DELL INC.
Services Conference Call
with Steve Schuckenbrock
Hosted by Sanford Bernstein
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Operator: Good morning, and welcome to the Dell Inc. Services Strategy call. I'd like to inform all participants that this call is being recorded at the request of Dell. This broadcast is the copyrighted property of Dell Inc., any rebroadcast of this information in whole or part without the prior written permission of Dell Inc. is prohibited.

As a reminder, Dell is also simulcasting this presentation with slides at www.dell.com/investor. And a replay of this call will be available 30 minutes after the conclusion of the call.

Later in the call, we will accept questions from the audience. If you have a question, then please press star then one on your telephone keypad at anytime. I'd like to turn the call over to Rob Williams, Head of Investor Relations. Mr. Williams, you may begin.

Rob Williams: Thank you, Danielle. Joining me today are Toni Sacconaghi and Rod Bourgeois from Sanford Bernstein, and Steve Schuckenbrock.

As you know Steve has been running our Worldwide Large Enterprise business for the past two years, and is now heading up our Global Services organization. Steve will begin today with an overview of our Services vision, then Toni and Rod will conduct a Q&A session.

Before we get started, I'd like to remind you that all statements made during this call that relate to future results and events are forward-looking statements that are based on our current expectations. Actually results and events could differ materially from those projected in the forward-looking statements because of a number of risks, uncertainties that are discussed in our annual and quarterly SEC filings, and in the cautionary statement contained in our press release and in our Web deck. We assume no obligation to update our forward-looking statements.

Now I'd like to turn the call over to Steve, Toni and Rod.

Steve Schuckenbrock: Thanks, Rob, I appreciate it very much, and thanks to Toni and Rod for hosting the call with us today.

It's really a great opportunity for me to just give you some insights into where we are with our services business, and you know frankly with a bit more focus on where we're going with the services business. I know there's been a fair number of questions out there, and I look forward to entertaining those questions after I spend about 10 to 12 minutes on the strategy itself.

Let me just first flip to the front page. You know the demand for IT and the torque frankly in the system for CIOs, when you balance the huge demand for efficiency with really sort of unprecedented levels of efficiency being driven through cloud like execution, and whether that's a public cloud, private cloud, whatever the case might be, the reality is, is there's a significant amount of standardization that's occurring in the world. And that standardization brings all sorts of value from an efficiency standpoint, and places real pressure on CIOs to make sure they embrace those opportunities as quickly as possible.

And at the same time, there's increased demand based on sort of any information available anytime, anywhere to basically any device for flexibility and for speed, and the ability to respond to this enormous sort of expectation. You know I guess probably best summarized by us as consumers, and our need for instantaneous gratification of any information available anytime.

And it's this torque between these two things that I think creates a tremendous opportunity and a bit of an inflection point. Dell, I believe, is positioned exceptionally well to respond on both of those two fronts. We have terrific leadership in the standardization of technology. We are in fact very focused on standing up highly virtualized, highly efficient, you might even call it optimized data center infrastructures for our customers, and we are doing the same with our own data centers from a services standpoint.

And that certainly gives the counter balance that says, from a flexibility standpoint, you get greater speed, when there's standardization, you can respond faster, you can innovate faster. And you get a repeatable quality and cost proposition as a result.

Cloud services is certainly something that brings new levels of efficiency as well as flexibility. When you look from a cloud services standpoint, it's the ability to frankly deliver an infrastructure all the way through a set of applications in a manner that takes advantage of all the efficiencies of the cloud, whether that be a private cloud or a public cloud, but at the same time, responding to this need for speed. The fact that people want just in time kind of capacity, they want the ability to provision services themselves, and to be able to turn them on and turn them off at their whim, as opposed to these sort of monolithic, contractual structures that have been a part of the services industry for so long.

And from a talent factory standpoint, there is a huge need for access to the right skill sets in the right place at the right time, and sometimes those skill sets are local and consultative in nature, and other times those skill sets might be leveraged in a cost optimized location someplace around the world. But these talent factories are vital in terms of being able to help customers move their applications to the standardized or optimized infrastructure footprint that I described above. And I think all three of these capabilities are absolutely crucial to embrace what's happening in the services space today.

So as a result, one of the things as we move to slide number four, our overall organizational structure, our investments, our entire focus from a services standpoint fall under these three buckets. Standing up infrastructure capability that bridges the gap between cloud-based infrastructure, all the way down through how we support remote devices. Remote infrastructure management operations that give us the ability to monitor, manage infrastructure wherever it might be in our customer's data centers, and our customer's locations, all the way up through our highly leveraged locations, as well as consulting capability.

