

# Sun Praises Google for Lowering Cost of Networks

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Continuing its recent momentum, Sun Microsystems says it expects to be generating 10 percent operating profit in the future, but that is dependent on a number of factors.

Sun Microsystems expects to be generating 10 percent operating profit from now on, depending on a number of factors, such as continuing to move the company away from its history of being a "walled garden," CEO Jonathan Schwartz said at a media event here on March 23.

Schwartz said, "We do not believe in walled gardens, as you cannot tell a customer what product to buy. For example, we believe Solaris is excellent, so why limit it to just running on Sun's servers?"

Sun can now also sell to "100 percent of the customers in the world. We have products that a shoe shop in any mall in the world can actually use. The question is how we view who we want to sell to. We are a small company in a gargantuan market," Schwartz said.

Sun's business model is based on the fact that every day more people join the Internet, which is becoming more local and meaningful to a massive diversity of people in the world on a daily basis, he said.

"So, Sun's goal is to make the network affordable and accessible to all of these people. If we want to have a future business we are going to need to have a lot of people coming online, which drives the network and creates opportunity for us. The network, by definition, is becoming more

open and competitive every day," Schwartz said.

The network today is dominated by cell phones, followed by PCs, Schwartz said, noting that "Google was the single company responsible for lowering the cost of the network by subsidizing the cost of consumer products with advertising revenue."

Sun is the only systems vendor in the marketplace with its own operating system, and firmly believes that innovation is its differentiator, he said. If a technology under development in its research and development labs does not meet that "innovation" criteria, the question Schwartz asks is why this was not being outsourced, he said.

"I don't believe in thin clients because I have never seen a truly thin client. Clients are getting richer and richer every day. Also, no self-respecting developer that I know today buys developer tools," Schwartz said.

To open a global business on the Web now costs nearly nothing, Schwartz said, giving as an example the proliferation of blogs, which have a global reach.

Schwartz also pointed to a number of network computing trends, such as the rise of the general-purpose system, differentiation through research and development, massive parallel threads, and brutal efficiency.

Oracle's move to try and take market share from Red Hat with its Unbreakable Linux strategy has had very little impact because of the growing barriers to entry of an operating system, he said. "It is very difficult for a company to just come out with a new server operating system," he said.

Schwartz said his priorities were making more money, increasing

volume and value, re-enlisting "champions," leveraging more partners and accelerating Sun's business.

Michael Lehman, Sun's chief financial officer, spoke next, saying Sun needs to be viewed as financially successful by its enterprise customers.

"Revenue, gross margin and operating expenses are the three levers that Sun has to grow the company, and the tenor has changed, with people now asking us when we are going to make the 10 percent operating profit number," he said.

In addition to gaining market share, Sun also plans to lower operating expenses over time, Lehman said, noting that Sun's move to Oracle 11i was the single biggest lever the company had to reduce operating costs.

"As we generate more cash, we will principally use that cash to grow the business, part of which will be buying new assets that add value for us," he said.

During a question and answer session, Schwartz was asked what had changed about Sun. "We are a much more transparent company now and focused far more clearly on market reality. We are also a little hungrier now and are more focused on profitability," he answered.

Sun has also been cutting research and development projects, including non-general-purpose operating system and infrastructure work, and some desktop-related work, Schwartz said.

Asked about Sun's track record of acquisitions, Lehman said Sun's history in this regard was "less than perfect and we have learned from our past mistakes and experience. But we now put our best people on those deals full-time, with the mandate of making the integration work," he said.

As to where growth was coming from, Schwartz said the bulk of the customer growth has been in small unit revenues, adding that Sun is also now gaining new customers. "A little over half of our 'try-and-buys' are customers that have never done business with us. We sell more units than we send out," he said.

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