INSIGHT

Customer Perceptions of the Future of Itanium

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IDC OPINION

The announcement from the Itanium Solutions Alliance (ISA) that its founding members will invest $10 billion through 2010 for the ongoing expansion of software support and market awareness and acceptance heralds the beginning of what IDC believes will be the next phase of growth for the Itanium architecture. Highlights of research IDC conducted with IT buyers regarding their perceptions of the future of the Itanium platform are presented below:

☑ Recent survey research among 500 IT professionals reveals that not only are customers well aware of the Itanium platform, but overall perceptions of the platform and its future are quite positive.

☑ Current perceptions and awareness of Itanium provide a solid foundation for the ISA to build a broader understanding among IT buyers and encourage not only new customers but also new partners, including independent software vendors (ISVs), server OEMs, and IT services organizations.

☑ IDC expects that annual worldwide customer spending on Itanium-based servers will approach $6.6 billion in 2009, up from $1.4 billion in 2004.

IN THIS INSIGHT

This IDC Insight summarizes the results of a recent United States–based survey of IDC's Enterprise Server Customer Panel that asked respondents for their perceptions of the Itanium platform. This Insight also examines customer intentions with regard to future adoption of Itanium servers and pays particular attention to the implications for HP's PA-RISC customers. Also included is IDC's latest forecast for the worldwide and regional Itanium server market.

SITUATION OVERVIEW

The future of the Itanium platform has been a topic that IT vendors, analysts, press, and customers have debated and discussed with great vigor for many years. It has been more than 11 years since development of the platform officially launched, and during this time multiple stakeholders have had a hand in its marketing, promotion, and messaging. Although codevelopers HP and Intel have driven the majority of external communications, other investors and partners, including Bull, Fujitsu, Fujitsu-Siemens, Hitachi, NEC, SGI, Unisys, BEA, Microsoft, Novell, Oracle, Red Hat, SAP, SAS, and Sybase, have played a role in defining the perception of this new architecture, each with its own viewpoint and goals.

A decade is a long time for marketing initiatives to be decentralized, and it is understandable that clarity of vision and consistency in messaging have been challenging goals to achieve. IDC recently tested the market perceptions of server buyers across a broad range of industries with regard to the Itanium platform. Given the colorful history of product development and the slower-than-expected ramp of Itanium server sales (see the Itanium Server Market Forecast and Analysis section), we had frankly expected that awareness of the platform would be spotty and that customer consideration and intent of purchase would be very low. In fact, we found just the opposite: Awareness is moderate to high across the board, and a significant number of customers are already purchasing Itanium servers or considering the purchase of Itanium servers.

Discovering that Itanium is well recognized among customers and that perceptions of the platform are quite positive is very significant given the January 26 announcement by the Itanium Solutions Alliance (ISA). The founding members of the ISA are committing $10 billion through the end of the decade toward expanding application support for the Itanium platform and promoting and building awareness for software solutions.

Consistency in Messaging Will Be Key to Future Itanium Adoption

IDC believes that the formation of the ISA may ultimately prove to be one of the most significant elements in driving future sales of Itanium servers. As the Itanium ecosystem matures with the introduction of the dual-core Itanium processor in mid-2006 (code-named Montecito) and the release of Microsoft's Longhorn Server in mid-2007, buying decisions will hinge on broad support of applications, particularly infrastructure software. In addition, proof of ongoing development efforts and communication of a well-defined product road map will be key to customer adoption.

The ISA provides an opportunity to unify marketing messages for Itanium across the multitude of constituents involved, and to deliver a cohesive and well-thought-out story to entice customers to the Itanium architecture as they consider a variety of server platform alternatives for their IT organizations. In essence, the ISA represents the best opportunity for creating an Itanium brand in the marketplace that aligns the capabilities of the technology with customer requirements and meets expectations.

