

Fujitsu Rides, and Defies, the Consolidation Wave

Quick Note

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When most free-market supporters talk about “mature” industries that are dominated by giants and that present prohibitive barriers to entry, they’re usually referring to the automobile industry—or, in the past few years, to Microsoft’s desktop dominance. But the number and market power of system vendors has been consolidating in recent years, creating a similar situation on IT’s hardware side. This is especially so in the higher end of the server market. Just a decade ago, there were many notable companies among which customers could choose—Amdahl, Compaq, Data General, Dell, Digital Equipment, Hewlett-Packard, IBM, Prime, Pyramid, Siemens, Sequent, Sun, Tandem, and Wang, among others. Today, the worldwide market, and market attention, is dominated—through acquisitions and attrition—by just four brands: Dell, HP, IBM, and Sun.

What company could possibly compete with the sheer size and economic power of these giants? Sure, niche players like Apple, Egenera, RLX, SGI, Sony, and Toshiba continue to serve specific submarkets well. But they have nowhere near the scale, resources, or broad marketplace acceptance needed to take on the giants directly. But there is one, often-overlooked company that *does* have the size and financial muscle, not to mention a rich mix of products and services. That company is Fujitsu.

More Than a SPARC

In North America, Fujitsu has primarily been known as a “Sun cloner,” selling its PRIMEPOWER SPARC-based servers that run Sun Microsystems’ Solaris operating system. But Fujitsu is a lot more than a maker of Solaris-compatible servers. It has attracted some attention in the U.S. for the mainframe design center that lets it put more processors—128—into a single commercial Unix server than anyone else. Over the past several years, it’s had a particularly good run of top benchmark results in TPC-C and SAP tests.

Fujitsu is, in fact, a global IT powerhouse, with \$38 billion in revenues,¹ a \$2.3 billion R&D budget, and 157,000 employees worldwide. In addition to its PRIMEPOWER servers, the company makes Intel-processor servers, desktops, and laptops,

1. Revenue numbers are for the company’s Fiscal Year 2003, which ended March 31st.

PDA's, storage hardware and software, clustering software, telecommunications gear, plasma & LCD displays, semiconductors, and much more. It is PRIMEPOWER servers, however, that have led the way for Fujitsu in the enterprise server market. Price and brand recognition² are the main drivers of commodity-server sales, so this comes as no surprise.

Like the dominant systems makers, Fujitsu has also been riding the wave of server consolidation, replacing a large number of small machines in an IT department with a smaller number of larger machines, cutting the customer's costs by reducing the number of machines they own and the support staff needed to run them. Fujitsu's main offering in this niche is a line of Solaris servers based on the SPARC64 microprocessor—developed by Fujitsu, *not* Sun Microsystems. Fujitsu combined its micro-electronics capabilities with the mainframe-design expertise the company gained through its own mainframe product line and from the technology and engineers it got from its Amdahl acquisition. The result is a Solaris server that can perform the same amount of data processing as a server from Sun, but with fewer processors (which can often mean lower costs on per-CPU software licensing costs), and mainframe-inspired reliability features beyond what even IBM has been able to bring into its Unix-server line.³

The Role of Services

As good as the hardware is, however, Fujitsu is not simply a box company. What has really pushed Fujitsu's servers farther into the Unix market is the way the company combines its products with services supplied by a worldwide staff of 65,000.⁴ Its services fall into two major categories:

2. A direct solution to the brand-recognition problem—having Fujitsu Limited pour marketing money into its US subsidiary—sounds simple. But the Japanese-based parent company is constrained from doing that due to various tax laws. As a result, Fujitsu faces many of the same organic-growth challenges faced by much-smaller firms in the US.
3. See Illuminata report, "Fujitsu: Taking the Risk out of RISC," (October 2002).

consulting and multi-vendor maintenance. Multivendor maintenance services in North America are provided by Fujitsu Technology Solutions, Inc. (FTSI), which presents itself as the single point of contact for all equipment under contract, regardless of who manufactured it. The company also provides outsourced infrastructure management, service desks, help desks, and so on. This major part of Fujitsu's operation has such an extreme focus on customer-service that, a few years ago, the organization essentially sacrificed attracting new customers. Since disinterest in new sales tends to be a self-limiting attribute, that trend has been reversed. But, vow Fujitsu executives, not at the expense of its attention to customer service.

