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## Market Research

### Server Outlook: Growth Surpasses Expectations

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#### Executive Summary

The **worldwide server market has outperformed expectations** so far this year. Analysts from Gartner Inc., International Data Corp. (IDC), and AMI-Partners Inc. agree that sales of all server types were stronger than they anticipated in early 2004. According to IDC's April 2004 "U.S. and Worldwide Server Installed Base 2004-2008 Forecast," worldwide server shipments are on track to jump 13% from 2003 to 2004 -- much healthier than the anemic single-digit increases seen during the worst of the recession years of 2001-2003.

Shipments of Intel servers running on the x86 chip architecture are a big contributor to this growth trend. "We have seen **strong growth in Intel servers**, driven by economic recovery," says Jef Hewitt, principal analyst, servers and storage, for Gartner, in Stamford, Conn. Hewitt cites the explosion in wireless LAN adoption and companies' desire to lower the cost of computing as driving the better-than-expected demand for Intel servers. "U.S. shipments of Intel servers for the first quarter came out 5.7 percentage points higher than we expected. That's a pretty big jump," he says.

On the higher end of the market, both Gartner and IDC expect **huge increases in the Intel 64-bit Itanium space, albeit growing from a relatively small base**. According to IDC, worldwide shipments of Itanium servers will increase over 94% annually between 2003 and 2008. According to Gartner, the increase will be more like 81%, still an impressive number.

These numbers are not just a happy anomaly. Over time, worldwide server growth will sustain respectable rates, though the analyst firms differ as to whether the annual growth numbers will reach the double digits. IDC has a bullish outlook, forecasting **worldwide x86 server shipments will grow 12% annually from 2003 to 2008**. Gartner puts that number at a comparatively cautious 7.7%. AMI, which focuses on small- and medium-sized business technology use, estimates shipments of servers to the nearly 80 million SMBs worldwide will increase by better than 14% each year through 2008. "This is not crazy growth, but it's good growth," says Laurie McCabe, vice president at AMI, in New York.

#### Steady Server Growth Worldwide...

Worldwide server market shipment forecast

Research Firm	Market Segment	2003	2008	CAGR 2003-2008
Gartner	Worldwide x86 server shipments	5.04 million	7.3 million	7.7%
IDC	Worldwide x86 server shipments	4.7 million	8.3 million	12%
AMI-Partners	Worldwide SMB total server shipments*	1.87 million	3.68 million	14.5%

U.S. server market shipment forecast

### ...Reflected in the U.S. Market

Source	Category	2003	2004	CAGR
Gartner	U.S. x86 server shipments	1.9 million	3.4 million	12.34%
IDC	U.S. x86 server shipments	2.14 million	3.2 million	8.38%
AMI-Partners	U.S. SMB total server shipments*	713,000	1.12 million	9.45%

\* Includes servers of all types shipped to small- and medium-sized businesses

Sources: Gartner; IDC; AMI-Partners

The **U.S. server market largely mirrors the worldwide market**, the analyst firms agree. Here, however, Gartner takes a slightly more optimistic view, predicting compound annual growth rates of more than 12% between 2003 and 2008, compared to IDC's 8.3%. According to IDC analyst Mark Melenovsky, a strong replacement cycle will fuel U.S. sales. "Many companies bought lower cost servers in 2000. They will replace a lot of those machines this year," says Melenovsky, in Framingham, Mass.

### SMBs Loosen their Purse Strings

Worldwide annual server spending, all server types

	2003	2008	CAGR 2003-2008
U.S. Number of SMBs	7.8 million	8.6 million	1.8%
Worldwide Number of SMBs	77.5 million	86.6 million	2.3%
U.S. Annual SMB Server Spending (\$ USD)	\$4.1 billion	\$5.9 billion	7.5%
Worldwide Annual SMB Server Spending (\$ USD)	\$11.5 billion	\$18.5 billion	10%
Number of U.S. Large Businesses (LBs)	8,572	8,921	.08%
Annual U.S. LB Server Spending (\$ USD)	\$14.7 billion	\$16.8 billion	2.8%

Source: AMI-Partners

IDC segments servers by average sales value (ASV). Volume servers (where most Intel servers reside) cost between \$2,999 and \$24,999. Midrange enterprise servers cost between \$25,000 and \$499,999 USD, whereas high-end enterprise servers fall between \$500,000 and \$3 million USD. With lifecycles of about three to four years, the **volume server segment will see the highest growth rates worldwide**, adds Melenovsky.