Current Market Perceptions of Itanium

The current market perceptions of Itanium-based servers are quite positive. Both HP and non-HP customers display high levels of awareness of the platform, and market perceptions do not appear to reflect the negative press that has recently been part of the public domain.
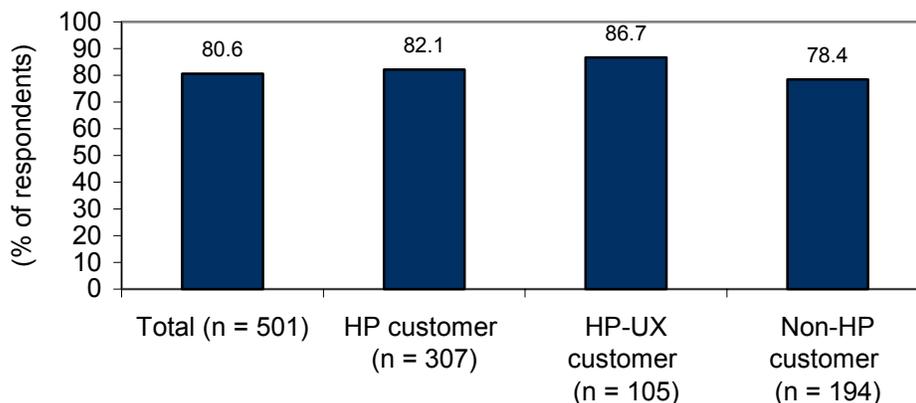
IDC surveyed 500 members of its Enterprise Server Customer Panel about their perceptions of the Itanium architecture and future purchase intent for Itanium servers. (See the Methodology section for more details on the survey design and panel.) The results of the interviews are detailed below.

More than 80% of the survey respondents are aware of the Itanium platform, with awareness being highest among HP customers (82.1%) and especially HP-UX customers (86.7%), as shown in Figure 1. This result is not surprising given that Itanium is the replacement for HP's proprietary PA-RISC processor. What is surprising is the high level of awareness among non-HP customers. In fact, more than three-quarters of these customers indicated they are aware of the platform. In technology sectors, market awareness is usually the greatest hurdle in adoption because of the large numbers of product options and vendors, so much important work has been done to create recognition in the marketplace. The brand affiliation of Intel and HP has clearly contributed to the general awareness of the Itanium processor and has laid an important foundation for more widespread adoption.

FIGURE 1

Itanium Awareness by Customer Type

Q. Are you aware of the new 64-bit Intel processor called "Itanium"? Some people also refer to it as EPIC architecture.
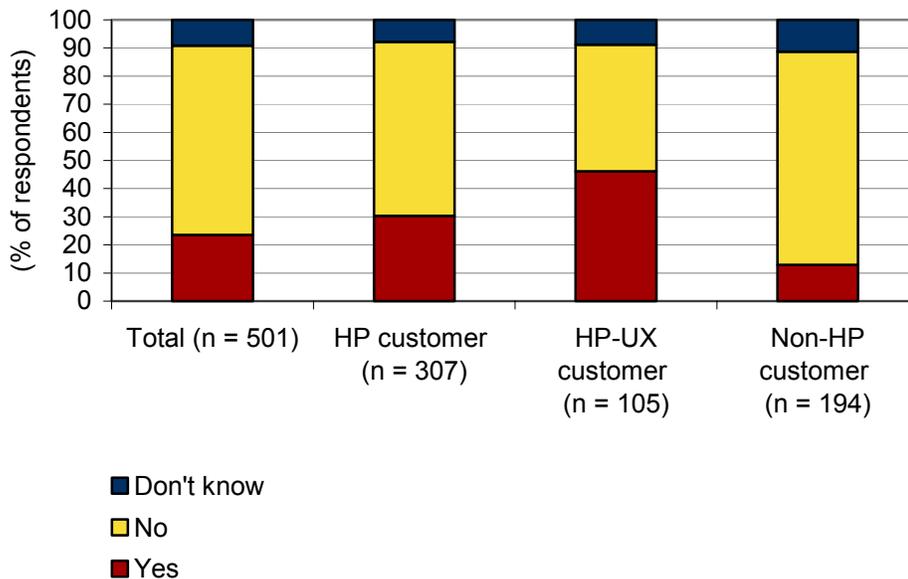

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

Purchase intent is fairly strong. On average, almost 24% of the sample reported the purchase of at least one Itanium server (see Figure 2). Among HP customers, more than 30% have already installed HP Integrity servers based on Itanium (compared with 46% of HP-UX customers), which is not surprising given that the last generation of PA-RISC chips has been delivered to the market. HP plans to sell PA-RISC-based HP 9000 midrange and high-end systems until at least the end of 2008, with support until at least through 2013. Entry-class systems will be sold until at least the end of 2007, with support until at least through 2012.

FIGURE 2

Itanium Server Purchases by Customer Type

Q. Has your organization purchased any Itanium-based servers?

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

Only 13% of non-HP customers have installed an Itanium server, highlighting the comparatively lower investment from other server vendors and also reflecting the lack of necessity. It is important to note that the survey was United States based and non-HP customers are more likely to have deployed Itanium solutions in regions such as Japan and Europe, where vendor support for the platform is broader.

