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EMC Snagged Data Domain, So What's Next for NetApp?

Juergen Urbanski | Wednesday, July 8, 2009 | 5:40 PM PT | 0 comments



Data Domain today finally agreed to be acquired by EMC for \$33.50 per share, triggering payment of a \$57 million break-up fee to NetApp. For EMC the buy is very much about "keeping your friends close but your enemies closer."

Storage efficiency (notably de-duplication) is the enemy of a business model predicated on pushing more disk capacity out the door year after year (GigaOM Pro note, sub required), which is why customers we spoke to would have preferred to see such a disruptive technology remain in the hands of an independent vendor. And where, exactly, does this leave NetApp?

By acquiring Data Domain, EMC:

- controls the pace of innovation, possibly pushing out the time when Data Domain's technology becomes applicable to ever broader classes of workloads
- reduces pricing pressure, since Data Domain reported running into EMC on 50-60 percent of deals; EMC's reported tactic was to bundle de-duplication functionality into these deals at no extra cost
- precludes archrival NetApp from getting inside EMC accounts via a "Trojan horse," in that Data Domain's customer base is focused on secondary storage in accounts that tend to have lots of EMC primary storage
- provides EMC with more of a proven solution compared to selling its own Avamar product or products from partner Quantum

NetApp, however, is now stuck in the middle between two storage mega trends. The first involves fully integrated infrastructure solutions, notably for small- and medium-sized enterprises, aiming to bring unprecedented levels of integration to virtualized, previously siloed resource pools of storage, servers and networking. While many of the point products in each silo are commoditizing, customer total cost of ownership has not come down because the data center has gotten more complex to operate, not simpler. Hence, mega-vendors such as HP, IBM, Cisco + EMC, Sun + Oracle, or potentially Dell + TBD are hoping to justify high margins on an integrated solution — unified computing is an example — if they can bring customers' operational costs down. Since the mega-vendors rarely have the focus to create best-of-breed solutions across all their product lines, they are most successful at selling storage as part of a larger deal, notably with servers.

The second involves innovative best-of-breed storage solutions optimized for specific workloads. A host of challengers -- ankle biters -- are attacking the legacy storage OEMs by driving innovation in virtualization, flash solid-state disk, storage efficiency and cloud computing (GigaOM Pro note, sub required).

NetApp's efforts to grow into four adjacent markets have met only modest success, by and large. Buying its way into game-changing innovation seems limited to tuck-in deals, given NetApp's moderate cash pile relative to EMC and lack of a track record of successful M&A. Meanwhile, the company's revenue from large enterprise accounts looks to be down about a quarter year-over-year, and its attempt to penetrate the core of the data center with its "unified storage" solution has gained only moderate traction. Moreover, given that Facebook and Yahoo seem to have turned away from NetApp, the company may feel exposed to cloud computing, since cloud service providers have taken to buying cheap commodity hardware straight from the factory in Asia instead of buying the hardware and software as a solution from storage OEMs like NetApp.

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It remains to be seen how NetApp will fare longer term as a stand-alone entity in a consolidating industry. Perhaps it might be driven closer into the arms of partner IBM, which already OEMs NetApp solutions and will be competing with Cisco and HP for fully integrated infrastructure solutions.

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