### Around the World

All three analyst firms agree **North America is by far the biggest server market** -- and that dominance is not likely to erode any time soon. Beyond that, the firms divide the market differently. Gartner puts Europe, Middle East and Africa (EMEA) in second place while IDC breaks out Western Europe for the second spot. They agree that Japan and Asia/Pacific are currently in the number-three position but poised for growth, soon encroaching on Europe's standing.

### Top Four Server Regions Worldwide

% of worldwide server market for 2004 by region (all server types, all business sizes)

Top Server Markets	#1	#2	#3	#4
Gartner	North America / N/A	EMEA / N/A	Japan-Asia/Pacific / N/A	Rest of World / N/A
IDC	North America / 39%	Western Europe / 28.1%	Japan-Asia Pacific / 25.6%	Rest of World / 7.3%

Sources: Gartner; IDC

"Japan is growing the fastest," says Hewitt of Gartner. IDC's Melenovsky agrees that **Japan is currently a hot spot**, but notes that growth in Japan comes from companies replacing aging proprietary systems, as opposed to adding more computers and capacity. "Japan is a declining spending opportunity. The market there isn't growing but people are spending a lot of money to

migrate proprietary systems," he says. Melenovsky's prime growth area is Eastern Europe. "Russia, Poland, the Czech Republic -- companies there all investing in new ways for IT to help their business. They represent a strong opportunity," says Melenovsky, who worked for IDC in Eastern Europe from 1997 to 2000.

### Regional Server Outlook for SMBs

Regional shipments of all servers to small- and medium-sized businesses (SMBs)

Region	2003	2008	CAGR 2003-2008
North America	772,500	1.22 million	9.5%
Western Europe	577,700	853,700	8.1%
Japan/Asia Pacific	351,400	1.01 million	23.5%
EMEA	108,300	447,500	32.8%
Latin America	62,500	151,800	19.4%
<b>Total</b>	<b>1.87 million</b>	<b>3.68 million</b>	<b>14.5%</b>

Source: AMI, 2004

### Windows Stays Strong

Linux is gaining momentum, the analysts agree. The upstart open source operating system will post annual gains of 20% or more between 2003 and 2008, according to Gartner and IDC. But it is growing from a much smaller base than Windows, which accounted for nearly 4 million servers in 2003, according to Gartner. And the Linux growth largely comes at the expense of Unix systems, which will decline or remain flat during that time period. "The **leading OS here is Windows** by far," says Hewitt. Some large companies are adding Linux into the mix in an effort to move compute-intensive applications off expensive RISC and CISC boxes. "Linux is cannibalizing Unix, not Windows," concurs McCabe.

"Linux is a good high-performance computing platform. It is displacing some of the Unix cluster market in compute-intensive markets such as oil and gas, financial services, academia and government," says Melenovsky. There have been high-profile cases, such as the Chinese and German governments, making wholesale moves to Linux but that is the exception rather than the rule. "**Large businesses are conservative** when it comes to migrating from one platform to another. They are looking at what Linux can do. But it cannot do everything," says Melenovsky.

For their part, **SMBs are less likely to deploy Linux as a server**, since they lack dedicated technical personnel and are loath to add complexity to their IT environments. The exceptions, says AMI's McCabe, are the small group of SMBs that are more technically adept, and those cases where SMBs can "rent" the use of an application running on Linux from an application service provider. "SMBs won't care what's under the covers, as long as they don't have to mess with it," she says.

### Worldwide Server Shipments by OS

Research Firm	OS	2003	2008	CAGR 2003-2008
<b>Gartner</b>	Windows	3.85 million	5.4 million	7%
	Linux	701,712	1.7 million	19.8%
	Unix	519,133	526,022	.26%
	Other	485,081	311,929	-8.45%
<b>Total</b>		<b>5.56 million</b>	<b>7.97 million</b>	<b>7.47%</b>
<b>IDC</b>	Windows	3.31 million	5.54 million	10.85%
	Linux	826,300	2.74 million	27%
	Unix	626,000	660,100	1%
	Other	442,100	256,200	-10.35%
<b>Total</b>		<b>5.3 million</b>	<b>9.19 million</b>	<b>12%</b>
<b>Consensus Total</b>		<b>5.43 million</b>	<b>8.58 million</b>	<b>9.73%</b>