This data underscores both the challenge and the opportunity for the Itanium platform. Although awareness is high and current adoption among the HP base is moderate, broader acceptance of Itanium will hinge upon attracting the non-HP customer base. Indeed, wide-ranging ISV support will be dictated by the presence of an expansive customer set, which can be found among the non-HP customer base. Without a large number of customers demanding support, ISVs will be unable to

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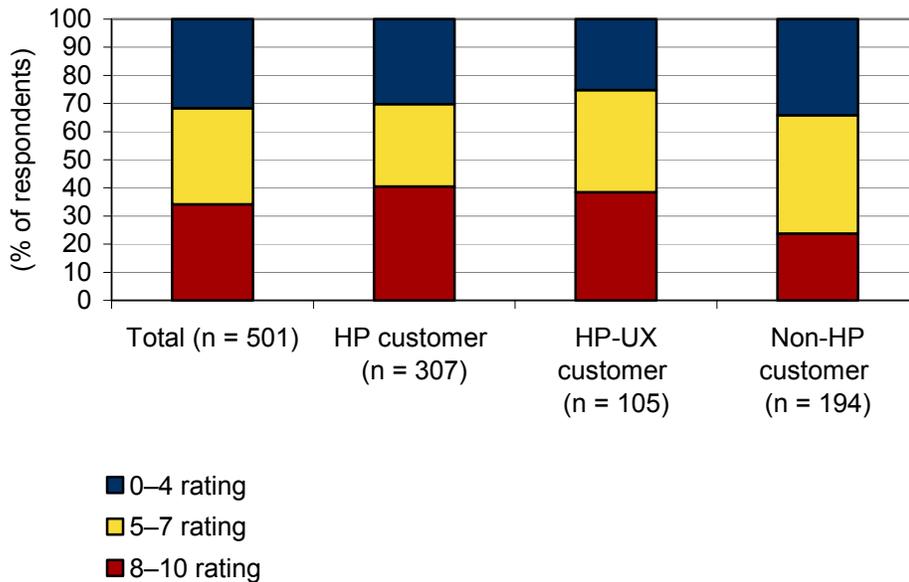
make the business case for the R&D necessary to create Itanium programs. IDC expects that the ISA will play a pivotal role in increasing Itanium support among the ISV community with incentive programs and solution centers and by acting as a marketing vehicle for holistic brand-building activities. The ISA will aid in bringing attention to the platform in a manner that the smaller server vendors (compared with HP and Intel) would not be able to accomplish on their own.

Future Itanium server purchase intent is also quite optimistic. When panel members were asked to rate the likelihood that they would purchase an Itanium server in the next 12–18 months, more than one-third of the sample indicate that this purchase is highly likely (see Figure 3). This result is significantly higher than the current penetration of Itanium among only 24% of the sample. Again, the propensity to buy is highest among HP customers (40.5% of all HP customers and 38.5% of HP-UX customers); however, almost one-quarter of non-HP customers are also very likely to purchase an Itanium server over the next 12–18 months. Again, the future of the Itanium platform largely depends on increasing the purchase intent of both HP and non-HP customers, but converting a larger number of non-HP customers will be a greater challenge.

FIGURE 3

Likelihood of Future Itanium Server Purchases by Customer Type

Q. How likely is it that your organization will purchase an Itanium-based server in the next 12–18 months? (0 = "not at all likely" to 10 = "extremely likely")

Legend:
- 0–4 rating
- 5–7 rating
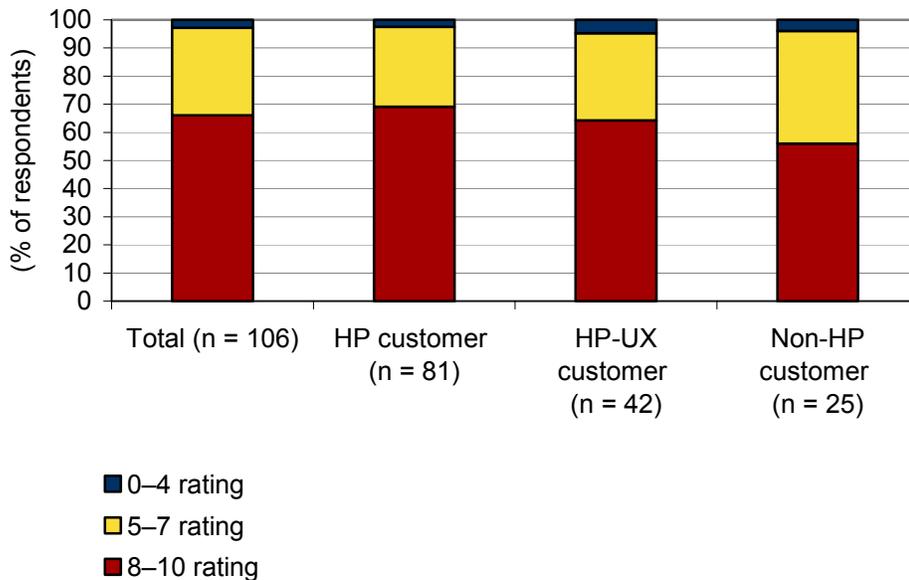- 8–10 rating

