

Transcript:

Steve McDowell: Broadcom announced quite a while ago that they're acquiring VMware.

Lee Caswell: It's not a light switch moment.

Steve McDowell: Because of regulatory hurdles and all sorts of other things, it stretched out for multiple quarters. That is where I think the initial wave of concern came in, because now not only do I have to wait and see, I have to wait multiple quarters to see.

Lee Caswell: Very rarely in IT do you just decommission something now instead, what you're thinking is, all right, how do I make sure that I'm containing the risk, and then taking all the new things and putting that on the new modern infrastructure.

Jason Lopez: In the ever-evolving landscape of IT infrastructure, companies are increasingly finding themselves at a crossroads, particularly in the wake of significant industry acquisitions such as Broadcom's purchase of VMware. This shift has ushered in concerns for VMware's customers.

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Lee Caswell: What happens if they're not one of the top 2,000 customers?

Jason Lopez: Lee Caswell, Senior VP of Product and Solutions Marketing at Nutanix, says VMware customers are worried about three major things: pricing going forward, and we'll dive deeper into that in a few minutes, as well as support for products and the risk to personal careers.

Lee Caswell: Those customers are worried from a support standpoint. I think those customers are legitimately worried that they're not going to get a call. Partners are worried, too, because Broadcom doesn't have a great [relationship with partners](#). So I think that support piece will come to be the thing that really actually unhinges them. And the third one is about personal career risk. If you can't get support and you're running something and you didn't make a change, then all of a sudden it's going to be back on you.

Steve McDowell: There's a lot of uncertainty among the IT community about what Broadcom is going to do with VMware.

Jason Lopez: Steve McDowell is principal analyst at NAND Research.

Steve McDowell: Broadcom historically, they've largely acquired companies that have largely commoditized and they maintain them forward, but you don't see a lot of continuing innovation. Are they just going to take the core VMware business and maintain that moving forward? Because the reality is a technology like VMware, or VM in particular, is very sticky, right? It's hard to kind of rip and replace.

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Lee Caswell: The way that customers are talking to me about this right now is that what they had with VMware for the past, you know, almost 20 years, right, was a very safe offering with known risks. And now what's happened is what was the safe bet is now the risky bet. And it's got unpredictable risks.

Steve McDowell: You know, if you have a VMware license, you're probably not going anywhere for the life of that infrastructure, right? But where the uncertainty lives is on, you know, when I do come up to a replacement cycle or I have a greenfield project, you know, is VMware going to continue to deliver the level of innovation?

Jason Lopez: This has left many customers contemplating a strategic approach where they maintain their existing VMware infrastructure but refrain from expanding. Instead, they're considering investing in new applications and technologies on alternative platforms based on newer architectures.

Steve McDowell: From Broadcom's perspective, I think everything they're doing makes a lot of sense for their investors and for maybe existing VMware customers. But where there's, I think, going to continue to be a concern: how does the VMware technology continue to evolve, right? Am I still going to get the level of support I had? And am I still going to be paying the same amount of money? There's also news out of Broadcom earnings, they're re-examining kind of their subscription strategy, subscription bundle, and subscription pricing.

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Lee Caswell: There was a blog published by the leader of all the infrastructure products, saying some very interesting things that people had been expecting, but now they're in print. So number one was it's the end of any new perpetual licenses forever. That was interesting because that's the way that most VMware customers have transacted businesses in the past. Also when those perpetual licenses came up for support and services, you'd have an SNS or support and services element, and there also no new SNS contracts as well. So those two things basically said that, hey, every customer is moving to a subscription model. Now, what you know in your personal life, right, is also true in business. When you move to a subscription model you end up paying more.

Jason Lopez: Caswell cautions that subscriptions, strictly speaking, don't automatically equate to higher pricing. Subscriptions work when a customer maps out the long-term costs and benefits. But other factors within a subscription matter, such as bundling.

Lee Caswell: Subscription is one way where you would pay more, even if the prices were the same. But now what we're looking at is that the bundling of products is starting to look like you may have to go and move up into higher level products where the way it's being described is you'll get more value. And that could be true, but the question is, it may be value that you wouldn't have ordinarily bought. Think of it like when you have a cable TV subscription and you get 800 channels and you're like, okay, I'm gonna watch like 20 of them. Can you give me the 20? And they say, no. And so now you're stuck with a whole lot of stuff that you may not have originally wanted.

