

Vendor Rating: Dell

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Dell continues the evolutionary process to become a more-innovative and service-focused company as the computing market goes through a period of transformation.

OVERALL RATING

Positive

WHAT YOU NEED TO KNOW

In a market environment of transforming models of client and enterprise computing and continuing economic constraints, Dell is undergoing its own transformation. Dell is undergoing a process of improving the competitiveness of its client-computing organization but is also focused on driving new growth. The company seeks to do so by developing and acquiring key intellectual property (IP) and sales capabilities, as well as by driving a solution focus that is aimed at providing increased customer value. Ultimately, Dell's goals are to capture a growing share of the IT profit pool and to grow operating income and cash flow.

VENDOR RATING

Analyst Comments

The update to Dell's Vendor Rating presents Gartner's view of Dell as it evolves and addresses shifting market demands.

Corporate Viability

Strategy: Positive

The combined effect of shifting patterns in the consumption of compute infrastructure and the economic downturn has propelled a new wave of consolidation and acquisition activity in the IT industry as vendors jostle to both retain account influence and best align themselves for future growth.

Dell has been acquisitive during this period, which is a strong sign of the significant changes the company continues to undergo.

Client-computing markets are evolving, as the proliferation of devices to access information impacts the offerings required from vendors. Traditional desktop computing faces challenges from new client form factors and PC virtualization, as well as a growing trend toward server-based computing. Notebook computers face challenges from netbooks, tablets and smartphones. In this shifting competitive environment, the traditional PC providers face increasing margin pressure from suppliers with very lean cost structures.

Table 1. Detailed Rating

Initiative	Rating	Change
Corporate Viability		
Strategy	Positive	Up
Financial	Positive	No Change
Marketing	Promising	No Change
Organization	Positive	No Change
Market Offerings		
Product/Service	Positive	No Change
PCs	Positive	No Change
Servers	Positive	No Change
Storage	Positive	No Change
Printers	Caution	No Change
Services	Promising	New
Technology/Methodology	Positive	No Change
Pricing Structure	Positive	No Change
Customer Service/Support		
Sales/Distribution	Positive	No Change
Direct Sales	Strong Positive	No Change
Direct Phone/Web Sales	Positive	No Change
Channel Sales	Promising	No Change
Support/Account Management	Positive	No Change
Source: Gartner		

In the data center, customers are looking for ways to increase the efficiency and agility of their infrastructure, resulting in interest in architectures that can enable private cloud computing. Additionally, these same customers have to evaluate how to utilize public cloud-computing services. For the technology provider, this means evolving a portfolio of data center offerings to address the needs of both enterprise customers and cloud computing providers, which can mean catering to significantly different sets of requirements.

Dell has been adapting to these broad industry changes by undergoing a transformation itself. In the previous iteration of the Dell Vendor Rating, many of these changes were already under way, including increased use of contract manufacturers, expanded

channel activity and a reorganization of its business sales units. If anything, the rate of change at Dell has increased since the last Vendor Rating of Dell. Given the competitive challenges in the client-computing space, ongoing efforts to improve operational efficiencies by reducing the cost of goods sold continue. But operational improvements, while necessary, are not the main thrust of Dell's changes.

Dell is focused on driving new growth. The company seeks to do so by developing and acquiring key IP and sales capabilities, as well as by driving a solution focus that is aimed at providing increased customer value. Ultimately, Dell's goals are to capture a

growing share of the IT profit pool and to grow operating income and cash flow.

As evidence on the client-computing side, Dell has introduced a tablet offering with its “Streak” device and has entered the smartphone area with the “Aero,” an Android-based device. The Venue Pro, a Windows Mobile product, also was introduced in December 2010. Key to these new offerings are solution activities aimed at broader customer requirements rather than point products.

Acquisitions by Dell have continued apace. Since the last Vendor Rating of Dell, these acquisitions have included Perot Systems, KACE, Scalent, Exanet, Ocarina and Boomi. Following the unsuccessful bid for 3PAR, Dell has since announced the intention to acquire Compellent. Dell has indicated that it will continue its acquisition path but has ruled out acquisitions in the software application space. We expect it to continue to look for opportunities where it can add to its IP in areas that continue to improve its solution capabilities.

In terms of customer relationships, Dell intends to further strengthen its online offerings, continuing to enrich its social media experience and capitalizing on its Web presence, in which Dell.com is viewed as an important asset.