Base = Itanium-aware respondents

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

Satisfaction among current Itanium customers is high, with two-thirds applying the highest satisfaction ratings for their Itanium servers (see Figure 4). Another 31% describe moderate levels of satisfaction, and less than 3% of Itanium customers apply poor ratings. Again, HP customers are most satisfied, although the level of satisfaction is not significantly different from that of non-HP customers. This result bodes well for the retention of customers who choose an Itanium solution because the data suggests that the most satisfied customers are also most likely to repurchase another Itanium server. Server vendors are therefore most challenged by the initial Itanium purchase and should develop programs, such as "try before you buy" promotions, that lower the barrier to entry.

FIGURE 4

Satisfaction with Itanium Server by Customer Type

Q. How satisfied are you with the application performance of your Itanium-based servers? Use a 0 to 10 scale where 0 means "extremely dissatisfied" and 10 means "extremely satisfied."

Base = current Itanium customers

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

Implications for the HP Customer Base

Although the future success of the Itanium platform will largely depend on attracting OEMs and vendors beyond HP, the core foundation for adoption will come from HP customers migrating from existing PA-RISC-based HP 9000 servers. Given that the last generation of the PA-RISC processor has been delivered (although sales and support will continue for several more years), HP should be focused on assuring its customers on ease-of-migration issues, suitability of Itanium for mission-critical

workloads, and, most important, the viability of the Itanium platform. Managing expectations for these customers and clearly defining significant road map events over the next five years will be critical for HP; the HP 9000 Evolution Program is targeted specifically to ease customers' migration to HP Integrity servers.
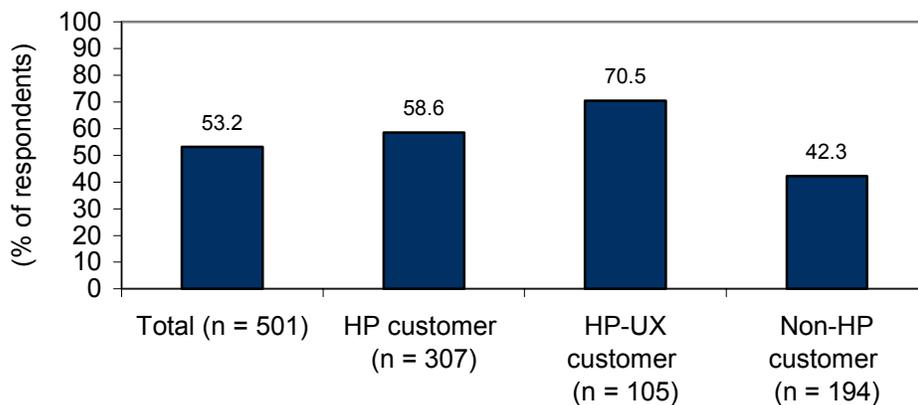
Analysis of the survey results indicates that HP has so far done well in educating its Unix customers on the upcoming changes ahead, but will need to continue (if not increase) this work as the bulk of customer migrations take place over the next two to three years.

When customers were asked if they were aware that HP was phasing out the PA-RISC architecture in favor of Itanium, more than 70% of the HP-UX customers answered yes (see Figure 5). Awareness is much lower among the general population of server buyers (53.2%) and lower still for non-HP customers (42.3%). So although awareness of the upcoming PA-RISC change is high among those who "need to know," a considerable portion of the market does not view Itanium as an HP RISC replacement strategy. Marketing efforts for these customers should therefore be tailored differently than those for the HP-UX customer base. A focus on application choice and platform viability will be important to both; however, HP-UX customers will be more concerned with issues of migration, migration tools, and ongoing support as they plan their future strategies. This is where the HP 9000 Evolution Program comes into play.