### U.S. Server Shipments by OS

<b>Gartner</b>	Windows	1.5 million	2.27 million	8.64%
	Linux	394,246	793,487	15.16%

	Unix	228,293	188,063	-3.75%
	Other	217,788	178,769	-3.93%
<b>Total</b>		<b>2.3 million</b>	<b>3.4 million</b>	<b>8.13%</b>
IDC	Windows	1.27 million	2.12 million	10.8%
	Linux	419,400	1.37 million	27%
	Unix	238,800	240,000	0%
	Other	197,700	124,200	-9.71
<b>Total</b>		<b>2.13 million</b>	<b>3.85 million</b>	<b>12.6%</b>
Consensus Total		<b>2.21 million</b>	<b>3.63 million</b>	<b>10.4%</b>

Sources: Gartner; IDC; Triangle Publishing Services

**Windows has long been the volume leader** in server OSs, but by 2008 it will also be the largest server OS in terms of dollars spent, says Melenovsky of IDC. One reason for this: The fastest server growth in the next few years will be in volume servers that tend to run Windows. Also, vendors of Unix systems are having to reduce their prices to keep up, which will close the gap between money spent on Windows servers vs. costly Unix systems. Despite Linux, "we don't see any platform going away entirely," he says.

## Market Forces

Gartner and IDC point to different forces affecting the server market. Gartner highlights growth in wireless, PDAs and smartphones as driving demand for more servers, while continuing price competition from volume servers will limit the RISC space. On the other hand, both firms expect **Intel's 64-bit Itanium RISC platform to enjoy exceptional growth** at least through 2008 (though IDC foresees a brighter future than Gartner). "The move to Itanium will help drive Windows spending over other server OSs," says Melenovsky.

### Itanium is Ready to Ignite Worldwide...

Worldwide Intel 64-bit Itanium chip shipments

Research Firm	2003	2008	CAGR 2003-2008
Gartner	14,168	274,979	81%
IDC	18,600	517,400	94%

U.S. Intel 64-bit Itanium chip shipments

...And in the U.S.


Gartner	8,022	77,817	57%
IDC	12,500	278,400	86%

Sources: Gartner; IDC

On the downside, IDC notes that many large companies tend **not to move off platforms that still work**, even if they are obviously outmoded. Also, many companies have homegrown applications that run on proprietary hardware platforms. Until they are forced to make a move, the tendency is to stick with what works.

### Market Factors at Work


Research Firm	Market Factor	Implication
<b>Gartner</b>	Wireless growth	Drives need for more Web infrastructure (e.g., low-end servers)
	Compute-intensive applications increasing	Increases interest in more powerful platforms
	Growth of smartphones and PDAs	Drives need for back-end servers
<b>IDC</b>	5 year tax depreciation schedule	Motivates companies to replace servers (especially volume servers) for tax credits
	Customized applications	Applications based on niche platforms are harder to replace
	Improved hardware/system reliability	Makes some companies reluctant to upgrade (even when systems age beyond their original lifecycle)

As the dollars start to flow again, the market for servers in general -- and Intel servers in particular -- is full of promise. Companies looking to reduce their cost of computing are turning to low-cost Intel servers, which have relatively brief lifecycles. The analyst firms interviewed here agree that -- especially compared with other segments of the technology industry -- the Intel server market will see steady growth out to the end of the decade. 

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### About Gartner Inc.



Gartner Inc. is a research and advisory firm that helps more than 10,000 clients leverage technology to achieve business success. Founded in 1979, Gartner is headquartered in Stamford, Conn., and has over 3,800 associates, including approximately 1,000 research analysts and consultants, in more than 75 locations worldwide. For more information, visit [www.gartner.com](http://www.gartner.com) .

### About AMI-Partners Inc.



Access Markets International-Partners Inc. (AMI-Partners) specializes in actionable market intelligence, strategic consulting, venture capital and go-to-market solutions for the global Small and Medium Business (SMB) Enterprises market. Established in 1996, AMI-Partners is based in New York City. For more information, visit [www.ami-partners.com](http://www.ami-partners.com) .

### About the Author

Lauren Gibbons Paul has more than 15 years of experience as a writer and editor for leading business and technology publications, including *eWEEK*, *CIO*, *Managing Automation* and *Network World*. She has also done research assignments for a number of well-known analyst firms.

### Methodology

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