

Challenging Microsoft with a new technology

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Microsoft's No. 1 rival is a household name, Google. But a strong candidate for No. 2 is a company that is scarcely known outside the technology industry: VMware.

"VMware is definitely a threat," said Gary Chen, an analyst at IDC, a research firm. "After Google, it is the company Microsoft fears most."

Google and VMware pose a broadly similar challenge to Microsoft, by potentially undermining the dominance of its most lucrative products, desktop software and operating systems. While Google represents the attack from above, VMware is the assault from beneath.

Google, the search giant, offers free advertising-supported software for e-mail, word processing, calendars and spreadsheets online, as alternatives to Microsoft's popular Office products. For Web-based programs like these, it is the browser — not an operating system like Windows — that is the vital layer of software on the computer.

VMware is the leader in so-called virtual machine software, which allows a computer to run two or more operating systems at once. Its software resides on top of the hardware and beneath the operating system.

But as VMware's technology becomes more powerful and it adds more features to its products, it can start to supplant the operating system from below — just as the browser can from above.

VMware's leadership adds an edge to its bottom-up challenge to Microsoft. A year ago, Paul Maritz, a former senior executive at Microsoft, took over as chief executive. In the late 1990s, he was regarded as the company's third-ranked executive, the person with the most responsibility and authority after Bill Gates and Steven A. Ballmer.

Mr. Maritz walked away from Microsoft a wealthy man in 2000, and he focused mainly on philanthropic work like microfinance, conservation and rural development projects, especially in Africa (he was born and raised in Zimbabwe). In 2003, he founded a small Web start-up company, but his business interests were a far cry from the mainstream of corporate combat.

The lure at VMware, Mr. Maritz explained, was the chance to lead a company riding a wave of game-changing technology. "It's a rare opportunity to be part of a paradigm shift," he said. "That's what attracted me."

In January, Mr. Maritz was joined by Tod Nielsen, another former Microsoft executive, who became VMware's chief operating officer.

As 11,000 business partners, developers and customers gather in San Francisco for the start of the company's VMworld conference on Monday, the strategy under Mr. Maritz is clearly taking shape. In August, the company announced that it planned to pay \$420 million to acquire SpringSource, a maker of open-source software development tools, some of which analyze and tweak the performance of applications. Adding such features could allow VMware's technology to essentially sidestep an operating system like Windows.

"It makes us far less dependent on the operating system to manage the applications," Mr. Nielsen said.

So far, virtualization technology has been used mainly to cut costs in data centers, where it lets companies handle computing chores with fewer machines, using less energy and floor

space. Now, companies are starting to use it to manage software that is delivered to their workers on desktop PCs across the corporate network.

VMware plans to make a big push into the desktop and notebook market, introducing technology next year to better handle high-end graphics and allow users to do work even when they are not hooked into a network.

In data centers, VMware wants to demonstrate that beyond the hardware savings, the next frontier is the reduced operating costs that result from increasing the number of servers that are "virtualized."

Today, VMware says companies typically have one human administrator for every 50 server computers, while data centers with more than half of their machines virtualized can fairly quickly increase that to one to 200 or higher.

"We have to go beyond capital costs to speak to doing more for our customers by using virtualization to reduce operating costs and operational complexity," Mr. Maritz said. "We are entering a significant turn in this market."

And, he observed, "we do have the footsteps of Microsoft behind us."

Indeed, Microsoft is coming. Its game plan is a rerun of the strategy it used in the Web browser market — bundle free virtual machine software into its operating system. In July 2009, Microsoft introduced its HyperV virtual machine in Windows Server 2008. New features to help it catch up to VMware will be introduced in October.

"Our strategy is to integrate virtualization into our product line in Windows, with our management software and the familiar Microsoft developer tools," said Mike Neil, a general manager in the Windows server division.

Microsoft has a long way to go. At the end of last year, more than 80 percent of virtualized computing workloads ran on VMware, analysts estimate, with the remainder shared by Microsoft, Citrix Systems' Xen, Virtual Iron and others. But only 15 percent of servers have been virtualized, and with that percentage likely to at least double over the next five years, there is still plenty of opportunity in the market.

There is considerable interest in Microsoft's offering, analysts say. A recent report by Gartner projected that Microsoft's share of installed virtual machine software would increase to 29 percent by the end of 2012, from 8 percent at the end of last year.

"Microsoft is going to be very formidable in this space," said Stephen F. Shuckenbrock, president of the large enterprise division at Dell, which is a partner of both VMware and Microsoft. "Many customers, at the very least, are intrigued by the free virtualization software bundled by Microsoft."

VMware, based in Palo Alto, Calif., is a formidable company today, solidly profitable with \$1.9 billion in revenue last year. (It is majority owned by EMC but reports financial results separately and has its own stock listing.) The company Mr. Maritz inherited last year, when the founders, Diane Greene, the chief executive, and her husband, Mendel Rosenblum, a Stanford computer scientist, departed, had a "great foundation with wonderful people and wonderful technology," Mr. Maritz said.

Still, Mr. Maritz added, VMware needed to move up the technology ladder and "master some new tricks" to stay ahead of Microsoft. Whether it can do that in the long run is the big question surrounding the company.

"It has fantastic technology, but will it be a fantastic business?" asked A. M. Sacconaghi, an analyst at Bernstein Research. "The browser was fantastic technology, but it turned out not to be good business."

Both Mr. Maritz and Mr. Nielsen are veterans of the browser wars of the 1990s, from the Microsoft side. They are optimistic that VMware can stay ahead. "This is going to be a battle for sure," Mr. Nielsen said. "But we are going to stay focused and continue to outrun them."

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