Jason Lopez: The immediate aftermath of the acquisition saw restructuring within VMware, in areas such as partner teams, engineering, and customer relations.

Steve McDowell: Five days after the acquisition closed, the week after Thanksgiving, they laid off 2,500, 3,500 people, I mean, a significant number of VMware employees. And these were in the partner teams, these were in engineering teams, these were in kind of customer relation teams. Not a good signal if you're trying to build credibility with your customer base.

Lee Caswell: Publicly they just announced they laid off over 300 people in Cork, Ireland, which is the support center. They're also closing countries that don't have a sufficient number of customers.

Steve McDowell: First week of December, we saw them announce that they're [spinning out their desktop compute pieces](#). So they're already starting to shed some of the things that are not core VMware capabilities.

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Jason Lopez: Today, one of the driving forces behind the way companies use and pay for enterprise software is an anticipation of a massive influx of new applications over the next few years, far exceeding the growth seen in the past four decades.

Lee Caswell: 750 million new applications coming online over the next three years, more than the past 40 years of computing. So you're going to have this new wave of applications. And guess what? It's all unpredictable. If you ask people what they're going to do three years from now, they can't tell you which applications they are. They don't know whether they're going to be interfacing with blocks, files, or objects, VMs, containers, on-prem, in the public cloud. And so risk right now with VMware is that you're stalled like a deer in the headlights and you don't know how to move forward because you don't know what the risks are going to be over time.

Steve McDowell: Those are the kinds of things that when they're in the air are going to lead to a certain amount of uncertainty. At the end of the day, being in IT is about de-risking your operations, right? Every business today is a digital business. And if I'm putting a piece of software that's critical to my infrastructure it just makes sense that I'm going to look for alternatives. Not saying I'm not going to choose VMware, but I'm not going to default to VMware. So I'm going to look at Nutanix. If I'm in more in a cloud native mode, I'm going to look at the various Kubernetes things like OpenShift, Portworx, and things like that.

Steve McDowell: Broadcom's business model is to take a commodified technology and continue to monetize that over time.

Jason Lopez: Innovation is a cornerstone of success and resilience in the tech industry. McDowell reminds us that it drives competitiveness, customer loyalty, adaptation to market changes, long-term growth, and it influences strategic business decisions.

Steve McDowell: You know, and when you're talking about a commoditized technology, you're not talking about a lot of continuing innovation. Now, a lot of the excitement around VMware in recent years was things that were kind of adjacent to their core infrastructure management path, like Carbon Black for endpoint security, for example. Broadcom, two weeks after their acquisition, said "We're spinning that out." So they're kind of validating, I think, some of the initial concerns. That's not to say that Broadcom's not going to take care of existing VMware customers. I think they will. They want that revenue stream moving forward. The concern is really around new projects and replacement projects. Is the VMware technology the right

technology? And I'm not saying it's not, I'm saying it's early to know. So we're just going to have to wait and see. But, you know, a lot of IT projects can't wait and see, which is going to force you to de-risk the decision by looking at alternatives.

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Jason Lopez: The market has been trying to understand the implications of this acquisition for about a year. And that limited Broadcom's ability to articulate a strategy. This, sort of, limbo benefited competitors such as Nutanix.

Steve McDowell: Nutanix is not alone. I think everybody who competes directly with VMware in whatever space began benefiting well before the close just because of all of the uncertainty that just continued to linger. Because of where they were in the process, Broadcom, fair or unfair to them, they couldn't respond to that, right? I can't talk about a company I don't own. So they would talk in generalities and that doesn't do anything to ease concerns. So I think, you know, we're a year into trying to grasp what this acquisition means.

Jason Lopez: Steve McDowell is principal analyst and co-founder at NAND Research. In his tech experience, he's been at IBM, Fujitsu, and AMD among other firms. And he's been a prominent industry analyst since 2017. Lee Caswell is Senior Vice President of Product and Solutions Marketing at Nutanix. He served two stints at VMware and in his career worked in many roles such as at NetApp and Fusion-io as well as co-founding Pivot3 in Silicon Valley. This is the Tech Barometer podcast I'm Jason Lopez. Tech Barometer is a production of The Forecast. You can find more tech stories at theforecastbynutanix.com.