

Everyone Claims to be Cloud Ready—But They're Not

Companies: AAPL, AMZN, CHKP, CSCO, CTXS, DELL, FFIV, FTNT, GOOG/GOOGL, HPE, IBM, JNPR, MDB, MSFT, NTAP, ORCL, PANW, VMW

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“Heard, tracked, understood, witnessed, confirmed, and you should really think about paying attention to this stuff.”

Research Question:

How has the pandemic affected data network communications and what changes will permanently impact the use of networks and the companies supplying IT?

Key Findings

The shift to on-demand cloud-hosted application networking is poised to leave some very substantial companies out in the wilderness. Survival will likely mean downsizing, spinning off pieces of old companies into new smaller public companies, or clinging to the dying past. Companies failing to respond to the new reality will become fossils along the tech evolutionary trail. In the time of pandemic 2020, virtually every company doing almost anything in information technology is claiming a cloud pedigree of one kind or another. Source report, however, that not every company claiming to be a “cloud” provider is one. You still have to rely on the underlying host network infrastructure to deliver—and that creates a middle technology layer rife with competition in a marketplace where spending is shrinking fast.

- Circa 2005, a raft of companies supplying information technology hardware and software to individual customers for in-house IT systems dismissed the idea of outside companies hosting and supplying IT as a service as an insecure, fad-like concept that would never take off. Then came Apple Inc.’s (AAPL) iPhone and the age of mobile on-demand computing grew from the consumer level to where it sits today.
- As public cloud momentum mounts, IBM Corp. (IBM), Dell Technologies Inc. (DELL), Citrix Systems Inc. (CTXS), F5 Networks Inc. (FFIV), Hewlett Packard Enterprise Co. (HPE), Juniper Networks Inc. (JNPR), VMware Inc. (VMW), NetApp Inc. (NTAP), Palo Alto Networks Inc. (PANW), and Check Point Software Technologies Ltd. (CHKP) were all cited by sources as facing significant threats to their core, license-based business models. The large public clouds developing their own versions of software is increasingly invading the sales turf of these companies. Cisco Systems Inc. (CSCO) is seen as likely to suffer the least because it is strong in security and has a global presence in bandwidth expansion. However, sources were clear that enterprise will never again see its glory days in DIY network sales.
- Several sources strongly warned that standalone open source software companies like MongoDB Inc. (MDB) are not cloud companies but non-proprietary general purpose catchall code that can be “dumped,” as one source put it, “onto the big three clouds by developers who don’t know anything about database.” Sources were adamant that, as time passes, generic database programs developed by the clouds themselves will obviate out MongoDB and similar open source plays, with one key independent database source forecasting that MongoDB “will never get within sniffing distance of turning a profit.”
- Some companies may have changed enough, soon enough, to stave off decline—a distinct positive in the current state of affairs. Two cited by sources are Oracle Corp. (ORCL) and Fortinet Inc. (FTNT). The former has reportedly revamped its entire sales effort to convert legacy customers of its database and other software into a cloud subscription model that is gaining momentum based on a new sales compensation program for reps. Oracle has a partnership with Microsoft Corp. (MSFT) Azure to host Oracle customers, giving Oracle cloud scale it previously lacked, as first reported in Blueshift Research’s [Sept. 26, 2019, Tech Trends report](#). Fortinet’s [FortiGate](#) was consistently cited by sources as the first and best of the firewall companies’ efforts to create a cloud/hybrid network system, an effort the company began more than three years ago.

Positive: AAPL, AMZN, FTNT, GOOG/GOOGL, MSFT, ORCL

Neutral: CSCO

Negative: CHKP, CTXS, DELL, FFIV, HPE, IBM, JNPR, MDB, NTAP, PANW, VMW

Additional Information

Source reports on companies impacted not just by the pandemic-related spending slowdown in DIY IT networking but by the mega trend of the big clouds taking over traditional application workloads from in-house enterprise networks are distilled here.

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Falling behind...

Check Point: In-house firewalls and add-ons—the mainstay of Check Point’s business since the late 1990s—are complex and data security can be increasingly handled natively by the big clouds and security measures they embed for customers. Added pain—Check Point is too expensive and its complexity requires highly paid staff at customer sites.