FIGURE 5

Awareness of HP's Plans to Phase Out the PA-RISC Architecture in Favor of Itanium by Customer Type

Q. *Are you aware that Hewlett-Packard is phasing out its PA-RISC processor family and will instead be moving forward with Itanium?*
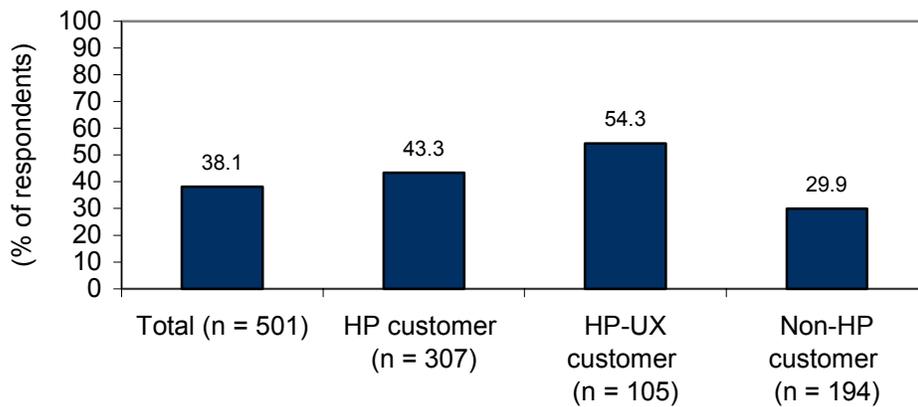

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

Work remains for HP on educating its HP-UX customers about the transition time frame from HP 9000 to HP Integrity servers. Slightly more than half (54.3%) of the HP-UX customers indicate they are not aware that support for PA-RISC will be available until at least through 2012/2013 (see Figure 6). Given that the bulk of migration is expected to take place over the next two to three years, this result presents HP with more of a communications problem than a timing problem and should not significantly impact customer satisfaction.

FIGURE 6

Awareness of Time Frame for Transition away from PA-RISC Support by Customer Type

Q. *Are you aware that Hewlett-Packard has completed its last generation of the PA-RISC processor and will cease support of its PA-RISC-based servers in 2012/2013?*

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

HP's customers do intend to be fairly loyal when the time comes to migrate off their PA-RISC servers. More than two-thirds of the PA-RISC customers interviewed plan to migrate to the Itanium architecture (see Figure 7). Although approximately one-third of HP's installed base becomes exposed as part of the requisite migration, HP still has time to educate these customers on alternate HP platforms, including Xeon and Opteron products from its ProLiant series of servers. However, this communication will need to happen in the near term because customers planning to migrate to an alternate architecture intend to do so sooner than those choosing Itanium. (The average migration time to another platform is 2.3 years, and the average migration time to Itanium is 2.9 years, as shown in Figure 8.) This is important news for HP's sales organizations as they work to maintain their existing customers.

ProLiant may well be a viable option for many of the HP-UX customers undergoing a migration from PA-RISC systems. More than 60% of the PA-RISC customers who intend to choose an architecture other than Itanium expect they will move to either Xeon or Opteron servers (see Figure 9). The risk that HP faces here is that brand
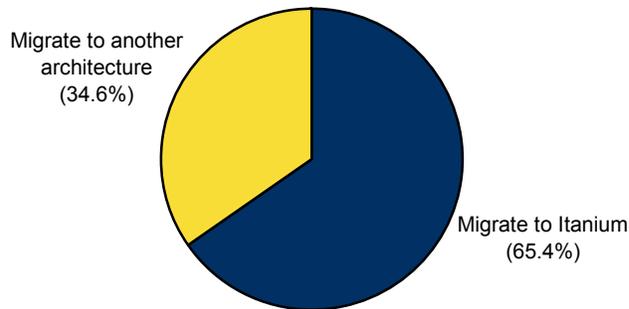
loyalty tends to be lower in the volume server space than it is for proprietary systems because of the commodity nature of the hardware and software. Price tends to become much more of a factor in the buying decision. Hence, it is not surprising that only 22% of the PA-RISC customers who are not migrating to Itanium say that they intend to choose HP as a vendor, and another 22% have not yet decided on a vendor (see Figure 10). The more important news here is that the PA-RISC customers who do not intend to migrate to Itanium are more likely to choose a standard architecture moving ahead rather than another proprietary platform such as IBM POWER or Sun SPARC.

Reasons for moving to an alternate platform focus around a lack of faith in the platform (28%), a reflection of market delays and recent negative market analysis (see Figure 11). Improving market perceptions is a key area of focus for the ISA, and IDC expects that the ISA's work will aid HP and the other major charter members in their own efforts to recast Itanium as an important part of their future strategies. Customers are also concerned that the architecture is not proven (16%) and that they are working to reduce the number of infrastructure components within their organization (20%), not add to them. Concern for the performance of the platform still exists (12%). These are issues that HP can directly address by publishing case studies and success stories from existing customers, and by focusing on Itanium as a platform standardization effort.