Gartner believes the changes that Dell continues to make are promising. Particularly in the data center space, Dell is well-aligned to how Gartner expects this area to evolve. Dell’s Data Center Solutions (DCS) organization has done a good job of building a business that caters to cloud-computing environments and recent acquisitions, such as Scalent, giving Dell an increasingly credible story surrounding private cloud-computing initiatives.

However, Dell needs to maintain this rate of change, while also continuing to address a number of challenges and driving further improvement. Primarily, Dell needs to improve customer awareness of the evolving capabilities of the “new Dell.” It is no longer the “Dell Direct, PC hardware” company that many still associate it with. It must reskill the sales force to be able to engage both at higher levels in customer accounts and in real solution-selling activities. Dell also needs to build on the IP it has gained from its acquisitions, such as increasing the geographic coverage of Perot Systems’ capabilities.

Most importantly, Dell needs to continue to improve its competitiveness in its traditional client-computing markets. Mobility and desktop PCs still represented 55% of Dell’s overall revenue in third-quarter fiscal year 2011. Dell needs to attain consistent, improved profitability in this area; otherwise, its improvements in the data center segments will be undermined.

So, Dell recognizes the direction the industry is moving in and is going through a transformation aligned to that. The transformational changes need to continue and be enhanced by improvements in the client-computing segments that represent the foundation of Dell’s overall business. The net result of this is we rate Dell’s corporate strategy as Positive.

Financial: Positive

Dell’s financials continue to receive a Positive rating. Dell has taken steps to shore up operating margins; while there was improvement in recent quarters, the results have been inconsistent. Moreover, Dell resolved the most-significant issues with the Securities and Exchange Commission (SEC) relating to financial disclosure issues, resulting in significant fines and some financial restatement. Overall, Dell has a strong balance sheet, with cash and investments of more than \$14 billion and a debt/equity ratio of 68%. A key goal is to generate cash flow from operations that exceeds net income. Dell has continued to use cash for share repurchases and strategic investments.

Marketing: Promising

Dell has traditionally had strength in direct-to-market areas, but its ongoing evolution into more of a solution-oriented business requires a similar evolution in its marketing programs. This is an area of current focus for Dell, with initiatives to more cohesively articulate its brand strategy and build on the strengths of the Dell.com asset. In what Dell describes as the “Virtual Era,” the company is positioning itself as “open, capable and affordable.” Gartner believes that these messages are well-aligned with market requirements and that Dell is making progress, but there is still work to be done for Dell to be widely recognized as a trusted enterprise solution provider. We continue to rate Dell’s marketing as Promising.

Organization: Positive

Dell’s organization continues to be rated as Positive. Dell continues to make adjustments to its organizational structure, such as the combining of the consumer group into the Small and Midsize Business group following the previous organizational change in 2008. Furthermore, Dell has been largely successful in integrating its recent acquisitions into the larger Dell business.

Market Offerings

Product/Service: Positive

Dell offers a range of hardware products, along with key services, to both promote and support those products. We rate Dell’s overall product/service category as Positive.

PCs: Positive

Dell is one of the few global companies capable of providing PCs anywhere in the world. Global coverage is not evenly balanced, because Dell is reliant on the U.S. and U.K. markets. Dell support is excellent in developed markets, financial centers and capital cities; however, it is inconsistent in emerging markets, but the company is improving in selected countries in Asia/Pacific and Eastern Europe.

2010 was a challenging year for all PC OEMs, but Dell was particularly challenged compared with its competitors in terms of price competitiveness in large bids and delivery times. Gartner started to see improvement in the second half of 2010, as some extensive work was done to improve both internal systems and operational efficiencies and to regain competitiveness.

The company's ongoing strategic challenges for PCs is to extend delivery models into the channel, improve its run-rate business (which depends on large builds of preconfigured "workhorse models" as opposed to Dell's stock-in-trade "configure to order" models), and leverage services as a margin enhancer in traditional PC sales. The company is in a good position to benefit from the ongoing professional PC replacement cycle. Dell has a good portfolio of packaged and customized services to help customers with Windows 7 migrations. The rating for PCs remains Positive.

Servers: Positive

Dell remains a strong competitor in the x86 server market. Dell's DCS group, which provides custom server designs to customers with very large, scale-out requirements, has been a driver of recent momentum. Dell's server business is also benefiting from increasing capabilities in adjacent market areas, such as storage and services.