Citrix: Doing business using the cloud as a central point of contact renders the long-term need to use an inside network as a relay point between an end user and an application obsolete. This places a large part of Citrix’s portfolio at risk. Added pain—Citrix was once a leader in online collaboration but has been replaced by other platforms along the lines of Microsoft Teams, causing the company to miss out on the pandemic online work shift.

Dell/VMware: The companies sell products from last-gen names like EMC, for which Dell paid billions, or virtualization software not needed if an enterprise moves applications to the likes of Microsoft’s cloud, where virtualization [is built in](#). EMC is falling far out of the data storage top-tier space it once owned. Added pain—Dell’s servers, switches, and other products are falling further victim to IT spending freezes during the pandemic as customers buy only what they need to stay up and running.

F5 Networks: Compare what F5 has in its array of software it is selling as a service against what is available from the cloud providers and compare pricing. This will paint a startling picture for the company moving forward. Added pain—F5 does not sell any software with functions that cannot be found from open source competition at a fraction of the price.

Hewlett Packard Enterprise: The company has missed the cloud revolution. Added pain—Sources are adamant it can never recover.

IBM: It is another company that downplayed the public cloud for too long. Their Red Hat OpenShift push is not a pure cloud play and, as time passes, Red Hat licensing will shrink—there is too much competition coming from millions of developers working on applications for Microsoft Azure, Amazon.com Inc. (AMZN) Web Services (AWS), and Alphabet Inc.’s (GOOG/GOOGL) Google Cloud Platform. Added pain—Areas within IBM that could innovate and help the company climb back into the cloud race at a meaningful level are dragged down by management and too many other areas where the company has failed, especially in a litany of acquisitions that have led to a distant last place in cloud computing.

Juniper Networks: The company has been reduced to supplying switching and routing equipment as a foil for carriers and ISPs to play them off of Cisco Systems in that vertical. Juniper’s enterprise sales are insignificant and its once prominent place in network security has all but vanished. Added pain—The growth of the public clouds and aggressive competition from Cisco ensures there will be no enterprise networking comeback.

MongoDB: Sources were scathing in their assessment of the company as anything more than an easily replicated, non-transactional, non-analytical parking lot for what one source termed “data you don’t care about.” Every source who commented on MongoDB’s prospects to ever turn a profit said they are astounded by the company’s valuation and said that it is clear, as one put it, “...investing in this [open source code] is going to result in some agony.” While MongoDB Atlas document database is available on AWS and Azure, the two have DynamoDB (Microsoft) and DocumentDB (AWS) in place and that is one slice of competition that will prevent MongoDB from ever turning a profit. MongoDB attracts, as one said, “A significant number of insignificant accounts” because it offers a free service. Added pain—More competition is emerging all the time.

NetApp: Legacy sales are falling as the company tries to bill itself as “the cloud data leader.” NetApp is not the cloud data leader and is being deeply wounded by storage options at AWS and Azure. Added pain—It is in what sources generally described as a zero-sum race against Dell EMC.

Palo Alto Networks: The company’s heavily self-hyped all-encompassing cloud security effort “Prisma” is slow getting off the mark as the moves incorporate several acquisitions being cobbled into the platform. Fortinet is directly benefitting from Palo Alto’s execution issues and high pricing. Added pain—As segments of internal enterprise networks shut down because of cloud migrations, legacy firewall license renewals are reportedly seeing a significant drop.

In the middle...

Cisco Systems: The company is too heavily dependent on selling hardware and software into DIY networks at a time when customers are trying to shed doing as much of their IT as possible. However, Cisco is the biggest embedded enterprise security company in the world and that area is one where the company can pin other upgrades. With spending down, if the pandemic drags on indefinitely, the company may not be able to meet even its downward targets. Still, Cisco has more cash than some

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countries and is better able to ride things out than virtually any other competitor in the DIY networking realm.

Heading up...

