

## **Pick-up in server market lifts fortunes of tech companies**

*Richard Waters*

The \$55bn market for servers has hit an inflection point, as average selling prices start to rise again after years of cut-throat competition and rampant commoditisation.

That, at least, is the hope that has been spreading through some of the world's biggest technology companies following the release of data pointing to a turnaround in a market that forms a core part of their business.

"We are thinking of this as more than an aberration," said Paul Miller, vice-president of marketing for Hewlett-Packard's enterprise server and storage group.

David Gelardi, a vice-president in IBM's systems and technology division, added: "It's a little bit of the pendulum swinging back."

The figures in question, released this month by the technology research group IDC, show the average prices of servers sold in the final quarter of last year rose by 5.2 per cent. That ended a long downward trend as big companies shifted an increasing part of their computing effort to large numbers of low-cost, standardised machines.

While cautioning that the extent of the fourth-quarter turnaround reflected some seasonal factors, Matt Eastwood, an IDC analyst, said it pointed to an acceleration of trends that was first apparent about three years ago.

The earlier habit of buying low-cost machines "by the pallet-full", often plugging in a new server for every new computing application, had left companies with unexpected costs, he said.

These included the expense of running under-utilised machines, many running at only 15-20 per cent capacity, and paying for information technology staff to maintain them.

Companies are now "buying fewer machines, but the machines are much more richly configured; there's a lot more memory in them", Mr Eastwood said.

That has led to an increase in demand for higher-end machines, which generally carry higher profit margins.

One of the main beneficiaries of this trend has been Sun Microsystems, which relies on server sales for a higher proportion of its revenues than rivals IBM, HP or Dell and has invested in more expensive cutting-edge machines to try to gain a technology edge.

Sun's shares have jumped by more than 50 per cent since last summer as a cost-cutting drive and a pick-up in demand have lifted it back into profit.

Two new technologies have accelerated the trend for loading more work onto fewer, more expensive machines. One is the spread of "virtualisation" software, which makes it possible to run different computing tasks in parallel on the same machine.

In a sign of the surge in demand for virtualisation software, EMC recently announced plans for an initial public offering of its VMware subsidiary. With sales approaching \$1bn a year and an expected market value of some \$10bn, it has become the most widely anticipated new software offering on Wall Street for years.

The other new technology behind the apparent shift in the server business is the arrival of multi-core processors, chips that can handle several tasks simultaneously. The first servers based on quad-core processors hit the market last autumn.

**Fonte: Financial Times, USA, March. 29 2007. Companies The Americas, p. 21.**