

Storage Market Perspective—Q3 2009

Shortages Abound, What Adjustments will Manufacturers Make?

The storage market is proving susceptible to economic woes. Seasonally the market is very slow with a lot of product floating around during the summer months. The inventory levels move up during this time in anticipation of the holiday build schedules for Q3. Unfortunately the economy has forced major layoffs, restructuring, and cost saving cut backs in manufacturing for Seagate and WD. The result: a lot of product is on allocation now. This could cause major waves into the holiday build schedules if production doesn't get ramped up soon.

Mobile

The mobile sector has been the most active of all form factors. Pricing on 160GB and higher has been increasing 5-10% since the beginning of the quarter. We see a worldwide shortage on the 160GB capacity, which is causing customers to use the 250GB capacity drives in its place. Currently all PATA technology for mobile product is extremely difficult to come across. When the product is available it's generally \$10 - \$15 more than SATA. Another reason for this sector being so hot right now is the move towards portability. In the past drives were primarily used for notebook and desktop applications. Today technology is changing and delivering portable storage to many different markets. The higher capacities on mobile drives allows for more flexibility, reliability, and capacity to use these drives in new applications which weren't possible previously.

Desktop Drives

The desktop market has pockets of allocations as pricing is starting to compress significantly. Only a couple of dollars separate 160GB & 500GB capacities. Meanwhile, margin continues to shrink. We are seeing a lot of external manufacturers carrying a 500GB as an entry point. In the past it was 250GB that stood as the market entry capacity. The 1TB and 1.5TB are the most actively traded on the top end of the spectrum. The market is very short on higher enterprise class drives in the 500GB and 1TB capacities. Hitachi is on severe allocation on both of these capacities and such will be the case for the remainder of this quarter. Many OEMs are now looking at the Near Line version of Seagate's product lines. This allocation issue can be attributed to the newer generation penetrating the market in an effective manner. OEMs have qualified a newer drive from Hitachi that has had troubles reaching the market in real shipping qty's.

Enterprise Class

The enterprise market is feeling the effects of the Seagate 10k.7 EOL notice. The OEMs are now looking into unconventional supply chains because the conventional authorized disty and direct channels can't support them anymore. Also the fact that Seagate has moved its repair facilities overseas from Mexico is causing problems in service. OEMs have been asked to take credit while Seagate repair lines are down for the next 5 months. Allocation issues have also hit the higher end enterprise drives. Our GSD Database has communicated to us that 300GB 15k SAS drives are very difficult to find in the market. The pricing has jumped up in the market due to lack of inventory. This shortage should last until the beginning of 2010.

Into the 4th Quarter...

The coming months will be interesting in the storage market. The solid state technology will be a bigger part of the overall product mix. WD's recent acquisitions are showing the market they firmly believe in the technology and want to participate. A lot of management changes in both Seagate and WD will hopefully steer these two leaders in the right direction. As of late we have seen WD take a big share of Seagate desktop and mobile markets. Hitachi's lower cost solutions have allowed them to take an apple pie sized slice of the market from these two storage giants. Hitachi has a strategy of lowering pricing and trying to steal market share on pricing alone. Both WD and Seagate decided not to chase the pricing pressures but to stick to current selling costs. The holiday season will be upon us very shortly and this is the time for this sector to thrive, let's hope manufacturing can keep par with the expected economic recovery.