Apple: Sources report seeing a big surge in the use of Apple's FaceTime for critical meetings where select participants at the C-suite level are collaborating via their iPhones and iPads. The pandemic is converting what had been consumer-focused apps into business tools, similar to the way the original iPhone launched the era of on-demand mobile computing via smartphones. Because Apple has scale at the data center level, the company's entertainment and music services are thriving during global lockdowns. Added upside—more innovation is coming.

Fortinet: The company's all-encompassing fabric approach has been developed over several years and works regardless of whether end users are inside a corporate network or interacting with cloud applications. Added upside—It is priced well below competition from Check Point and Palo Alto Networks, giving Fortinet some rare momentum during the pandemic.

Oracle: The company has seemingly turned the corner in trying to move legacy-licensed customers off its traditional license renewal model where sales reps became infamous for, among other things, constantly auditing customers to boost sales revenues. Competition from AWS, which has gone to war with Oracle over the past few years, forced it to reconstruct its sales to appease customers and prevent them from moving to AWS, or to Microsoft's version of a competing database. As a result, a subscription-based model has emerged that is working—just in the nick of time to preserve the bulk of the company's customers from leaving. Added upside—Oracle is reportedly dominating IBM's DB2 database in cloud conversions. If the current moves continue working there will be significant lock in, as big companies will be reluctant to change key data functions, especially at this time.

Background

For this report, Blueshift Research Tech Trends Senior Technology Researcher John Harrington has kept a two-month running tally of input from 35 repeat executive sources who have been contributing to Tech Trends reports since 2014 in networking, security, data management, and data security. As the substantial volume of information continues to flow, Tech Trends will comprehensively cover virtually every segment of enterprise IT over the next several months as the global pandemic plays out. For this segment, 29 sources contributed from North America and six contributed from Western Europe and the UK. Interviews were conducted throughout March, April, and the first two weeks of May.

Key Quotes

- "I think Cisco is in a tough spot on the enterprise side, outside of security, which is actually a key area for them with all this remote working. They are caught up in licensing issues. The whole push from them has been to sell supported network software on top of their hardware in order to get these ongoing revenues for the control plane of customer networks. We are in this situation where certain areas Cisco is deeply into are reluctant to, or can't, part with the money to keep up all of these licenses—not just Cisco licenses, but from every vendor. We do quite a lot of work in higher education and I can tell you this [pandemic] is brutalizing colleges and universities. It's hitting many areas of Cisco's strength and it will not be easy to recover, if ever, because so much of what has been done, say, in a campus network, has now been shifted online. The entire California higher ed system is going to stay online until at least the beginning of 2021, they have told us. That alone is a big blow to Cisco and pretty much any other IT supplier to the system—except for Microsoft and maybe some of the other cloud companies supplying things like Google Classroom and other collaboration applications." — CEO of a network integration company based in California doing business in higher education, health care, and local government
- "We are increasingly skeptical of all the traditional vendors calling themselves cloud companies because it's, frankly, [not true]. Look, just because you might have a version of a thing, some software, you were selling for years as a licensed product and you cut a deal to sell it on the AWS marketplace to a customer that is misinformed enough to pay to use it in the cloud when the cloud has the same thing there for free—and I am talking about VMware here specifically as an example... —that does not make VMware a cloud company. AWS is the cloud company and you are baggage trying to be carried along by a customer. This is a rampant problem causing very much confusion and a [ton] of wasted dollars, not to mention time, as we are constantly engaged in trying to explain to our clients that, 'No, you do not need to pay F5 for that anymore because when we move you over to Azure you will have controls there that

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eliminate the need for that application.’ It’s that type of thing. The numbers of companies that are saying they are cloud companies that are actually not pure cloud companies are bordering on ridiculous. Go on, ask me. IBM, Dell, VMware, Citrix, F5, NetApp? Not cloud companies. They deal with clouds—a big difference. Go on. Who else? Check Point? No. Palo Alto Networks? No. Look, the list is endless. You can go over and over it. If you are really cloud, you are a platform natively based in a series of redundant data facilities with scale and security built in and you offer application workloads, storage, data management, analytics, and a thousand other things that compete directly against the things that these not-cloud companies also sell, even if some of what they sell can run on Azure, AWS, or Google. I do not understand how some of the very supposedly smart people we deal with can’t grasp that difference. If Oracle sells you a cloud subscription and they get you hosted over at Azure, that is cloud. It’s cloud supplied by Azure, not Oracle, and Microsoft and Oracle divvy up the revenue by the month or year. That is a way for Oracle to change to a subscription model for its software—but the [darn] cloud belongs to Microsoft.” — CEO of a cloud migration and hybrid networking firm doing business with Fortune 1000 companies and state governments