Consulting and services, including application outsourcing and management, system-integration and delivery, and strategic IT and business-process transformation, are provided by the Fujitsu Consulting division that was once known as DMR Consulting. DMR-now-Fujitsu Consulting enjoys a reputation as a top firm. Like IBM's IGS and BCS organizations—but unlike the more parochial product-wrapping services operations of Dell, HP, and Sun—Fujitsu Consulting employees are charged as customer advocates in dealing with the rest of Fujitsu and other vendors. Recommenders are given freedom to use whatever vendor's products are appropriate for their clients.⁵ In true business-consulting fashion, the Fujitsu Consulting folks view speeds, feeds, and architectures as secondary—things to be used as needed to support the solution to a business problem. They focus primarily on business results. Gartner-Dataquest data for 2002 shows Fujitsu as the third-largest global IT-services provider, behind just IBM and EDS. Since the vast majority of Fujitsu Consulting

4. Of those in Fujitsu's worldwide service and software groups, about 5,000 work in the software group, and 9,000 work in Fujitsu Consulting. Fujitsu Services, headquartered in London, has 15,500 employees. Fujitsu Technology Solutions, Inc. provides services to North America and Europe, and employs about 2,000.
5. An attribute often associated with IBM Global Services. IBM tried to acquire DMR Consulting back in 1995, but Amdahl outbid them.

sales are based on “word-of-mouth” referrals, it would seem that Fujitsu has done well delivering those results.

The mix of PRIMEPOWER, managed services, and a focus on customer service is an effective one, according to Fujitsu customer First American Corporation. The 114-year old Fortune 500 company converted a set of its Property Information division’s systems from VAXes to a Sun/Solaris platform, and wanted to expand its database and user capacity many-fold. But the systems it put online after a two-year development effort had problems with reliability and scalability. One option was to move the work to machines running IBM’s AIX or Hewlett-Packard’s HP-UX, but that would involve porting the software to another operating system and require additional staff training. An easier option was to swap out the Sun servers with Fujitsu hardware, which might introduce an unknown vendor, but would at least eliminate the need to move the Oracle database and applications, and any new-OS training.

When Evan Jafa, senior vice-president and CTO of First American, first suggested his team explore working with Fujitsu, staffers replied incredulously, “Fujitsu? Don’t they make film? What do they know about computers?” Mr. Jafa replied, “It’s good film, isn’t it? Let’s give them a try.”⁶ First American started by replacing just its database servers. After a few months, the database engine had proven its reliability and scaled beyond their expectations. They were also very happy with the attentiveness of Fujitsu service. First American decided to expand the project and convert the entire application environment to PRIMEPOWER gear.

According to Jafa, all of First American’s business goals were met. Even more important, Fujitsu was able to match the level of service First American gets from IBM for its mainframe-based data-ware-

6. A great rejoinder, but not quite on the money. It’s a completely different company—Fuji Photo Film Company, Ltd., founded in 1934 in a small Japanese village located at the foot of Mt. Fuji— that makes photographic film.

housing operation—a benchmark against which Jafa’s organization measures other vendors.

Makeup or Makeover?

Though some Fujitsu customers might not have an equally rosy experience, such positive examples improve the company’s credibility in the North-American market. For Fujitsu, success in that market means getting onto the short lists of vendor candidates that senior company managers automatically consider for IT projects. One requirement for getting there is to overcome the perception that Fujitsu is a conglomerate of disjointed businesses, many of them oriented toward either low-end computing or consumer equipment. Instead, Fujitsu will have to (and is, in fact, trying to) create an image of a single, sophisticated IT company whose employees are united in a common mission, one that can be communicated clearly—and be readily understood by the audience. As with any enterprise-level IT relationship, potential customers must understand what’s being offered, feel a need for what’s being offered, and believe the vendor can deliver. Marketing communications is definitely a major part of image makeover, but making the transformation effective takes more than clever tag lines or slick advertising campaigns. It requires organizational unity, as well.

The company is making progress in that transformation, but not without some difficulty. For all the promise of other markets, the bulk of Fujitsu’s total revenues—71 percent—comes from Japan, where Fujitsu is headquartered. That concentration makes it difficult to justify major expenditures to build share in overseas markets already dominated by mature, respected companies. Additionally, the connection between the “mother ship” and its European and American subsidiaries has not been very strong. This has led to misunderstandings and marketplace blunders. In one example, headquarters attempted to unify its acquired North-American services units by requiring them both to use only the Fujitsu name. Amdahl IT Services became Fujitsu Technology Solutions, and DMR Consulting became Fujitsu Consulting—which effectively

eliminated the awareness in the market of both companies by replacing known and respected names with complete unknowns. Prospective customers assumed they were being approached by either a start-up, or some off-shore electronics giant with a so-called services division staffed by a handful of employees. Worse, some of the services offered by these two staffs overlapped, and their salespeople competed directly against each other.

