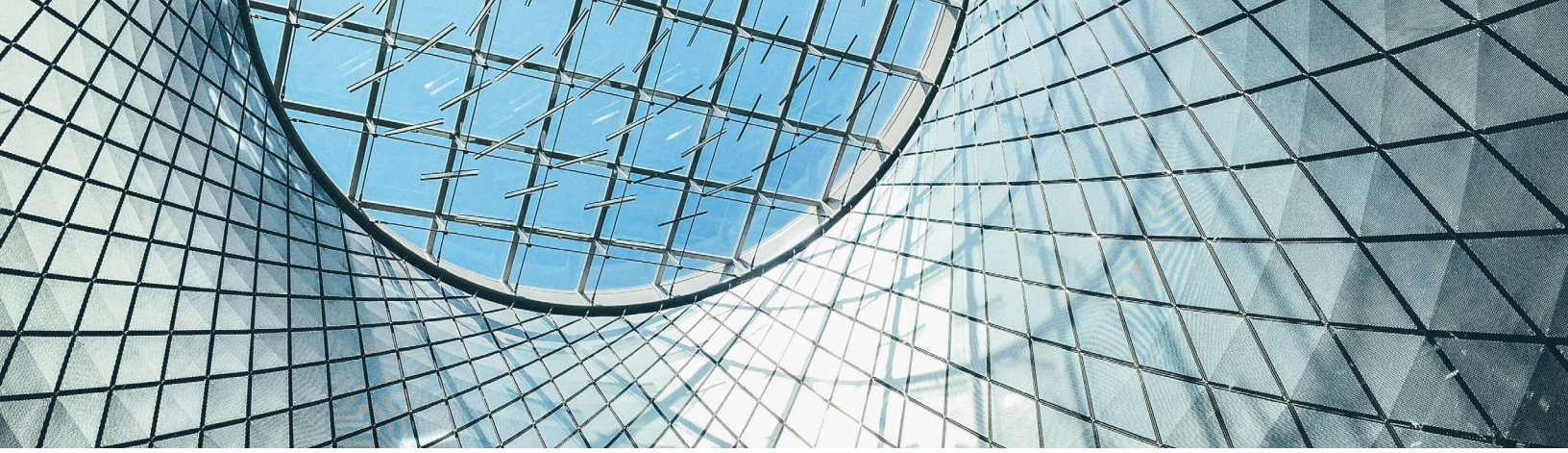

Market Insight Report Reprint

NetApp sheds light on AI opportunities in Asia-Pacific

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by Agatha Poon

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Introduction

NetApp Inc. has wasted no time in combining its storage and data service expertise with AI capabilities, leveraging its partnership with Nvidia Corp. The company recently discussed new growth opportunities in Asia-Pacific, as artificial intelligence/machine-learning technologies increasingly become an integral part of business strategies for competitiveness.

As a growth segment within its hybrid cloud business, companies in the financial services and public sectors are seen as prime opportunities for a portfolio of Nvidia-accelerated offerings. Whether NetApp is eager to make a dent in the still-evolving market for AI/ML and HPC remains to be seen. It will not be easy, but the storage vendor has both the resources and ambition to do so.

THE TAKE

Data analytics and AI are often cited as potential markets for providers and vendors alike to move up the value chain. As such, NetApp's experience as an established storage vendor focused on data management works in its favor to engage with early adopters. Investing in creating a unified management experience with its BlueXP makes sense. After all, customers are looking for ways to streamline workload management in a heterogeneous IT environment — whether on-premises, in the cloud or at the edge. Nevertheless, the multitude of products and services for its core storage and data capabilities could pose a barrier. Further simplifying its purpose and messaging to customers with proven use cases seems like a logical next step to fueling broader adoption.

Context

NetApp, in collaboration with Nvidia, continues to invest in building a portfolio of AI-driven products with customized offerings and ideation workshops for companies embarking on AI journeys. Targeting data-hungry companies in the financial services, automotive, manufacturing and public sectors, it claims to have grown steadily — as measured by the growing number of AI and data lake wins. NetApp does not provide revenue breakdown by service segment, but indicates its annual recurring revenue is in the hundreds of millions of dollars for its portfolio of AI and analytics offerings.

NetApp reports that it closed out the third quarter of fiscal year 2023 at $1.53 billion in revenue, down 5% year over year. The hybrid cloud segment accounted for 90% of total revenue. Although recurring support revenue in the hybrid cloud segment grew to $616 million, up 5% year over year, product revenue decreased 19% year over year. The company attributed this to customers' cautious capital spending, particularly large enterprises and US tech and service provider customers.

NetApp indicates that the foreign exchange headwinds have begun to ease in Asia-Pacific. On the upside, it is expected that individual economies such as Singapore will fare better. In the case of Singapore, the Personal Data Protection Commission of Singapore has published the second edition of the AI Governance Framework. This will likely accelerate the demand for enterprise data management services as AI data is treated in the same way as enterprise data, NetApp reckons.

The maturity of the storage and data services market has prompted the vendor to accelerate its pace of technology innovation. NetApp introduced BlueXP last year, a data management platform designed to help customers simplify their management across hybrid multicloud environments. Customers can use BlueXP to discover and manage a number of NetApp systems (ONTAP on FAS/AFF, Storage GRID, E-and EF-Series, CVO, ANF, FSxN, CVS) and cloud services with the three major cloud hyperscalers.

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At present, BlueXP can only discover and manage AI products codeveloped by NetApp and Nvidia if the AI products are running on the infrastructure systems mentioned earlier. Positioned as a unified control plane, customers who previously used Cloud Manager are automatically transitioned to BlueXP. Additionally, ONTAP System Manager is integrated into BlueXP as BlueXP advanced mode, for customers running 9.10.1 or higher.

