Intel aims for the cloud as businesses ramp IT spending

January 17 2010, By Benjamin Pimentel

Intel Corp. affirmed this week what many analysts have been talking about for some time: That a corporate spending wave is about to hit -- and a big part of it will come from the cloud.

After pulling back on IT spending during the downturn, businesses are widely expected to start spending more on their computer networks, and to embrace the trend of cloud computing, in which companies access computing power through a network, instead of in-house data centers.

This push requires new, more powerful, but cheaper and more energy-efficient chips that Intel says -- as do many analysts -- it is well-positioned to exploit.

"We remain in an excellent position to benefit from the build out of cloud infrastructure as well as the reconfiguration of existing data centers for power performance efficiency improvements," Chief Executive Paul Otellini told analysts on Thursday when the chip giant posted robust results.

In fact, the company's data center business group, focused on chips for servers, workstations and data storage systems, posted a strong sequential jump in sales. Analysts quickly picked up on that data point, as well as Intel's better-than-expected outlook for the current quarter.

Baird analyst Tristan Gerra also cited Intel as "a primary beneficiary in the cloud computing infrastructure build."

Alex Gauna of JMP Securities also boosted his estimates for Intel "towards the higher end of guidance, based on our confidence that cloud computing and virtualization forces will drive increasing data center upgrade cycle demand across the balance of the year."

Virtualization refers to another trend in corporate IT that allows businesses to tap disparate computer systems on their premises or in hosted data centers as one network and use that computing capacity based on needs.

Tighter budgets and past experiences with runaway data center costs have fuelled the shift toward cloud computing.

"Smaller businesses are seeking to avoid costs, larger enterprises are seeking to contain costs, and all businesses are looking to increase revenues and profits," analyst Michael Dortch of Focus said in an e-mail.

And cloud computing and virtualization, he added, "can help to achieve all three goals."

To be sure, the trend is in its early stages.

Trip Chowdhry of Global Equities Research said cloud computing infrastructure "is just starting to build in Europe and Asia," while the U.S. has a 40 percent build out.

Companies such as Google Inc., Amazon.com, Microsoft Corp. and Facebook are the leaders in terms of the number of cloud server farms, he said. Most cloud providers, such as Google and Microsoft, "for sure get their chips directly from Intel," he added.

A big challenge right now, Dortch of Focus said, is for cloud computing not to morph into a system that becomes too complex and inefficient.

"Users will likely see anything else as geeks talking to geeks about geek stuff, the way many users viewed client-server computing and business computing itself in their early days," he said.

Meanwhile, Intel said it still expects broader corporate demand to pick up, although Otellini talked about "a modest" recovery in companies replacing or upgrading their PC fleets.

"We aren't building in any kind of -- anything extraordinary out of that, just sort of normal return to deployment as the evaluation cycles for the new hardware and Windows 7 gets completed," he told analysts.

It's in the market for chips for server computers that the company is seeing potentially robust growth.

"What we are benefiting from in the second half of the year and I think we'll continue to benefit from throughout this year is the extraordinary return on investment that is incurred by deploying new server technologies," Otellini said.

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