FIGURE 7

PA-RISC Migration Plans

Q. Earlier you indicated that your organization has PA-RISC-based servers installed from HP. Does your organization intend to migrate your PA-RISC-based servers to Itanium, or will you move to another processor architecture?
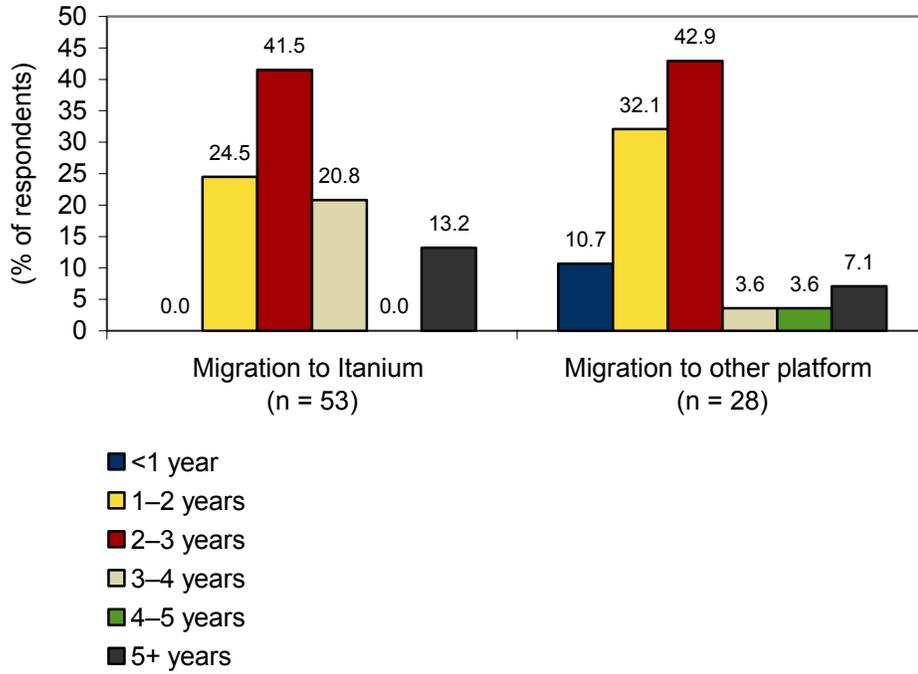

Migrate to another architecture (34.6%)

Migrate to Itanium (65.4%)

n = 81

Base = current HP PA-RISC customers

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

PA-RISC Migration Timeline

Q.   When do you plan to migrate?

Base = PA-RISC respondents
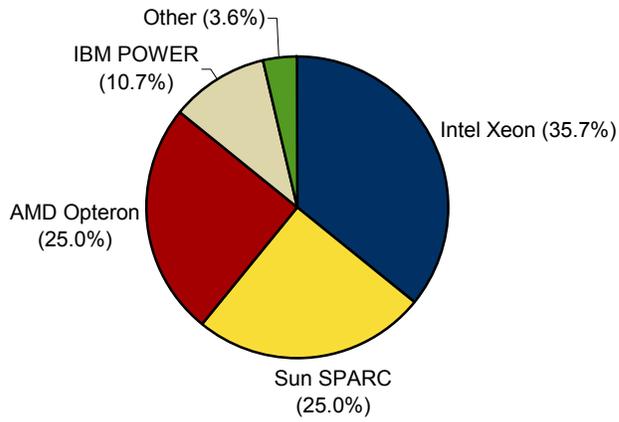
Notes:

Average migration time to Itanium is 2.9 years.

Average migration time to a platform other than Itanium is 2.3 years.

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

PA-RISC Architecture Alternatives
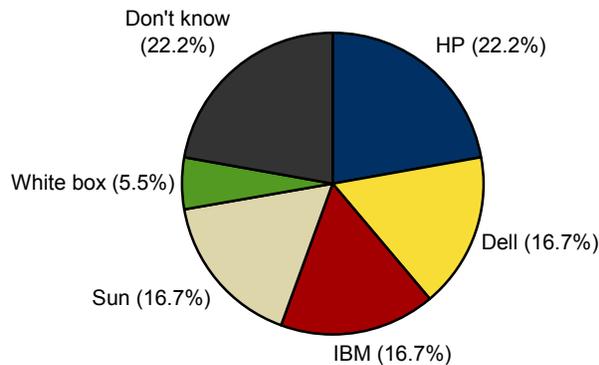
Q.   Which architecture do you plan to migrate to?

