The Changing Server Landscape

Written by Bob Snyder
06 April 2009

IT companies are looking for acquisitions as organic growth is difficult given the poor economy. And valuations are very cheap now.

That's why IBM (with $13 billion in cash) wants to buy Sun for $6.5 billion. IBM wants to become a one-stop shop for all IT related offerings, whether hardware, software services or solutions.

IBM is the world's largest maker of servers (IDC, Q4 2008) with a market share of 36.3%. HP came next with 29.0%, Dell 10.6%, Sun 9.3% and Fujitsu (now without Siemens) 4.2%. The Top 5 server vendors all posted declines in Q4 server revenue, hurt by cuts in corporate spending.

This deal may be about servers, but the timing's about Cisco.

Cisco just announced its first entry into servers, and they're joining the server business with an Armada of other IT vendors under the heading of “Unified Computing" that brings in an alliance of VMWare (leader in software that helps companies get more from the hardware they have), Microsoft, BMC, Intel and storage maker EMC.

Because Cisco is sitting on $30 billion in cash, its next step after its entry into servers could have been...buying Sun! So IBM has tried to block this move by inviting to take Sun off the table. If the deal falters, will Cisco step in as a higher bidder?

Cisco's entry into the server market will trigger a wave of mergers and acquisitions in IT. It is only the first volley in another battle waged in a 30 Years War to control "the castle" of IT (that data fortress known as a network).

Go [The IBM and Sun Deal]