

# Vendor Rating: Sun Microsystems

Gartner RAS Core Research Note G00146971, Paul McGuckin, Daryl C. Plummer, Laura McLellan, Roger W. Cox, Tiffani Bova, Jess Thompson, Donna Scott, Bob Igou, Ron Silliman, Eric Goodness, George J. Weiss, 23 April 2007 R2281 04232008

**Sun Microsystems' improved revenue, substantial progress toward sustainable profitability and return to Unix server market leadership warrant an increased vendor rating of "positive."**

## OVERALL RATING

Positive

## WHAT YOU NEED TO KNOW

Sun customers should feel more comfortable with their infrastructure than they have since 2001 because of the company's improved market and financial position. Sun servers that are more than four years old can be replaced with a short payback time due to savings on support costs.

## VENDOR RATING

### Analyst Comments

Since our last vendor rating of Sun Microsystems in September 2005, the company has reinvigorated its image in the market and made substantial progress toward sustainable profitability (see Table 1).

### Corporate Viability

Sun Microsystems, headquartered in Santa Clara, California, designs and offers technology infrastructure, including servers, storage, software, services and microelectronics. Founded in 1982, it has 34,000 employees in 110 countries worldwide, and had 2006 fiscal year revenue of \$13 billion. Sun offers network computing solutions to its target market of large, commercial enterprise, government and education customers, with small and midsize businesses served by its indirect channel partners.

### Strategy: Positive

Sun's strategy is focused on growing business with companies that will use the Internet to dominate their markets (such as telecommunication providers and Web 2.0 companies), as well as appealing to companies that are primarily focused on reducing IT costs (although, at this time, Sun's installed base contains more of the latter than the former). Sun is betting that as more of the world goes online, more IT infrastructure demand will occur and Sun will get more than its fair share of this increased demand, due to its creation of Java and Solaris and its loyalty in the developer community.

Sun's strategy is built fundamentally on an aggressive R&D investment (on which it has spent more than 14% of its revenue since 2002). This above-industry-average level of investment is a result of Sun's belief that it must create and own unique intellectual property (IP) – spanning microprocessors, middleware software and an operating system – as the core of its value proposition.

Table 1. Detailed Rating

Initiative	Rating
<b>Corporate Viability</b>	
Strategy	Positive
Financial	Promising
Marketing	Positive
Organization	Positive
<b>Market Offerings</b>	
Product/Service	Positive
SPARC Servers	Positive
Opteron/x64 Servers	Promising
Solaris	Strong Positive
Linux	Promising
Disk Storage	Promising
Tape Drives, Tape Libraries and Virtual Tape	Positive
Storage Management Software	Caution
Enterprise Software	Promising
SOA Infrastructure	Promising
Open Source	Positive
Professional and Managed Services	Positive
Technology/Methodology	Strong Positive
UltraSPARC	Positive
Java	Positive
Pricing Structure	Positive
<b>Customer Service/Support</b>	
Sales/Distribution	Positive
Indirect Channels	Positive
Direct Sales	Positive
Developers	Positive
Support/Account Management	Positive
Product Support	Positive
Account Management	Positive
Source: Gartner	

Sun's strategy combines traditional elements (selling servers, storage and services) with unconventional elements (for example, providing its software stack at no charge for many purposes; offering its software stack, including support, via a per-employee software subscription; and using partners to deliver the majority of its services). Sun's business model is ahead of the industry, but not without risk. Converting free software downloads, especially Solaris, into an ongoing revenue stream has proved challenging for Sun. However, Gartner believes that Sun's forward-looking strategy is appropriate and can be a major competitive differentiator.

Free software is not – in itself – a differentiation for Sun, but it can lead to differentiation. Potential customers have shown that they are willing to try portions of Sun's Enterprise Software stack if no initial cost is incurred, thus putting Sun on several shortlists on which it might not have appeared without the free option. Once the company decides to acquire supported licenses, Sun sells them only the parts of software that have proved useful to the customer. For this strategy to succeed in the long term, Sun must deliver "good enough" technology while gaining increasing attention for its IP and technology offerings in open-source communities. This is where most of the customers seeking to experiment with free software get started. The introduction of technologies such as Solaris to open source grows Sun's IP, as well as its position in the open-source mind-set and community.

