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Focus Point

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HP Software: Well-Positioned for Growth

Springboard Perspective

INTRODUCTION

In April, 2008, HP held its annual HP Technology Solutions Group (TSG) Industry Analyst Summit in Boston, Massachusetts. TSG includes HP Software, HP Services (HPS) and Enterprise Storage and Servers (ESS). HP used this event to outline its strategic vision for driving growth across TSG and better leveraging the company's combination of software and services to help organizations extract more value from their people, network, infrastructure, applications and information.

EVENT OVERVIEW

HP's core vision is to help organizations deliver and manage the infrastructure necessary to cost-effectively leverage enterprise content. From HP's perspective, helping customers address this challenge is essential for driving increased business value, particularly in the face of technology and market 'disruptions' such as virtualization, SOA and SaaS. In addition to outlining its approach to helping customers exploit these 'disruptions', the major themes HP covered in this analyst event included;

- The importance of operational business intelligence (BI) for improved business performance.
- Managing the explosion of digital content and exploiting CME (communications, media, entertainment) convergence.
- Enabling the adaptive infrastructure and transforming data centres, in part to drive 'Green IT' initiatives but ultimately to help organizations lower costs, improve efficiency and increase agility.

While both HPS and ESS within TSG were covered during the event, HP emphasized the importance of software to the company's overall corporate strategy and highlighted software execution results over the past 12-18 months. HP's software strategy consists of three core pillars:

- **Business Technology Optimization (BTO) –** A collection of software and services to help IT departments better monitor, manage and ultimately automate IT operations.

- **Business Information Optimization (BIO) –** Combines HP's solution for data warehousing and Business Intelligence along with its information retention and availability solutions for e-discovery, compliance and litigation risk mitigation and business continuity.

- **HP OpenCall –** A multimedia platform for enabling CME convergence.

All three of the above areas were covered during the event. However, the majority of emphasis was clearly on BTO. This is no surprise since BTO represents approximately 80% of HP's software revenue within TSG, (with the remaining 20% split roughly evenly between BIO and OpenCall).

KEY FINDINGS

HP's software strategy has evolved dramatically over the past 2-3 years as the company seeks to expand beyond a traditional focus on IT operations. Since the Mercury acquisition in November, 2006, HP continues to execute well and effectively expand its mindshare and marketshare in the application lifecycle management (ALM) market. The company has done a solid job supporting existing Mercury customers in the area of application performance testing and management while also driving new business across the application development and delivery lifecycle (a key part of the broader BTO vision). HP is therefore well-positioned for further software growth as it seeks to increase demand for enterprise-wide IT governance solutions (of which ALM is still a relatively small piece). The remainder of this section highlights key findings from this event:

SOA is a Catalyst for Further Growth

HP is a leader in the ALM space and is well-positioned for future growth, particularly as SOA continues to gain momentum. HP's SOA strategy emanates from its core business strength in operational management software. Hence, its focus is on operational issues such as governance, quality, and management. With BTO, HP is ultimately focused on helping organizations manage and run the IT organization as a business, specifically by helping customers effectively allocate resources across IT strategies, applications and operations.

BTO provides a solid vision and framework for linking the governance and quality solutions and services expertise obtained via the Mercury acquisition with the management capabilities long present in HP OpenView. In fact, HP's strong push into SOA gained momentum after its acquisition of Mercury. Just prior to that acquisition, Mercury had itself acquired Systinet, an SOA repository vendor with strengths in the areas of SOA governance and lifecycle management.

HP has Continued its Aggressive Acquisition Strategy

The BTO-related capabilities that HP acquired with Mercury (and Peregrine before it) were strengthened further via the acquisition of Bristol Technology in Feb 2007. Bristol's focus on delivering technology that helps monitor business transactions is a good complement to both Mercury and HP OpenView.

HP further strengthened its ability to deliver on the BTO vision by acquiring Opsware in July 2007. Opsware's data center automation software complements HP's existing IT management software and is a critical component to HP's overall BTO strategy. Immediately after the acquisition, former Opsware CEO Ben Horowitz was named head of the BTO organization, reporting to Tom Hogan, SVP of HP Software.

In March 2008, HP announced plans to acquire Tower Software, a Canberra, Australia-based provider of document and records management software. The Tower solution should enable HP to expand its offerings in the areas of electronic discovery and compliance, particularly in the Australian public sector, where Tower Software has a strong presence.

SOA Governance is a Key Opportunity

SOA Governance is a top-of-mind issue for IT decision-makers and will help drive BTO-related spending. SOA-related projects and expertise have grown and become far higher-profile in almost all large and most midsize organizations. However, successfully leveraging SOA approaches for business benefit requires well-defined and enforceable governance policies, procedures and requirements. This is due to the simple fact that it is not possible to benefit from SOA as an approach unless you can effectively locate, access and manage SOA artifacts (not just services themselves but also SOA-related policies, processes and metadata).

Given the importance of SOA Governance to ultimate SOA project success, we expect solutions to evolve from niche products used primarily by development and integration teams into broader solutions that link far more tightly into overall IT software and operations management. In this scenario, services are not separate entities but simply part of the broader portfolio of IT assets that must be managed.

HP has positioned itself well in the space. In addition to HP Quality Center for automated testing, BTO includes key governance-related support in the following areas:

- **HP Project and Portfolio Management (PPM) Center –** managing demand, portfolios, projects and resources.
- **HP Performance Center –** monitoring service and application performance
- **HP Business Availability Center –** managing system availability and service-levels.