From an application standpoint, no question we will continue to do applications management, no question we will continue to help customers optimize their business processes, and their implementation of ERP applications, et cetera. But we also see a terrific opportunity to embrace industry solutions in the SaaS arena, like the one we announced with the acquisition of InSite One just a few months ago.

I see a great opportunity for re-platforming customers' applications, moving them all from proprietary infrastructure, mainframe, UNIX to standardized architectures, and even cloud – the cloud architectures themselves. And I think we're going to see some phenomenal innovation out of – out of companies like VMware that we can, in fact, leverage and help customers achieve the economics and the flexibility I described before.

And then, obviously, to do that, and help customers through that migration, the consultative capabilities that go with it. And Dell has a long track record in support, in fact, we are – we have been ranked, I believe it's 31 out of the last 38 quarters as the number one support provider in the hardware space, and we are leveraging that now to bring new levels of services, including deployment, different types of configuration services, and multi-vendor support. In fact, we just won a big contract to provide support in a very large company's data center across not only Dell, but all of the non-Dell hardware that exists in their data centers around the world.

And so you're seeing some pretty significant focus from us in each of these three areas. If I take one at a time, I'll cover these next three charts very briefly. From an infrastructure standpoint, I believe this – the way customers will require services will span across all four of these pillars, from on premise where they want to operate their own environment, but may have us monitor it, or may have us manage it, even though it exists inside of their own data centers; to private clouds that exist and are dedicated to individual customers, but are operated out of our data centers; to public cloud capability where in fact they run parts of their operation in a private cloud, and other parts of their operation in a more – in a public cloud, and dedicated, customized capabilities that run in a combination of their locations, as well as ours. All of these kinds of offerings I think are vital to success going forward, and we have the full breath of capability in play.

It's really important for me to highlight the acquisition of SecureWorks, which is a leading capability for security – or managed security and monitoring. And it is vital to our offerings across this continuum of infrastructure.

From an applications standpoint, as I said, it spans the full continuum, consulting, re-platforming and software as a service, but it's really delivered in I think what is kind of a classic pyramid model. And I'm delighted to announce, it just went out a little while ago, that we hired a fantastic leader for our Applications and BPO team in Suresh Vaswani, former Co-CEO of Wipro, who will lead this business for us, and reside in India. And he becomes a member of my team, and a fantastic addition to Dell.

When I look across this portfolio, you'll see us build out talent factories within specific disciplines, from customized code to specific ERP, to various different modernized software stacks, including open source, cloud stacks, all the way through to Microsoft and VMware offerings.

Our ability to write that code, our ability to migrate customers' legacy applications is I think vital to their success, and something I think we can absolutely leverage.

When I look at support services you know I really believe what's going to happen with support services is in addition to the normal break fix, and the customization that we can bring to customers on top of a basic break fix contract, you're going to get into multiple new additions to the support services arena like some of the things we do with deployment, some of the things we do with configuration management, some of the things we're going to be able to do with security. Those kinds of upgrades, if you will, off of a normal support contract, I think become important extensions and new avenues to the market for very profitable offerings that we can bring to customers.

In the end, I believe these three things – or these three towers and these capabilities do provide the foundation for us to drive differentiated solutions to customers. That differentiation will come through an outstanding leverage of

Dell IP, that IPs ability to drive the combination of efficiency and flexibility. I think all customers are trying to navigate the torque between those two thing – those two areas of efficiency and flexibility, and understand that the cloud offers a new opportunity to truly deliver against the potential of IT for business, and I do think that there's a great role for Dell and Dell services in that – in the torque that lies in that.

And then finally, I'm leading the industry transformation. I do see as the – as this technology business – as the technology environment continues to move towards consolidated, standardized, virtualized infrastructure, that Dell has a leading position in all of that today with our customers, we have the ability to leverage that position more fully into our services business.

And, finally, as I look at you know what – at Dell Services, I think it's really important, last year was very much relative – a good year based on the integration of Perot Systems, the Dell Services business, laying the foundation for growth. We actually did grow the business from assigning standpoints, and had the ability to put a lot more of a – we were able to add to the balance sheet relative to that growth. And that will manifest itself in pretty significant growth for us this year, and in years to come. You'll see us, I think, place a significant emphasis on that growth, and building off of that foundation as we lean into this year.

