

Server market woes likely to grow as year goes on

July 24 2009, By Rex Crum, MarketWatch

It was only a few years ago that the market for computer servers was one of the hottest in the tech sector as large corporations, most notably financial services companies, bulked up on the devices to run their high-end business applications.

However, with the market for technology spending tightening up, demand for servers has dropped dramatically, leading to weaker revenue for the industry's largest [hardware](#) companies. The outlook for the market isn't expected to improve any time soon.

The most-recent earnings reports from the likes of Dell Inc., Hewlett-Packard Co. and IBM Corp. showed how disappointing the market for servers has become.

Dell, which combines servers and networking products together, reported revenue for this unit of \$1.29 billion, a 25 percent decline from the year before, for its fiscal first quarter ended May 1. H-P's enterprise storage and server business saw its sales fall 28 percent from the prior year, to \$3.5 billion, for its second quarter, ended April 20. The division's [operating profit](#) of \$250 million was 62 percent lower than the same period a year ago.

IBM, meanwhile, on July 16 reported second-quarter systems and technology revenue of \$3.9 billion, down 26 percent from a year ago. IBM said sales of its Systems Z mainframe servers fell 39 percent, while its Systems X server line saw a 22 percent decline in revenue.

Bank of America/Merrill Lynch analyst Scott Craig said in a recent research note that, for its part, IBM does appear to be taking some server market share away from its top rivals, but that such gains mean little to the overall market demand for servers. Craig cut his 2009 market forecast for servers to decline 18 percent from a year ago, from a prior estimate for a loss of 12 percent.

"The demand outlook remains constrained," Craig said. "(There are) deteriorating global business conditions, tighter IT budgets and a more-elongated server replacement, upgrade cycle."

Technology research company Gartner Inc. hasn't released its second-quarter server shipments or revenue results yet, but its first-quarter figures echo many of Craig's views on the server market and suggest that the industry is likely to be in the doldrums at least through the end of the year.

According to Gartner, worldwide server sales fell 24 percent to \$10.2 billion, and unit shipments also declined by 24 percent, to 1.7 million [servers](#) during the first quarter of the year from the same period a year ago. Gartner analyst Jeffrey Hewitt said a decline in server sales was the most-significant that the industry has seen on a year-over-year basis.

Hewitt said the first-quarter slump was actually an extension of the losses that began during the fourth-quarter of 2008.

"This was not unexpected, (but) the severity of the decline was greater than predicted on a worldwide level," he said.

All of the top five worldwide server vendors -- IBM, H-P, Dell, Sun Microsystems Inc. and Fujitsu/Fujitsu Siemens -- experienced double-digit revenue declines during the quarter. Even IBM, which actually increased its revenue market share to 30.7 percent, saw its quarterly sales

fall more than 20 percent from a year ago.

Such characteristics left Hewitt discouraged about the prospects for a second-half recovery for the server market.

"The outlook suggests that it will be a weak year on the whole," Hewitt said. "From a yearly standpoint, the global server market is unlikely to return to a position of growth until 2010."

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