

Jason Lopez:

This is the Tech Barometer Podcast. I'm Jason Lopez. The Broadcom acquisition of VMware has been on the table since May of 2022, and analysts have described the purchase with a range of insights, noting the deal is a good one for investors, but some questioning whether a hardware company like Broadcom is ready to be a software company. But perhaps the most pertinent issue seems to be what VMware customers can expect. We spoke with Steve McDowell, who's a senior analyst, researching storage and data, at Moore Insights and Strategy, and started with that question about customers.

Steve McDowell:

I think there is a lot of fear and uncertainty among VMware customers. They don't know what Broadcom's going to do with the asset. And if you look at what Broadcom typically does is they've done 17 acquisitions since 2010. Broadcom's business model is to take a set of technologies that have largely matured. And if you look at VMware's core kind of virtualization vSphere business, it fits that model. That technology is almost 20 years old at this point, but they take these technologies that are greatly matured and bring them into the fold and try to extract maximum value out of that. Now, I don't think there's any impact in the near term to VMware customers and products that are shipping. I think where the uncertainty comes in is what does Broadcom do with that long term? Typically, when you bring something in and treat it as a commodity, you'll do incremental improvements to the product and keep it alive and keep it relevant and keep it current. But we don't see a lot of, in these situations is longer term innovation. And you know, VMware has been driving a lot of innovation in recent years, and the fear is that that's going to be put to the side. The other element of this is how are VMware employees looking at this? Part of what Broadcom will undoubtedly do is try to, uh, you know, kind of synergize across the organization. So, you know, if I'm in a sales and marketing role at VMware, I'm gonna worry if I'm an engineer and suddenly my stock options look very different, in a Broadcom scenario, there's fear that there may be brain drain within the organization. We don't know what's going to happen, but those are the kind of things that are on people's minds.

Jason Lopez:

Well, how does this fit into the way a lot of enterprise software is developed? You know, a lot of it is not just sold off the shelf, but is the result of, of long term partnerships. And then there's the idea of lock in. What's your sense of these dynamics?

Steve McDowell:

If I'm an IT practitioner who's leveraging VMware products or similar products? If I'm heavily invested in vSphere and VMware infrastructure, the switching cost is tremendous. So I really have to be motivated. In the near to midterm those customers are not gonna be disrupted. If I'm looking to start something new Greenfield, or if I'm an existing VMware customer and I'm expanding to new projects for new infrastructure, trying to manage my hybrid multicloud in a different way. I'm not gonna default to VMware at this point. I'm gonna look at what the other options are in the industry because I don't know yet what Broadcom's going to do with them. And if you look at Broadcom historically, there may never be another giant innovation out of that group of engineers. There may be, but historically Broadcom tends to be very incrementally innovative in the technologies that they acquire.

Jason Lopez:

When you talk about options, what, what do you mean exactly?

Steve McDowell:

The value of VMware at this point, apart from the core virtualization pieces is, you know, I'm abstracting my infrastructure, every data center now, every IT infrastructure now is virtual. And the software that controls that data plane and that control plane, you know, in some cases that's VMware Cloud Foundation and others, that's Nutanix offerings. Beyond those two, the list gets very, very tight and with less credible players underneath. So I think this is gonna be a huge opportunity for VMware competitors simply because they don't have kind of that same stigma and that same uncertainty facing them.

Jason Lopez:

What does Broadcom do? And the context for a simple sounding question like this, I guess is why a hardware company is adding software companies like CA and Symantec and now VMware,

Steve McDowell:

Here's who I think Broadcom is. Broadcom likes to provide infrastructure components for the data center. Traditionally that has been very hardware centric. They make parts for, you know, ethernet switches, storage, networking, all of these things around that. But what's happened over the past, you know, half decade even is there's very much a trend toward a virtual infrastructure. The more people move to the cloud, the worse that is for Broadcom and it's portfolio products and companies. Seventy two percent of enterprises. I think I saw a survey recently has assets in one or more clouds plus they're on-prem data center stuff. And that's all managed with software defined data center. It's very real, and I think Broadcom recognizes this, and they're starting to bring more software companies into the fold. VMware is an example, right? So VMware is now part of the virtual data center. Now, certainly back to your question, who is Broadcom? They wanna provide the infrastructure for your data center.

Jason Lopez:

Well, is there an example in the tech sphere that approximates what we're looking at here to help us kind of understand the dynamics of this acquisition?