Dell has room for further improvement, particularly in areas such as blades, high-end x86 servers and penetration rates of its management tools. The acquisitions of Scalent and Ocarina Networks should help Dell drive better technology integration and management tool functionality, both of which will improve its standing in the emerging market for infrastructure convergence and fabric-based computing.

The rating for servers remains Positive.

Storage: Positive

Dell has a full-bodied entry level to the midrange external controller-based (ECB) disk storage product portfolio that addresses its target markets. While competitive from a performance and capacity scalability perspective, there is no provisioning or management software commonality between the three product families that comprise Dell's branded block-access ECB disk storage offerings. However, this impediment has not hindered Dell's success in the block access ECB market, in which it has achieved market share leadership in the Internet Small Computer System Interface (iSCSI) and entry-level markets; furthermore, it ranks fourth in the midrange market. The proposed acquisition of Compellent would give Dell ownership of a feature-rich midrange modular storage offering but may bring challenges to the OEM relationship with EMC.

Although Dell strengthened its network-attached storage (NAS) product card by bringing to market the Dell/EMC NS-120 and NS-480 platforms to address the midrange market, it still struggles to establish a leading position. To address opportunities outside the reach of its branded disk storage portfolio, Dell also resells EMC's Symmetrix and Centera systems. Rounding out its storage portfolio, Dell also offers a range of disk-based data protection and tape automation products. We continue to rate this category as Positive.

Printers: Caution

Dell has made progress on many fronts since the last update to this report. Dell has introduced more than 20 products in the past year, such as new multifunction products (MFPs) and light-emitting diode (LED) printing devices that have a much-lower environmental

footprint. This provider is expanding geographically in an effort to support clients on a worldwide basis, as well as offering more solutions and services. Dell is making investments to fill in gaps in its offering and will keep expanding to compete more effectively in the enterprise segment. However, Dell needs to increase focus in a number of areas — for example, it currently does not have any A3 MFP in its product portfolio, which is critical for organizations with large numbers of users that can access a single device. Dell's managed print services (MPS) offering is lagging behind many of its traditional printer and MFP vendors, and this could hurt Dell in the long term as the market continues to shift toward services. For Gartner to rate Dell as Promising, Dell should address key challenges, such as expanding beyond North America in a more consistent way so it can offer the same level of support to its clients, respond to customers' increasing needs for MPS, and show increased adoption of its new products — namely, the A3 MFPs and smart MFPs that will come to market in 2011. We continue to rate Dell in this area as Caution.

Services: Promising

Note: This is a new category. In the previous iteration, Dell was rated for "Infrastructure Services." Following the Perot Systems acquisition, the overall service capabilities of Dell have been significantly expanded and are therefore analyzed and rated very differently.

With the Perot Systems acquisition, Dell significantly expanded its service capabilities to include IT outsourcing (ITO) and select business process outsourcing (BPO) in addition to its traditional product support. While service revenue has increased to approximately \$8 billion and it has presence in nearly 90 countries, its global service footprint remains highly oriented on traditional product support (48% of Dell Services), is U.S. dominant and lags the worldwide, full-service scale and vertical orientation of many competitors. While Dell remains strong in select markets (U.S. healthcare, education and the federal government), it is not universally true in all industries or in all EMEA and Asia/Pacific and Japan markets. Granted, Dell has geographic expansion plans that will leverage existing global facilities, as well as has data center and solution center build initiatives to increase its service and solution footprint, but execution will be key in translating these investments to improved business results.

The Perot Systems acquisition makes Dell a top 20 player in the global IT services market; Dell is also in the No. 1 position in the U.S. healthcare provider market. In 2010, Dell announced to financial analysts that by 2014, it intends to double its enterprise solution business (services, storage and servers totaling about \$17 billion in revenue). While Gartner applauds the ambition, we believe this remains a challenge that will require further acquisitions.

While Gartner had initial concerns about Dell dropping the Perot name soon after the acquisition, we believe this action didn't result in any significant problems. However, the market still needs to better understand how Dell will leverage IP and intellectual capital gained from the Perot acquisition, as well as quench the expectation of additional build-out and acquisitions that are oriented toward vertical industries.