Fujitsu learned some lessons from this. Until the Fujitsu name gains the needed recognition, the company's consultants can refer to the DMR and Amdahl names as they introduce themselves to new customers, though the organizations for which they work still carry a Fujitsu banner.⁷

Better still, the company delineated which services would be provided by which group, and changed sales-compensation plans so that both teams get credit for services sub-contracted between them. It no longer matters whose "paper" the deals are written on—it's a *Fujitsu* sale.

Furthermore, Fujitsu has started to combine the many companies it owns—some fourteen in North America alone—into a more-integrated entity. The most daunting challenge Fujitsu faces, however, is integrating the company's three largest units: the parent in Japan, the former-Amdahl unit in North America, and Fujitsu-Siemens in Europe.

Those challenges include sorting out target markets. For example, the Fujitsu Consulting market "sweet spot" centers on medium-sized businesses or departments within large enterprises. Most contracts with the big global consulting firms—especially deals that make press headlines—include some tactical work, but the ROI tends to come in three or more years as part of some gigantic project. Fujitsu Consulting deliberately targets smaller "mid-tier" deals that are on a less-grand scale and provide a faster ROI, like consoli-

7. In some ways, this is like introducing "the artist formerly known as Prince." But at least the new name in this case is connected with the existing brand names, and can gain recognition.

dating maintenance, downsizing a select subset of servers, or outsourcing specific applications. IBM has recently started to pursue smaller and mid-market companies, too; but it's a newcomer to that market segment. Scaling its large-deal processes down to the mid-tier and below is proving to be more difficult than it sounds.

Meanwhile, Fujitsu is targeting a different portion of the market for its PRIMEPOWER servers: the 2,000 largest firms in America.⁸ Each server sale can be surrounded with services in an effort to delight the customer—a tactic that has been working. And each services engagement has the possibility of expanding to include Fujitsu product sales. But what's missing is a unifying theme that aligns the goals of the PRIMEPOWER and Managed Services lines of business—never mind the Intel-architecture servers, Unix- and Linux-clustering software, and other products in the company's portfolio.

The closest Fujitsu comes to a unifying theme are its current taglines "the possibilities are infinite" and "working together, we can accomplish anything," neither of which is concrete enough to be actionable from a customer's perspective. While Fujitsu was first to use these kinds of phrases, Hewlett-Packard has visibly taken ownership of them in the U.S. with its "everything is possible" television and magazine ad campaign. The problem with both of these companies' messages is that they don't describe what the company can *do* for its customers.

In this respect, IBM's current mantra, "on-demand business," is more successful. It helps communicate a promise to transform a business' processes and applications, integrating them with those of suppliers, distributors, and customers—making the business resilient, responsive, and flexible for today's constantly-changing business environment. The message is appealing to business executives, and IBM's recent addition of PricewaterhouseCoopers' business-consulting unit to its well-respected Global Services division, lends

8. Especially those with a commitment to Solaris.

credibility to the company's ability to deliver such a transformation. IBM goes on to describe four specific attributes it considers essential for this style of business operation, and discusses its products in terms of those attributes,⁹ projecting an image of a solid, seamless suite of offerings. It doesn't really matter that the seams among IBM's various products and services aren't as clean as its promises; its conception, pitch and promise is much more concrete and clear than Fujitsu's; IBM also has better name recognition and a longer track record in North America, making Fujitsu's break-in attempt even more challenging.

Conclusion

It's amusing, but slightly alarming, to hear the remaining system vendors all swear that "customers want to have choice" in large-scale IT purchases. Customers do have choices—but only among an increasingly small and powerful IT oligarchy.

9. For businesses, they are "responsive, variable, focused, and resilient." Drilling down a level, supporting products and technologies must be "integrated, virtualized, open, and autonomic."

And that is where Fujitsu sees an opportunity. By giving customers another choice from which to acquire the same range of services and products, it hopes to squeeze into the North American market, despite the tight economy and oligopoly, by coupling its size and financial muscle with its strong products and services portfolio. Its approach has been so quiet to date that many customers, and even competitors, are still unaware of its presence. But it has world-class credentials: its mainframe heritage and microelectronics expertise allow it to build reliability and scalability into its Unix servers on a par with any competitor. Its business-consulting capability was the envy of IBM, which had tried to acquire it. In overall global-services market share, Fujitsu is outdone by only IBM and EDS. And its commitment to pleasing customers is very strong.

If there was ever a time for a competitor like this to enter the market in a big way, that time is now. If Fujitsu can move beyond its past as a holding company, organize in a more unified way, and better articulate what the company as a whole can offer to its customers, it will be welcomed into the IT marketplace with open arms. Customers who really do want choice should choose to take a closer look at Fujitsu.