That was a very fast fly by, and I recognize that there may be a lot of questions that come from it, and I'm happy to take those as Rod and Toni now direct the rest of the call.

Toni Sacconaghi: Thanks, Steve, it's Toni Sacconaghi. Let me first start, and then I think Rod will chime in as well. Perhaps you can start by talking about who your target customers are for your professional services offerings, namely your outsourcing and consulting offerings. You know is Dell really targeting all of the Fortune 2000, or is it more focused on small and medium size accounts? I think you know one question that I hear a lot from investors is, is it really realistic to think that Dell has the breadth of capability, kind of the experience, the brand name, the credibility to compete for the largest enterprise accounts in professional services?

Steve Schuckenbrock: Yes, thanks for the question. First you know we do have a great breadth of capability, and we do enjoy a lot of business with some very large customers. But having said that, I think there's a real sweet spot for Dell in the below Fortune 2000, if you will. And you know we've signed everything from small school districts to you know a wide variety of midsized companies throughout the course of last year, with an average deal size of somewhere around $20 million for outsourcing and professional services kinds of skills. And I feel very good about that kind of a sweet spot for Dell.

Toni Sacconaghi: And is that going to be a concerted effort in terms of how you deploy and focus your selling initiatives within services? And I mean are you – is kind of the Global 500 or 1000 somewhat opportunistic, and the brunt of your selling and marketing efforts really focused on SMB, and I guess below the Fortune 2000 would maybe even be? Can you comment on how you're directing your go to market resources accordingly?

Steve Schuckenbrock: Absolutely. I think you characterize it well. I mean first of all, having run the large enterprise business, which had every – you know all commercial customers with more than 500 employees, I saw the sales organization at work, and saw how well we mixed business between very large and midsize to smaller companies.

There's no question that with basically 12 to 15,000 salespeople on the street, one of the opportunities I see for Dell Services is to productize and standardize our services offerings in packages that can be delivered to that targeted customer set. And I do believe that if we can package those solutions properly, which we are – which we are doing, and put those in the hands of that sales force, we wind up with I think a terrific advantage, and access to that market relative to the competition through the direct sales teams.

Now we also have a large services sales organization, call them specialists, if you will, that back up those thousands of resources, and help them close those deals, and help them position our offerings in a way that can assure that you know we provide the right service to the customers, and get the right leverage to our own financials.

Toni Sacconaghi: Is the productization and standardization packages you alluded to, are those largely support services? And if not, can you give some examples of those kinds of offerings?

Steve Schuckenbrock: Well you know let me – let me just pick our new acquisition, SecureWorks. SecureWorks really has an appliance that one of the ways we package SecureWorks is through an appliance. And so we take that appliance and we bundle with that appliance a set of services that allow for us to monitor and manage all of the devices that get connected through that appliance.

And so here's a situation where our Dell sales force has all the skills in the world to sell the appliance, and pre-bundled with that appliance is a set of services and a longer-term contract that allow us to do the monitoring and management of security on behalf of that customer.

Another example would be we are launching this week, actually, a solution that pre-integrates in 50 virtual machine chunks all the servers, storage and networking capability required to support a business with our software aim wrapped around it, well we will pre-bundle with that offering both a set of services to help implement, but also a set of services to monitor and manage that virtual machine architecture on behalf of our customers.

And so we could – you could see us in the future, Toni, add burst capacity to that that would allow our customers to access capacity on an as needed basis in our clouds and in our data centers, or for various different offerings like backup recovery, archiving, et cetera. So those are two examples of where what you would call professional services, or outsourcing services, get bundled in to readily saleable capability that our sales force is quite comfortable with.

Toni Sacconaghi: Thank you, that's helpful. Let me change topics a little bit. You concluded your prepared remarks talking about growth, and that this would be a growth business and growth strategy. Let me take a step back and try and add some context, and get you to comment on it. If I look at your services composition you know today, you're about 55 percent support, you're about 35 percent outsourcing, and you're about 10 percent projects or consulting. Historically when I think about market kinds of growth rates, for the support business, I think of that as being highly profitable, but a relatively low growth business you know call it low single digits at best.

I look at the traditional IT outsourcing business, and I believe that collectively that market is also a low single digit grower. And in the projects business, I think of that as a mid to high single digit grower. But, again, that's only about 10 percent of your revenues today.