Gartner believes the acquisition was important and remains targeted at key vertical industries (public sector, financial services, insurance and manufacturing). Further expansion into additional verticals requires additional attention and action. Gartner sees opportunity for Dell with its Business Value Solutions, which were originally oriented horizontally, for the sake of synchronization and standardization of the offerings themselves. Gartner anticipates additional announcements in 2011 on specific target markets that delineate intensified focus for these services. Also, some of its newer offerings, such as hosted virtual desktops (HVDs), Electronic Medical Record (EMR) and Accidental Damage are well-timed and solid additions to existing offerings (for example, Meditech Solutions, clinical transformation, Contact Center, and Claims/Policy Holder Administration). What remains unclear are details on how Dell will fully harmonize the service arm with hardware to challenge top IT services competitors. Dell also needs to be clearer about what stake and position it seeks to achieve in the service market. As Dell shapes and promotes this, Gartner expects additional announcements regarding investments in mobility services, ERP, business intelligence (BI) capabilities and business consulting in 2011.

While at this point Gartner has seen little in terms of specific, detailed and executable plans regarding how Dell will achieve doubling its solution and service revenue in the next three years, we do believe there is a strategy in place. The onus remains on Dell to operationalize and execute its strategy. The rating for services is viewed as Promising, with a close eye on execution over the coming 12 months.

Technology/Methodology: Positive

Dell's approach to investments in design and development has traditionally been product-focused rather than broad "what if" research projects. This approach has been successful in the past, but as Dell increasingly strives to deliver customer value from its own IP, it will need a greater focus in the future. We rate Dell's technology/methodology as Positive.

Pricing Structure: Positive

The hardware market is extremely price-competitive. The PC market evolution means Dell does not have the pure price advantage it used to have in the past. The fact that Dell increasingly talks about profit share rather than unit-based market share is an indication of the changing focus within Dell. Significant challenges remain, particularly in the client-computing area as discussed in the Corporate Viability section in this document, but we continue to rate Dell's pricing structure as Positive.

Customer Service/Support

Sales/Distribution: Positive

Most Gartner clients that deal with Dell report good experiences with its direct and indirect sales organizations. The overall rating is Positive.

Direct Sales: Strong Positive and Direct Phone/Web Sales: Positive

We continue to rate Dell's direct sales efforts as Strong Positive and its direct phone/Web sales as Positive.

Channel Sales: Promising

Dell is more than two years into its investment in indirect sales channels and claims 1,900 partners globally and a more effective and efficient distribution strategy. From a global standpoint, Dell is beginning to see good momentum from the newly developed sales channels delivering year-over-year indirect sales growth. In the U.S., channel sales growth was more than 25% year over year. The channel produces 25% of commercial revenue and about 20% of total revenue worldwide. Dell has maintained a consistent program and continues to enhance value to partners beyond just margins. There continues to be room for improvement in channel-led services and managed service offerings into the small-and-midsize-business market (20 to 999 employees) and investments in emerging markets; Dell is also growing the number of certified solution partners. We continue to rate Dell's activities in this area as Promising.

Support/Account Management: Positive

Based on feedback from Gartner clients, Dell's enterprise business has provided consistent levels of service and support. We continue to rate Dell as Positive in this area. (We do not evaluate Dell's consumer support experiences; our lens for evaluation is strictly enterprise-oriented.)

Company Information

Dell

Headquarters: Austin, Texas

www.dell.com

Rating Definitions

Strong Positive	<p>Is viewed as a provider of strategic products, services or solutions:</p> <ul style="list-style-type: none"> • Customers: Continue with planned investments. • Potential customers: Consider this vendor a strong choice for strategic investments.
Positive	<p>Demonstrates strength in specific areas, but execution in one or more areas may still be developing or inconsistent with other areas of performance:</p> <ul style="list-style-type: none"> • Customers: Continue planned investments. • Potential customers: Consider this vendor a viable choice for strategic or tactical investments, while planning for known limitations.
Promising	<p>Shows potential in specific areas; however, execution is inconsistent:</p> <ul style="list-style-type: none"> • Customers: Consider the short- and long-term impact of possible changes in status. • Potential customers: Plan for and be aware of issues and opportunities related to the evolution and maturity of this vendor.
Caution	<p>Faces challenges in one or more areas:</p> <ul style="list-style-type: none"> • Customers: Understand challenges in relevant areas, and develop contingency plans based on risk tolerance and possible business impact. • Potential customers: Account for the vendor's challenges as part of due diligence.
Strong Negative	<p>Has difficulty responding to problems in multiple areas:</p> <ul style="list-style-type: none"> • Customers: Execute risk mitigation plans and contingency options. • Potential customers: Consider this vendor only for tactical investment with short-term, rapid payback.