#### Financial: Promising

Beginning with the collapse of the "dot-com" bubble in 2000 to 2001, Sun struggled with steep revenue declines and only occasional profitability. When Jonathan Schwartz became CEO in May 2006, he and CFO Mike Lehman announced a plan to return Sun to profitability by the end of Sun's 2007 fiscal year (30 June). Revenue had already started to improve, with an 18% improvement from FY05 to FY06, driven in part by the acquisition of StorageTek in August 2005. Without the benefit of large acquisitions, Sun's revenue has grown 11% in the first half of the company's fiscal year 2007. Gross margins have steadily improved, from 41.5% in FY05 to 43.1% in FY06, and 44.4% in 1H07. Because of the cost reductions in staff and real estate implemented since May 2006, Sun's R&D and selling, general and administrative expenses have been reduced from 46.6% in FY06 to 43.2% in 1H07. Although Sun reported a profitable 2Q07 and appears to be on track to showing a profit in the quarter ending 30 June 2007, these are still the early days of Sun's turnaround story.

#### Marketing: Positive

Sun is still working to align its marketing strategy and tactics with its corporate vision. From a branding, communications and alliances standpoint, it has made progress; however, the link among marketing and sales and partners appears to be strained. Sun has made progress in clearly and consistently

communicating what the company is, what it stands for and what its value propositions are, but much work remains to be done. Sun's new focus on transparency, most clearly represented by Jonathan Schwartz's well-publicized and well-received CEO blog, is already bringing positive results.

Sun's marketing organization has endured several years of transition at its headquarters and in the field, and it will be another year before positive results of these changes are recognized. Sun's lack of focused vertical marketing is a large void that confounds customers and provides an opening for Sun's competitors. Even in its four core industries, Sun has lost significant "mind share," which will be difficult to rebuild.

Sun's expanded focus on strategic alliances should pay increasing dividends in the coming year. One of Schwartz's first actions was to reach out to competitors and ask how they and Sun could work together. The power of a strong ecosystem with all types of players in the IT and telecom industry will bring positive, extended benefits to Sun. This is only the beginning for Sun. Greater rewards are just around the corner.

### Organization: Positive

Sun's organization is well set up to deliver on the company strategy. Its executive management team is stable, strong and comfortable working together. In 2006, former co-founder and CEO Scott McNealy became chairman of the board and chairman of Sun's federal government business, as well as its chief advocate in education. Jonathan Schwartz, formerly the president and COO of Sun Microsystems, moved up to become CEO and president, as well as a member of Sun's board. Mike Lehman, a Sun veteran who had been serving on Sun's board, rejoined the company in 2006 as CFO and executive vice president of corporate resources – a move hailed as the forerunner to a financial discipline that would lead Sun back to profitability. CTO and executive vice president of R&D, Greg Papadopoulos, leads Sun Labs, global engineering architecture and advanced development programs.

### Market Offerings

#### SPARC Servers: Positive

The core of Sun's business continues to be its SPARC-based servers. The UltraSPARC IV+ family has enjoyed remarkable evolutionary longevity, offering in-chassis processor performance upgrades for more than six years. This family is nearing the end of its evolutionary life. Sales remain strong, up 12% year over year in 4Q06. Sales of Sun's Niagara-based, eight-core T1000 and T2000 systems have ramped up quickly and been deployed by Sun customers – mostly in Web server, application server and low-end database server applications.

#### Opteron/x64 Servers: Promising

Sun's Opteron-based servers span from one to eight processors, dual-core or quad-core (2H07) processors, and support Solaris, Windows and Linux. As part of its February 2007 agreement with Intel, Sun will ship single- and dual-processor systems using the Intel quad-core processor in mid-2007 (positioning these Intel-based servers as an adjunct to Sun's Opteron product line). Although Sun's technology investments have resulted in impressive hardware, sales of these servers have been constrained because Sun isn't a Windows OEM, and many Sun users have not yet made the transition to Solaris 10.

#### Solaris: Strong Positive

More than any other single product or technology, Solaris is Sun's "big bet." Sun is betting that it can provide sufficient differentiation from competitive operating systems and sufficient attractiveness for developers to generate a stream of revenue from hardware sales and software support. Due to its market share lead in the Unix market, the size and vibrancy of its independent software vendor (ISV) software portfolio and its technical quality, we rate Solaris a "strong positive".

#### Linux: Promising

Gartner has elevated Sun's Linux rating to "promising." In the past, Sun's marketing messages and development efforts have been strongly skewed toward Solaris. More recently, however, Sun has become a notable provider of support for Red Hat Linux (a substantial number of Sun's Opteron server shipments are deployed with Linux), and its substantial contributions to Linux and open source have been recognized.

#### Disk Storage: Promising

Sun's block-access, external-controller-based disk storage products represent competitive offerings from a feature, function, performance and scalability perspective. Sun has completed the rationalization of the block-access, external-controller-based disk storage portfolio resulting from the StorageTek acquisition. It continues to enhance its network-attached storage offerings. The Sun Fire X4500 Server Appliance reflects Sun's effort to incorporate Solaris 10 and the scalable ZFS file system into its storage products.