Other (3.6%)
IBM POWER (10.7%)
Intel Xeon (35.7%)
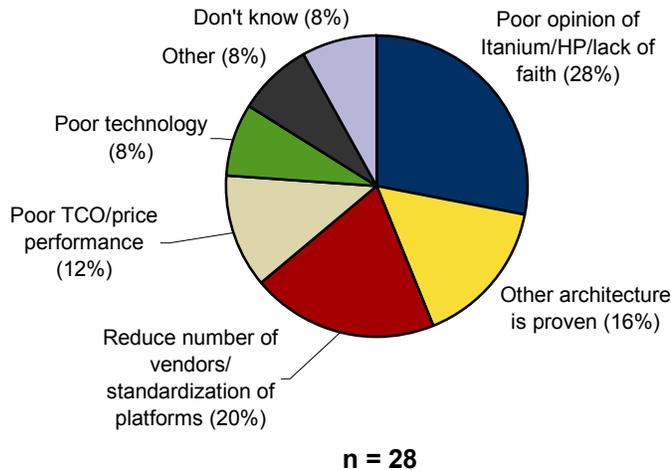AMD Opteron (25.0%)
Sun SPARC (25.0%)

n = 28

Note: Values represent the share of PA-RISC respondents migrating to an alternate platform.

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

PA-RISC Vendor Alternatives

Q.   Which hardware vendor do you plan to migrate to?

Don't know (22.2%)
HP (22.2%)
White box (5.5%)
Dell (16.7%)
Sun (16.7%)
IBM (16.7%)

n = 28

Note: Values represent the share of PA-RISC respondents migrating to an alternate platform.

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

Reasons for Migrating to an Architecture Other than Itanium

Q.   Why is your organization migrating to a different architecture rather than migrating to Itanium?

n = 28

Note: Values represent the share of PA-RISC respondents migrating to an alternate platform.

Source: IDC's *Enterprise Server Customer Panel Survey,* December 2005

Realignment of the Itanium Message

The positioning of the Itanium platform has shifted significantly since even before the first version of the product was shipped from Intel. Far from being a platform that can host all workloads and all operating environments, the Itanium architecture is now more clearly positioned as a solution for mission-critical applications that require high levels of performance and reliability. In its latest announcement, the ISA has positioned Itanium as a RISC replacement strategy and mainframe modernization alternative, platforms that traditionally support higher-end business applications. In tandem, Microsoft has focused development of its Windows operating system for Itanium (Longhorn), due out in 2007, for business-critical workloads, such as ERP, CRM, business intelligence, and database.

IDC believes that this workload focus will help both customers and Itanium development partners to direct their strategies for the platform. A focused set of applications targeted for the enterprise will aid customer buying decisions and will help to reduce confusion over platform choice. Vendors will be enabled to focus their R&D dollars for greatest payback. Ultimately, the articulation of the "best fit" for Itanium servers and refocusing on the platform's core competencies will better set expectations among a targeted customer base and should lead to higher levels of satisfaction and ultimately advocacy.

From a market opportunity standpoint, IDC's server workloads research shows that more than half of all server hardware revenue is attributed to the types of applications that Itanium is now positioned to serve. Most important, these applications generally deliver the highest business value to the organization and therefore tend to be associated with a larger portion of spending on software and services. As a result, the Itanium opportunity is not limited to server hardware spending, but includes a larger ecosystem of software and services. The vendors most likely to succeed in the Itanium ecosystem are those that will be able to articulate a cohesive message around delivering solutions to solve business problems, rather than delivering the best-performing Itanium server.
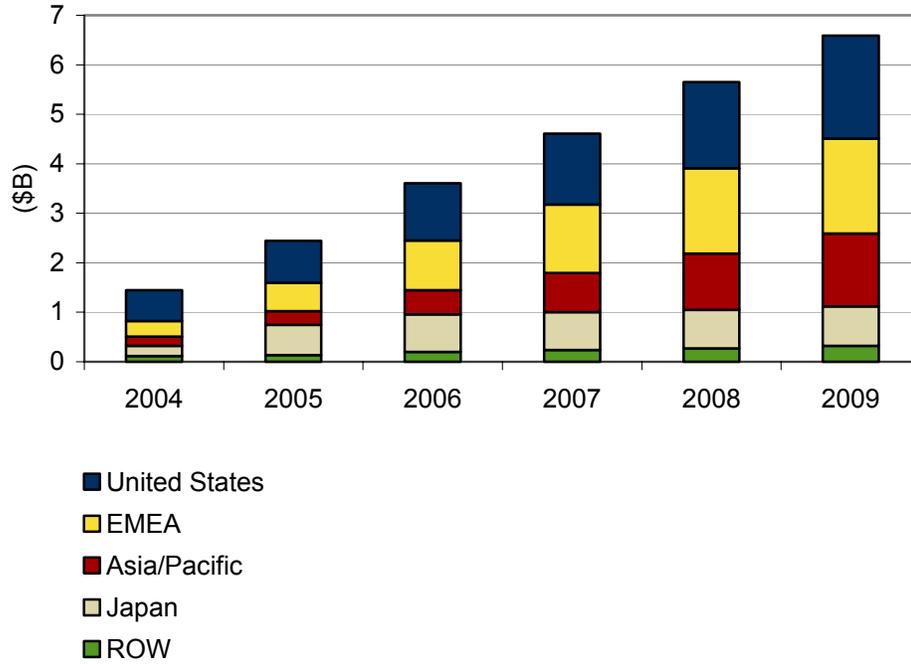
FUTURE OUTLOOK