The Challenge of Running IT like a Business

HP's core focus with BTO over the next 12-18 months is to help organizations address the misalignment of IT and business outcomes. This problem is exacerbated by the fact that different IT roles use different tools that aren't aligned or integrated and provide no visibility across strategy, applications and operations. Unified management of the IT value chain can help improve predictability, visibility, governance, risk mitigation, and ultimately lower costs.

HP is not alone in targeting this challenge and must ultimately do a better job of differentiating itself from specialists in the areas of ALM (such as Borland, CA and Compuware) and SOA Governance (such as AmberPoint, Progress Software, and SOA Software). Over the past 18 months, however, HP has improved in terms of targeting BTO at specific scenarios where HP has a competitive advantage and/or existing mindshare. These areas include:

- **Data center automation and business services automation** – Via the Opsware acquisition from July 2007.
- **Application quality management –** Where HP is the clear market leader via the Mercury solutions.
- **IT service management –** This includes consolidated service desk, change and configuration management and infrastructure management, where HP can leverage the strong HP OpenView brand as a differentiator

Enabling Cloud Computing

In addition to virtualisation and SOA, HP focused heavily on its capabilities for enabling cloud computing, which it defined as ubiquitous, uniform access to services (as opposed to traditional access to devices and/or information). From HP's perspective, successfully exploiting this evolution in network-centric computing requires the ability to manage not only SOA, but also to effectively transform the data center (via consolidation, virtualisation, and risk mitigation). This positioning dovetails nicely with the current market interest in Green IT while also leveraging HP's traditional strengths in IT service management plus the capabilities acquired via Opsware.

CHALLENGES

While SOA governance is top-of-mind for many large and mid-size organizations, we expect all vendors in this space to struggle to drive demand for broader IT-governance-related solutions. The idea of delivering the equivalent of 'ERP for IT' has long been discussed. However, very few organizations have the resources or commitment to make the up-front investments necessary to deliver on this goal. Instead, IT organizations will continue to focus resources on projects with a clear, well-defined business mandate. Examples include application development and integration projects and packaged application purchases or upgrades.

In terms of ALM-related spending, Springboard Research expects organizations to continue spending on targeted solutions with tangible, measurable and highly visible benefits. One such area is application performance testing. Given HP's market leading solutions in this area, the company is well-positioned to drive new business. However, HP must still outline a product roadmap and architectural vision that supports an iterative adoption of specific products within the broader BTO solution set, (of which application performance testing is still a relatively small piece).

HP must also better link the BTO software strategy with the company's services capabilities. More specifically, HP must better articulate its strategy for leveraging its consulting expertise and delivery capabilities in its services practice. In Boston, HP did outline its plans to seek synergies between HP Software and HP Services, in particular by ramping up HP Services' delivery automation practice to help organizations more effectively apply technology to the delivery of services. The company also announced plans to ramp up its intellectual property and services expertise in specific verticals (Financial Services, Communications, and Media and Entertainment). However, HP has still not adequately outlined its approach to delivering the prescriptive guidance that organizations require if they are to extend their focus (and spending) with HP beyond IT operations management to include ALM and SOA governance.

HP outlined a clear, consistent vision in Boston and Springboard Research believes the company is reasonably well-positioned to execute on that vision. Among major software infrastructure vendors, only IBM (with Tivoli and Rational) has any real market presence or focus on supporting IT process visibility and management that extends from initial strategy through applications to operations. Nonetheless, HP must position itself more effectively against the major software infrastructure or middleware vendors (specifically IBM, MSFT, Oracle/BEA, SAP and Sun).

With the exception of IBM, these vendors are all primarily focused on runtime execution of applications, business logic and processes via their software or middleware 'stack'. Out of a combination of strategy and necessity, HP's IT governance and operations management message is effectively middleware-neutral, which enables HP to make a credible case for being the logical option for organizations that want to manage and monitor not only current applications and processes, but also the underlying software infrastructure enabling those processes (likely middleware from multiple vendors).

The enterprise software infrastructure and middleware market will continue to consolidate around a few dominant players, (Oracle's recently completed acquisition of BEA being the most recent example). With total software revenue of USD$2.5b and operating margins of 25%, HP must be considered a major player in this space.

Springboard Research expects IT decision makers (particularly those focused on developing and deploying enterprise applications) to pursue strategies for consolidating their software portfolios (including both software infrastructure and enterprise applications) and ultimately reducing the number of strategic vendors they work with and source from. To meet its aggressive software-related growth plans, HP must do a better job of positioning itself as a core part of these customers' strategic IT portfolio.

In practical terms, this means that HP must raise its mindshare and level of awareness among IT decision-makers well beyond the company's core stronghold with IT operations staff to include enterprise architects, application development and integration teams, and software infrastructure or middleware planning staffs. Securing this mindshare and credibility alongside vendors such as IBM, Microsoft and Oracle (among others) is critical to HP Software's chances of success.

However, even this will not be sufficient to ensure ongoing software-related growth. Springboard Research believes that to effectively compete in this space, HP must go further and outline the scenarios by which an organization would leverage HP alongside one or more of their strategic middleware software providers.

CONCLUSION

Most organizations can benefit from rationalizing and consolidating their portfolios of enterprise software, including solutions aimed at ALM, SOA governance, virtualization, and overall IT Operations management. HP has maintained a reasonably consistent, coherent, and compelling vision for expanding its software capabilities and market share while pursuing an aggressive acquisition strategy. Organizations targeting IT governance and IT operational efficiency should consider HP as a potential strategic software provider.

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