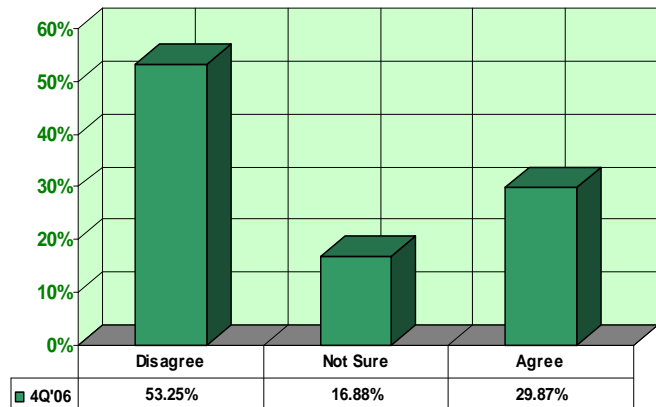


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"We have migrated 50-75% of our HP-UX systems to Itanium"



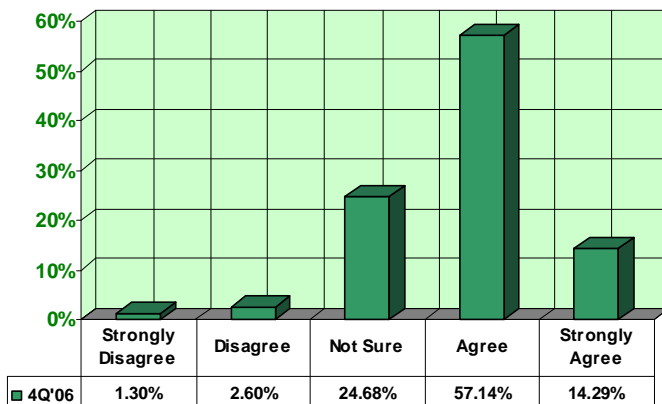
"We have migrated 75% or more of our HP-UX systems to Itanium"



As can be seen from the charts above, the HP-UX installed base is steadily moving towards Itanium-based systems. More than half of our HP-centric survey respondents report that they have moved a quarter of their HP-UX server workloads to Integrity systems. Half say that they've migrated 25-50%, and almost 30% of our survey participants say that they have migrated 75% or more of their HP-UX systems to the new Integrity gear – a stronger endorsement than we expected. This is even more noteworthy when you consider that 76% of our survey respondents have two or more Unix vendors in their data center – meaning that the large majority of the HP-centric participants in our survey have access to and experience with both Sun and IBM Unix systems – but still have chosen to go forward with HP and HP-UX, despite the trials of the Itanium migration.

We believe HP-UX was, and continues to be, an important factor in HP customers' decisions to stay with the brand and migrate to Integrity. In the survey, we asked each group of Unix customers

"HP-UX is the most sophisticated/advanced Unix O/S"



(those who standardized on HP, IBM, and Sun) how they viewed their chosen Unix operating system. As a group, 71% of the HP survey population agreed that HP-UX is the most sophisticated and advanced Unix o/s. Only Sun Microsystems users rated their Unix (Solaris) higher – and, at 75%, it's only a slight lead. By comparison, IBM users favored their AIX operating system by 67%. HP customers obviously hold HP-UX in high regard and believe it is the best operating system for their needs. We believe that this commitment to HP-UX has trumped the inconvenience and/or the potential risk of moving to Itanium-based Integrity systems.

HP also gets quite a bit of credit for their wide-ranging efforts to encourage Itanium ports of applications and build a robust Itanium ecosystem. Their support of the new processor has been unwavering in the face of many technological, business, and competitive challenges.

Summary & Conclusions

Based on the multi-year survey results above and additional GCG research, we believe that most HP installed base customers have decided in favor of Itanium-based Integrity systems. From a competitive standpoint, this means that the Itanium issue is no longer a 'silver bullet' that competitors can use to sow FUD. Some of the early Itanium skeptics (including us) estimated that HP could lose a large portion of their installed base over the 'forced migration' to their Integrity systems. However, it looks like HP has done a pretty good job of allaying customer fears and building an Itanium ecosystem worthy of migrating to. Don't get us wrong; HP and Intel still have to execute on their roadmaps and continue to build the Itanium ecosystem to ensure success. And they still have quite a battle in trying to build market share by taking it out of the hides of IBM and Sun. But, for the most part, it seems like the HP installed base is comfortable with Itanium and will be steadily migrating over the next few years.

As Itanium skeptics, we have to admit that the depth and breadth of support for HP's Itanium strategy from HP's Unix customers has surprised us; we're now convinced that HP's Integrity move has been successful enough to keep them in the thick of the Unix server wars. The HP installed base is healthy and relatively happy, and the company is still pulling down roughly a third of world-wide Unix sales by revenue. With three healthy competitors, the Unix server war will continue to rage – much to the benefit of customers who will find themselves getting more performance and business value for their Unix server dollar.

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