Itanium Server Market Forecast and Analysis

IDC's most recent forecast for EPIC architecture, or Itanium-based, server spending indicates that there will be steady growth over the next five years from $1.4 billion in 2004 to approximately $6.6 billion in 2009. This expected increase represents a compound annual growth rate (CAGR) of over 35% for the period, compared with 3.4% for the server market overall (see Figure 12). From a regional perspective, because the initial uptake for Itanium system acceptance was more heavily weighted in the U.S. market, a CAGR of 27% for spending is expected, which is slightly lower than the worldwide average. The slower ramp for Itanium-based spending in Europe, Asia/Pacific, and Japan held spending lower in the short term, but we do expect increased growth over the next five years, leading to a higher-than-average CAGR for customer revenue of 44%, 51%, and 31%, respectively.

As expected, HP maintains the majority of the $1.6 billion Itanium-based server factory revenue spending with nearly a 70% share through the first three-quarters of 2005 (see Figure 13). The other vendors rounding out the top 5 include NEC (11%), SGI (8%), IBM (4%), and Unisys (3%). However, we do expect the Itanium market to expand into a broader ecosystem based on these recent survey results, and the increased investment from members of the ISA.

FIGURE 12

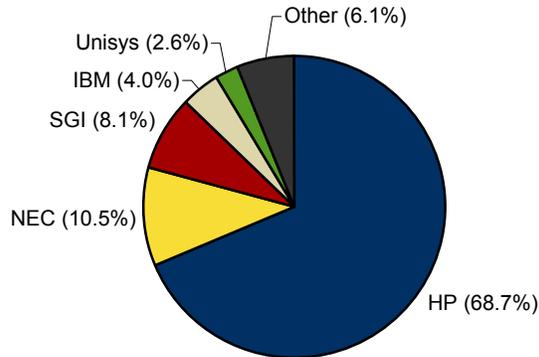Worldwide Itanium Server Customer Revenue by Region, 2004–2009

Notes:

Compound annual growth rates for the regions are as follows: United States (27.4%), EMEA (43.7%), Asia/Pacific (50.5%), Japan (31.1%), and ROW (23.0%).

See Table 1 in *Worldwide and U.S. Server 2005–2009 Forecast Update: October 2005* (IDC #34143, October 2005) for the key forecast assumptions.

Source: IDC, 2005

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Worldwide Itanium Server 1Q05–3Q05 Factory Revenue Share
by Vendor

Total = $1.59B

Source: IDC's Worldwide Quarterly Server Tracker, 3Q05

LEARN MORE

Related Research

☐ *Worldwide and U.S. Server 2005–2009 Forecast Update: October 2005* (IDC
#34143, October 2005)

☐ *HP Aligns Its Mission-Critical Operating Systems on Itanium-Based Integrity
Server Platforms* (IDC #33606, June 2005)

☐ *Fujitsu Launches PRIMEQUEST to Compete in the Scalable Itanium-Based
Server Market* (IDC #33388, June 2005)

☐ *HP's Itanium Design Team Goes to Work for Intel: A New Phase in Itanium
Development* (IDC #32708, December 2004)

Methodology

The research is based on interviews with 501 members of IDC's Enterprise Server
Customer Panel. This panel comprises U.S. IT directors and managers across the
nation who have server buying responsibility within their organizations. These Web-
based interviews were conducted in November and December 2005, and the length
of each interview averaged 25 minutes. Panel members answered questions related
to perceptions of server products, OEMs, and their buying behavior.

To qualify for participation in this study, respondents were required to meet the following criteria:

☑ Must be involved in recommending, purchasing, or approving servers

☑ Must work for an organization with 200 or more employees

☑ Must have purchased a new server or significantly upgraded an existing server within the last 12–18 months

The results of this survey fall within a ±4.3% margin of error. The margin of error increases when segmenting the data. In this instance, because the sample sizes of market segments vary greatly, the margin of error ranges from about 6%, for larger subgroups, to around 18%, for analyses of small subgroups such as of PA-RISC respondents migrating to an alternate platform. While data from these smaller subgroups is not statistically projectable to a population, the findings of this research do support other IDC studies and observations of the server market.

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