#### Tape Drives, Tape Libraries and Virtual Tape: Positive

By virtue of the StorageTek acquisition, Sun is a leading developer of tape drives, tape libraries and virtual tape libraries for the enterprise market. The availability of encryption functionality further enhances the attractiveness of the T10000 tape drive. Although competitive, Sun's midrange tape libraries and virtual tape products generally represent undistinguished offerings. However, the Sun StorageTek Virtual Tape Library Plus, based on the Solaris operating system, offers promising performance and functionality advantages over competing products.

#### Storage Management Software: Caution

Sun's storage software strategy has shifted away from the 2005/2006 plan to become a general-purpose supplier of storage management software. In 2007, the company's focus is on an element manager strategy, where it will strive for greater commonality of interfaces, consoles and management capabilities for its storage hardware platforms.

#### Enterprise Software: Promising

Sun's enterprise software strategy is intended to compete and win in business software infrastructure markets by de-emphasizing the merits of individual middleware functions and replacing them with one integrated technology layer at price points lower than the competition. This enables Sun to compete in market segments in which it is behind or insufficiently equipped by leveraging strengths in other software infrastructure market segments and Sun's broad name recognition. Sun is having moderate success with its multifaceted licensing strategy for its entire software stack, warranting a "promising" rating.

### Service-Oriented Architecture Infrastructure: Promising

Sun's Composite Application Platform Suite (CAPS) product is a rising star in the company's software portfolio. The Java CAPS suite still represents (as it did in its SeeBeyond days) a significant offering in this space and will continue to attract new customers. Also in the service-oriented architecture (SOA) infrastructure space is Sun's Identity Management Suite. Sun's position in the identity and access management market is strong.

### Open Source: Positive

Sun is arguably the premier contributor of key technologies to the open-source movement (with IBM being its largest competitor). From OpenSolaris, to middleware, to Java, Sun has delivered innovative code into this community.

### Technology: Strong Positive

Since 2002, Sun has spent more than 14% of its revenue on R&D. This above-industry-average level of investment is a result of Sun's belief that it must create and own unique IP as the core of its value proposition. Solaris, Java and UltraSPARC are the highest-profile examples of this strategy. Sun's identification of and investment in key technology trends, such as multithreading, multicore and power conservation (well before they became mainstream), is impressive. The newest examples of Sun's innovation include designing the Niagara 2 Processor to incorporate 10 Gigabit Ethernet on a chip, and the portable Blackbox data center.

### UltraSPARC: Positive

Sun believed that dense, multicore processor designs, which it refers to as "chip multithreading," would prevail over traditional, reduced instruction set computer processor designs. The first result of Sun's new direction is the Niagara processor, which powers the T1000 and T2000 servers. With a strong road map through 2008, Sun receives a "positive" rating in this category due to the forward-looking philosophy it applied to microprocessor design.

### Java: Positive

For the wealth of products spawned by Java, we rate the underlying technology as "positive." The Java Community Process remains one of the most successful de facto standard efforts in IT, and recent developments between Sun and IBM have cemented IBM's support of Java for another 10 years.

### Pricing: Positive

Sun's pricing strategy is well-aligned with its business strategy. It is moving toward greater simplicity and continues to be innovative. Its product and service prices are comparable to competitors; most of its software is available at no cost. Like most IT providers, Sun reluctantly participates in reverse auctions, offers products on its Sun store Web site and certifies used equipment for resale.

Sun has been moving away from a standard licensing model – a case in point being its operating system, Solaris, which is available at no cost and can be run that way indefinitely, although most enterprise customers see the value in buying a service contract that includes updates and support. Sun's Try and Buy program, plus one for startup companies, has brought new customers that have never dealt with Sun before.

### Professional and Managed Services: Positive

Sun services are designed primarily to support technology at the network, infrastructure and middleware layers, and are used mainly to design, implement and manage its customers' heterogeneous systems. During the past year, Sun services began to rationalize and shrink its portfolio of offerings; it still has work to do in this area to match the efforts of its competitors. The advantages of service simplification, although painful to design and execute, far outweigh the costs. Sun continues to lead traditional competitors in terms of technology and service-provider-supplied managed services.

### Customer Service/Support

#### Sales/Distribution: Positive

##### Indirect Channels: Positive

After 15 years of having the iForce partner program in place, Sun launched a new program called Partner Advantage in July 2006. More than 60% of Sun's overall revenue comes from indirect sales channels – less in the U.S. and up to 90% in some Asia/Pacific countries – and that number is forecast to increase. These program enhancements enable Sun to better leverage its overall scale in the market, service its channel partners more effectively and align its channel strategy much closer to the business units. This is the first time in Sun's history in which everyone is "reading out of the same play book" when it comes to the company's indirect channel partners.