Partners and ISVs

To take advantage of AI and HPC opportunities in selected vertical segments, NetApp is tightening up its AI profile with Nvidia while building a "customer-sponsored solution development" network. The company has set out to expand its partnership reach, especially at the field sales level, and has added a diverse set of partners over the past few years.

ISV partners such as Modzy and Parabricks have helped the company delve deeper into key business segments and/or industry verticals. The Parabricks partnership is particularly significant in the context of running thousands of genomic workloads using NetApp reference architecture and Parabricks software — something that would have been unthinkable using local disk GPU nodes.

There are also partner-led AI centers of excellence with Nvidia. PTC System's AI Integration Hub, for example, is built on the integrated stack that combines Nvidia DGX systems with NetApp AFF. Other partners include Fujitsu Ltd. and Lenovo Ltd. (for OEM opportunities), MLOps and orchestration partners Domino Data Lab and Run AI (for joint products), consulting partners such as Quantiphi and SFL Scientific, colocation partners like Equinix Inc. and a growing list of channel partners.

Capitalizing on AI with Nvidia

NetApp has been collaborating with Nvidia since 2018, investing in building centers of excellence and developing AI-focused data services. The first phase of the AI-focused products has been driven by the need to support new data sources and workloads. The issue is even more acute for businesses with interoperability and performance concerns. On the product front, offerings jointly developed by NetApp and Nvidia include NetApp ONTAP AI, Nvidia DGX Cloud, Nvidia DGX SuperPOD with NetApp, and Nvidia AI Enterprise.

NetApp ONTAP AI is designed to be a preconfigured, fully integrated offering running on Nvidia DGX BasePOD, and is based on a proven reference architecture. NetApp offers an authoring interface enabling business users to graphically assemble the processing elements to be included in any analysis.

For customers seeking to offload the responsibility of AI infrastructure deployment and management, Nvidia DGX Cloud seems to fit the bill. Delivered as a fully managed hosted platform with a minimum two-month lease term, it comprises Nvidia Base Command Platform and NetApp Keystone Flex Subscription. Currently, Nvidia DGX Cloud is only available in North America, although the regional team is starting to introduce this concept to customers in Asia-Pacific.

With Nvidia DGX SuperPOD, customers in need of HPC can deploy their own supercomputers, NetApp says. Finally, Nvidia AI Enterprise is designed to help facilitate rapid deployment and scaling of AI workloads in a hybrid cloud environment. Introduced as a cloud-native suite of AI and data analytics software, it is certified and supported by Nvidia to run on VMware Inc.'s vSphere with Nvidia-certified systems.

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Customers

In Asia-Pacific, the majority of NetApp's AI customers are in the enterprise segment. In terms of vertical segments, manufacturing, automotive, high-tech and healthcare in South Korea, Taiwan and Japan are strong candidates for ONTAP AI, the company says. It is starting to see rapid growth in highly regulated industries such as telecommunications, financial services and the public sectors. In developing markets, including Indonesia and Vietnam, telecommunications and financial services companies are among the first to adopt its AI offerings.

Major customer wins include Hong Kong-based startup NISI, IT provider Itochu Techno-Solutions and technology specialist Pong Yuen. In the case of Pong Yuen, its data scientists used NetApp Snapshot and FlexClone to create copies of models and datasets for machine learning in seconds rather than hours. With NetApp all-flash storage (AFF A800), Pong Yuen said it could handle thousands of training images per second.

For Itochu Techno-Solutions, its AI_LAB is based on NetApp ONTAP AI to provide a multivendor verification environment dedicated to hybrid cloud and AI/deep learning projects. The ability to achieve a high throughput (up to 25GB/s) and low latency (500 microseconds or less) while maintaining a high utilization rate (95% or higher) of the DGX-1 cluster was a key aspect of the selection criteria for the IT provider.

Competition

NetApp competes with a number of established storage vendors looking to exploit untapped opportunities in Asia-Pacific. Dell EMC, Hewlett Packard Enterprise Co. and IBM Corp. are in this group. As NetApp invests in products and technologies to round out its Data Fabric strategy, it faces a broader set of rivals, including Pure Storage Inc., DataDirect Networks and Qumulo. These are likely to be compared to NetApp's all-flash arrays and SDS offerings.

Pure Storage collaborated with Nvidia on the AIRI//S AI infrastructure platform to support GPU workflows. NetApp is also challenged by Huawei in China and Southeast Asia, although it does have global OEM partnerships with Lenovo and Fujitsu. In China, NetApp formed a joint venture with Lenovo Group to capture the minds and hearts of Chinese companies.

SWOT Analysis

STRENGTHS	WEAKNESSES
NetApp's focus on high-tech companies as well as highly regulated industries gives it a ready-made market for a portfolio of AI offerings while acquiring new logos.	The company's range of products and services seems too broad. It may need to further simplify its focus and messaging to customers while promoting a unified experience with BlueXP.
OPPORTUNITIES	**THREATS**
The ability to process large volumes of unstructured data alongside structured data will likely become more important as companies seek ways to gain a competitive advantage.	The learning curve remains steep as local businesses are bombarded with a growing number of look-alike AI products. There is still room to balance performance with cost to reach mainstream businesses.

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CONTACTS

The Americas
+1 877 863 1306
market.intelligence@spglobal.com

Europe, Middle East & Africa
+44 20 7176 1234
market.intelligence@spglobal.com

Asia-Pacific
+852 2533 3565
market.intelligence@spglobal.com

www.spglobal.com/marketintelligence

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