Updata Market Note: Deconstructing RSA

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Conference themes & trends

This year's RSA Conference was the largest ever, with a reported 13,000 registered attendees and 275 exhibitors (versus 10,000 and 250, respectively, last year). Exhibit floor activity also appeared strong, with vendors citing more and better sales, partnering, investment and M&A discussions than in recent years. This accords with the favorable market environment highlighted in our Winter *Security Sector Report*.

Several big-picture themes and trends pervaded the conference. First, **identity drives the internet**. Confidence in internet security "is eroding in some areas," observed RSA CEO Art Coviello, resulting in slow-down, even roll-back, of enterprise and government internet initiatives. Identity assurance is the critical enabler to more activity over the web. This is generating broader demand for strong authentication to protect online identities from theft, and for solutions that provision network resource access rights.

While two-factor authentication, PKI and biometrics have been deployed in high-assurance settings (e.g. government and banking) for some time, there is growing recognition of the need to extend strong access control universally and end reliance on passwords.   At the conference for example, RSA and VeriSign announced authentication platforms for the small and midsized business market, and RSA announced tighter integration of SecurID tokens with Windows for easier use.

Another major theme is that **access endpoint security is essential**.   Most enterprise security problems can be solved by screening users' computer devices for security policy compliance and malware when they plug into the Internet or corporate network. This concept underlies access control initiatives from Microsoft and Cisco, and points to demand for endpoint security solutions. Cisco, fielding 150 employees on the exhibit floor, also announced a raft of products and enhancements under its Adaptive Threat Defense approach by which, CEO John Chambers explained, security will "go across every device in the network" in "automated and self-defending" fashion.

Impact of the patchwork of corporate governance and privacy regulations was another much-discussed show topic. Requirements imposed by Sarbanes-Oxley, G-L-B, HIPPA, etc. mean that more than ever, **organizations are accountable for security**.   This realization has created a "fundamental shift" in security practices requiring "a whole new level of transparency into data, processes and accountability," said Computer Associates EVP Russ Artzt. Pure-play compliance management vendors, and those whose products facilitate compliance (e.g. security event management, vulnerability assessment) stand to benefit, as do security consultants whose roles will expand to compliance risk management.

Accountability also applies to software development practices. RSA EVP Scott Schnell predicted a "watershed year" in Congress on the issue of vendor accountability for security bugs. Microsoft chief Bill Gates announced a partnership with application development solution vendors to focus on improving application security in the development process.

The RSA conference is a popular venue for smaller vendors launching innovative solutions to a broad array of security risks. This year however, announcements by enterprise "stack" vendors CA, Cisco, HP, Microsoft, Novell, Sun and Symantec garnered most of the attention. This supports our view that **security is disappearing as a standalone segment**, as big infrastructure vendors increasingly embed security to strengthen their core offerings' appeal to customers and to improve growth prospects. As Symantec CEO John Thompson noted in his keynote, in the "new paradigm" of IT, old enterprise segment "silos go away."

To improve server system sales, HP unveiled "virus throttling" technology that spots unusual network activity and chokes off outbound connections, keeping the system online but slowing the spread of malicious code.   HP also announced a Security Containment suite that quarantines damaged or hijacked applications. Sun announced security enhancements for its next version of Solaris and for Java messaging products to enhance their competitiveness.

Conference themes & trends *cont'd*

Another common discussion thread across booths and in speeches concerned **price pressure in the industry**. Regardless of the segment, most vendors highlighted lower cost as a competitive differentiator. Although security continues to be ranked as a top spending priority among CIO's, conference dialogs made clear that the industry is not immune from margin pressures affecting IT generally. Cost considerations continue driving higher growth rates for appliances and bundled applications versus standalone offerings.

Pricing pressures will increase if the result of improved and embedded security is reduced sector spending, which some analysts predict may begin happening soon. Gartner's Victor Wheatman said at RSA that by 2006, security spending could decline to four or five percent of corporate IT budgets, or less.

Microsoft: first things first

In his much-awaited keynote, Bill Gates announced that Microsoft would offer anti-spyware for free and launch a more secure beta version of the company's Internet Explorer browser in mid-2005, ahead of schedule and decoupled from the 2006 release of Longhorn, the next, more secure version of Windows. Gates also outlined plans to offer a consumer antivirus product at year-end, and generally highlighted Microsoft's heightened security focus in all it does.

The tactical speech surprised many who thought Gates would more boldly set out Microsoft's security strategy and launch a bundled security offering, including anti-spyware and antivirus, for a subscription fee. However, the clear implication from the speech was that Microsoft is focusing on securing its products rather than offering security products. In other words, Microsoft is not setting out to compete with the likes of Symantec or McAfee, but rather with the open-source Linux operating system and Firefox browser, both of which are gaining market share (see our recent report *Linux is Winning*). As longtime market guru Bruce Schneier observed at RSA, the growth of "Linux has done more for Microsoft's security than anything out there."

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