- “Open source software is open source. You can’t build a profitable business offering an open source, document-based object, generalized data warehouse dump on AWS, Google, and Azure when those clouds have their own versions of exactly what you are doing built in right there. [The clouds] can see what customers you are bringing into their platforms and they have the luxury of sitting and waiting for you to eventually implode under the pressure of not turning a profit. Then they will take away your customers. That is MongoDB in a nutshell. How they have become this multi-billion-dollar company is mind-blowing. It is mystifying to me in the extreme. Someone is running an angle here. It’s meant for developers who do not know database. It is another one of these things that gets [hyped by the company] as having endless growth. The [misleading thing is the company just] runs a tremendous amount of junk data that it has to pay to [host] in the cloud—for free, or close to free [for many customers]. The...completely insane [part of this approach is that] competition to do [the same kind of money-losing business] is very large, which is crazy, because growth in this area is actually destructive. Running open source as your main model can never work if the idea is to turn a profit. The reason Azure can do it is simple: they get you for the hosting. Mongo doesn’t own the hosting. They are renting it and trying to pass the cost on to customers who don’t want to pay any kind of premium because the database is a dustbin. It’s a digital landfill business. Except they don’t own the actual landfill. They are digital dust middlemen. You do not pull data from it for deep analysis. You just throw it in there. It is good for some things, but it is not a high-tier approach. It will not pull in the premium customers willing to pay enough to create a positive return. That is the truth.” — CEO of an independent network data management company doing business in insurance, retail, biomedical, and pharmaceutical

The numbers of companies that are saying they are cloud companies that are actually not pure cloud companies are bordering on ridiculous. ... IBM, Dell, VMware, Citrix, F5, NetApp? Not cloud companies. ... Check Point? No. Palo Alto Networks? No. ... If you are really cloud, you are a platform natively based in a series of redundant data facilities with scale and security built in and you offer application workloads, storage, data management, analytics, and a thousand other things that compete directly against the things that these not-cloud companies also sell, even if some of what they sell can run on Azure, AWS, or Google.

CEO of a cloud migration and hybrid networking firm doing business with Fortune 1000 companies and state governments

About the Author

John Harrington is an award-winning investigative reporter and veteran Wall Street researcher. John previously served as senior editor and senior researcher at OTR Global, and was a three-time Emmy Award-winning TV journalist.

John brings expertise and relationships in internet networking, network security, fiber optic communications, and data center computing to Blueshift Research. John will contribute regularly, sharing deep insight into tech and communications trends, often before they are recognized by Wall Street.

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Report Coverage Areas and Companies

Blueshift Research has been reporting on the following technology areas since Feb. 14, 2014, covering these public companies:

Cloud Computing/On-Demand Hosted IT (AMZN, CRM, GOOG/GOOGL, IBM, MSFT, ORCL, WDAY)

Enterprise IT Networking (ANET, CSCO, CTXS, DELL, FFIV, HPE, IBM, JNPR, MSFT, ORCL, RHT)

Data Security (CHKP, FEYE, FTNT, INTC, JNPR, MSFT, PANW, SYMC)

Data Storage/Management/Analysis (AMZN, BRCD, CSCO, GOOG/GOOGL, HPE, IBM, INTC, MSFT, NTAP, ORCL, PSTG, RHT, TDC, WDC)

Data Centers and Fiber Optic Networking (AMZN, CONE, DFT, DLR, EQIX, GOOG/GOOGL, IBM, INTC, MSFT, NVDA, QTS, ZAYO)

Fiber Network Construction and Implementation (ALU, CIEN, CSCO, DY, GLW, IESC, JNPR, NOK)

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