As part of its relationships with the largest consulting and systems integration firms, Sun is investing R&D in co-developing unique IP assets, as well as co-marketing, co-selling and co-delivering solutions. However, there is room for improvement in Sun's relationship with the global integrators in terms of coverage, reach and sales integration.

#### Direct Sales: Positive

Sun has reorganized direct sales, keeping 16 geographic entities but placing senior executives in each geographic location (and at headquarters) who are responsible for servers, software, storage and services. Sun has increased the number of client executives and channel partner relation managers, and invested significant funding in consultative selling training, as part of delivering a better customer experience. It has significantly strengthened its pre-sales system engineer ranks and instituted a worldwide sales force automation system. Sun invested in more Solutions Centers, where client-specific proofs of concept and benchmarking take place. For the next 18 months, sales will be focused on execution and improving operational excellence.

#### Developers: Positive

Developer influence from Sun-led initiatives is second to none in the industry. Although corporate developers do not gravitate toward Sun tools or products, the large body of ISV developers, open-source developers and hobbyists gain from Sun's support of community development efforts. Java.net, java.sun.com, NetBeans and Java (as evidenced by the popularity of JavaOne) all represent significant efforts that Sun has delivered to developers.

### Support/Account Management: Positive Product Support Services: Positive

- **Hardware support** – Sun has quietly built an impressive direct-service capability for its equipment. When Sun acquired StorageTek, it gained significant new resources, as well as an organization with a good multivendor service reputation. The merger of the two support organizations and their offering portfolios has gone as smoothly as any by comparably sized technology providers.
- **Software support** – Sun has significantly transitioned its software support portfolio during the past four years. It moved from having only two offerings for pure software support in 2004 to having three tiers for Solaris support, Java multiplatform support and an OEM support offerings in 2005. It acquired Aduva to bolster its patch management and update capabilities. In a response to issues about pricing, Sun switched to a pricing model for Solaris support that was easier for customers to understand, and enabled easier comparisons to competitive offerings. The success of Sun's support portfolio

is evident by growth in net new customers (not previous Sun customers), traction for support of identity management and SOA products, and the ability to move customers up to higher tiers of support offerings.

### Account Management: Positive

Dedicated account executives and specialists from servers, software, storage and services support Sun's top accounts. They coordinate account planning and are responsible for relationship management. In the next tier of accounts, Sun maintains dedicated account executives with support from a nondedicated team of specialists. Satisfaction below the top account level has been inconsistent; however, in total, positive responses to the question, "Would you recommend Sun?" have increased.

### Company Information Sun Microsystems

**Headquarters:** Santa Clara, California  
[www.sun.com](http://www.sun.com)

**Table 2. Completeness of Vision Evaluation Criteria**

<b>Strong Positive</b>	Is viewed as a provider of strategic products, services or solutions: <ul style="list-style-type: none"> <li>• <b>Customers:</b> Continue with planned investments.</li> <li>• <b>Potential customers:</b> Consider this vendor a strong choice for strategic investments.</li> </ul>
<b>Positive</b>	Demonstrates strength in specific areas, but execution in one or more areas may still be developing or inconsistent with other areas of performance: <ul style="list-style-type: none"> <li>• <b>Customers:</b> Continue planned investments.</li> <li>• <b>Potential customers:</b> Consider this vendor a viable choice for strategic or tactical investments, while planning for known limitations.</li> </ul>
<b>Promising</b>	Shows potential in specific areas; however, execution is inconsistent: <ul style="list-style-type: none"> <li>• <b>Customers:</b> Consider the short- and long-term impact of possible changes in status.</li> <li>• <b>Potential customers:</b> Plan for and be aware of issues and opportunities related to the evolution and maturity of this vendor.</li> </ul>
<b>Caution</b>	Faces challenges in one or more areas: <ul style="list-style-type: none"> <li>• <b>Customers:</b> Understand challenges in relevant areas, and develop contingency plans based on risk tolerance and possible business impact.</li> <li>• <b>Potential customers:</b> Account for the vendor's challenges as part of due diligence.</li> </ul>
<b>Strong Negative</b>	Has difficulty responding to problems in multiple areas: <ul style="list-style-type: none"> <li>• <b>Customers:</b> Execute risk mitigation plans and contingency options.</li> <li>• <b>Potential customers:</b> Consider this vendor only for tactical investment with short-term, rapid payback.</li> </ul>

Source: Gartner