Steve McDowell:

The, the, the closest example that I can come up with in 2015, when you thought about storage, you thought about EMC, you thought about NetApp, Those were the two storage companies. They'd been around since the early nineties. They invented most of the storage technologies we're using today. Dell brought those into the fold and have slowly erased the brand. They don't talk about EMC anymore. They've completely rebranded all of those products. That's probably the closest analog in the tech industry I can think of. Um, 1999, when you thought about the internet, you thought about AOL. That was the internet to millions upon millions of people, and their aspirations grew big and they ended up with Time Warner and it completely destroyed that company. They took the assets of AOL and milked them for what they were worth. And today, believe it or not, it still exists. There's a little bit of a dial up business in rural communities that are using AOL portals, but the AOL that we knew went completely away. So I think that's an example of something that was definitional for certain class of people, for a certain class of users that was completely destroyed by an acquisition. Now we've seen acquisitions go the other way. We circle back to Del EMC, We may have lost the EMC brand, but that technology is still alive and well. And those same engineers are still building those same products. When you look at where it goes, there's historical analogs, kind of both directions where I've destroyed a company and where I've, you know, evolved it and let it carry on.

Jason Lopez:

Well, if we balance this out, we're talking about the risks that customers might be facing in terms of what Broadcom might do. On the other hand, there are people at Broadcom who have really thought this out. They wouldn't be making this purchase had they not done their due diligence.

Steve McDowell:

There are winners here. This is not all downside. This is gonna be huge for Broadcom stockholders. Every public company has to grow. Broadcom, I think is, if you look at the list of potential acquisitions in their space, it's pretty small. These guys dominate so much of where they played today. So if I'm looking for market expansion, man, VMware is great. I'm buying a customer base. I'm buying steady revenue. What they're looking at from a challenge perspective is, you know, VMware doesn't manage their margin very well. So you know, a lot of overhead and Broadcom, they've done it before, they're saying, we can bring these guys in, we can shave off the fat. We can maybe, and this is where it scares customers, maybe narrow the portfolio a little bit so that I'm providing just a core set of services. If they can hit the targets they've publicly talked about, it's gonna be really good for their shareholders and it's gonna be really good for a certain class of IT customers. If I'm buying virtualization today, I'm largely running VMware. Where it gets fuzzier is as I move away from that core set of virtualized functions or virtual machines and start looking at, you know, how do I manage a hybrid multi-cloud environment? VMware plays there and I think is as dominant as it is because of its legacy. That's where I worry, where Broadcom is not going to continue to see that as a priority and just kind of focus in on kind of the core commodity piece of the business.

Jason Lopez:

So another question to ask you. What you mean, you mentioned worry. What exactly do you mean by that? Can you go into a little more detail, Steve?

Steve McDowell:

I think what a lot of what drives the worry is Broadcom is very publicly talked about. They can get higher return out of existing assets. And that's the kind of language that scares people. That says, "Oh, we're gonna treat this as a commodity. We're gonna stop innovating." So I'm doing something across clouds. If I'm doing something that's very cloud native focused in VMware, Tanzu I think is struggling to find broad success in the cloud native space. I'm gonna look at alternate solutions. If it's a cloud native play, I may start looking at Red Hat, OpenShift or IBM's offerings there, or Nutanix. Some products, it won't matter. I need to solve a problem today and I'm not worried about what the company looks like three years from now, but others, when I'm embarking on new architectures around, you know, hybrid multi-cloud, I'm gonna want a partner that's going to be with me for 3, 5, 7 years because that's how long these things last. I wanna place a bet that's good for my organization, and that's the calculus that's going on in people's heads. To be fair to Broadcom and VMware, we all know what they're going to do. If I was buying Brocade parts 10 years ago I'm perfectly happy today. But that's not an industry kind of storage networking that looks for big leaps in innovation. We're still early days in how we manage this cloud driven infrastructure. You know, we're bringing Edge into the fold. We got as of service all of these different pieces, all with their different management planes. And it guy just wants simplicity, right? He wants one screen to push buttons. And, I'm gonna bet on a, on a stack that I know that the company who's providing it stands behind that. So, you know, if I'm looking at Broadcom, VMware, I think it's a pause. I think I'm not gonna make a decision until I see how it shakes out and I have an immediate need that's gonna be really good for VMware's competitors.

Jason Lopez:

Steve McDowell is a senior analyst at Moore Insights and Strategy. This is the Tech Barometer podcast. I'm Jason Lopez. Thanks for listening. Tech Barometer is a production of The Forecast and you can find more stories about technology and the people in tech at the forecastbynutanix.com.