So I'd like you to comment on –so if I just kind of added those up and said, well what would Dell grow at if it grew at the market? It would be a low single digit percentage, given the preponderance of your revenues are coming from support in outsourcing today.

So perhaps you can comment on do you agree with those general market growth rates? And given those dynamics you know why is this a growth business? Which I presume you aspire to grow faster than low single digits, how do we think about that?

Steve Schuckenbrock: Yes, two – first of all, I generally agree that you've captured the market growth at the macro level pretty accurately. I think the – you know our own experience relative to growth has been in the mid to high single digits as if you look at our backlog growth. And so if you look basically at our deferred – what we call deferred services you know it's grown somewhere between 6.4 and 11 percent each of the last five, six quarters. And so it's been high single digit to low double digit kind of growth opportunity for us.

One of the reasons I think we can outgrow the market is we have a lot of white space, I mean if you look at our project and our outsourcing business, they are relatively small. And we are taking – you know this is something that's been very important to me, and I was kind of behind the original acquisition of Perot Systems at Dell. The reason we were very attracted to Perot Systems is they were big enough to be relevant, and they really do have a fantastic reputation in the services industry.

But they were also small enough to embrace the future delivery models that I think are going to be disruptive to some of the big traditional services players. And those future delivery models are very much around the things I talked about relative to cloud, relative to how we help customers migrate to the cloud, relative to different types of SaaS offerings that become the delivery of vertical capability to the market. And I think we – that is going to prove itself out to be a disruptive force for growth relative to – relative to other competitors who don't have quite as much of a green field to change with, that we do based on our relative size.

So I think we have all the capability that we need through the acquisition in terms of delivery capability, we have a good team, we've got assets in the right places around the globe. We're too North American based, so we have lots of white space available to us for growth in Europe, as well as in Asia. We are very strong in healthcare, we've got some good capabilities in government, but we have a lot of growth available to us in the commercial business. And we saw actually more growth out of our footprint last year in the commercial space than we did even in our core strengths.

So I think the fact that there's as much white space, and the industry is at this inflection point, give us the opportunity to grow in a fairly aggressive rate relative to the market.

Toni Sacconaghi: I have a couple of follow-ups there. If you think about your portfolio of businesses, support, outsourcing and consulting, qualitatively, how do you – which is going to be the largest – either contributor to growth, which would weight their size, but I guess which do you think has the highest growth potential in percentage terms over the next three to five years? And then secondly, you mentioned the Europe and Asia opportunity, I think your total services business today is about 70 to 70 plus percent in the Americas. How different is that in three or four years? And have you had any success in migrating that even within the first year with Perot, i.e., have you had stronger growth rates in Europe and Asia?

Steve Schuckenbrock: Yes, we've had – we've had some very – well first of all, let me kind of go in the sequence you asked the question. You know our transactional business will grow with our hardware business, as it has done, and I think we will continue to do quite well in that space, and you know I don't want to go down the how we're growing the hardware business trail. But I can promise you that our support services will be instrumental to that growth.

When you look at the outsourcing in the project space you know frankly I think they will be larger than a transactional business as we continue to play out our growth strategy over the next several years. That will be a combination of organic and non-organic activity, and that non-organic activity, I think, will be more around industry IP and our ability to grow in the applications and project space, versus traditional (ITO) kind of – or infrastructure types of – types of outsourcing.

That doesn't mean we're not interested in the infrastructure base, but I think it'll take on the new delivery footprints, and I think we can get there organically pretty well based on the expertise we have in house, and our access to the technology, and the ability to put the capital on the ground relative to data center footprints, et cetera.

I think you could expect our EMEA and APJ business relative to the Americas to be about the same proportions as we have with our hardware business. I do – as time plays itself out, and I do think that you know to your specific question at the end, and looking at EMEA specifically, we've had some terrific wins in EMEA that are real platforms for us. I hesitate to mention the customers' names, because I just can't remember which ones are referenceable, and which ones are not. I do know one that we just signed around the travel industry, which is Tui, was a – you know over $100 million deal that is a – really a terrific win for us in the U.K.

So we have seen some very good growth in EMEA, and we expect that to continue both organically and non-organically.

Toni Sacconaghi: You mentioned the possibility or the intention to grow non-organically. And you know you talked about it being in acquiring industry IP both in absent and projects. Has Dell thought – I mean four or five years ago you know Michael in particular was pretty outspoken about saying, I don't want to be a body shop, I don't want to hire people for hire. You know you have a significant services headcount today, I understand you are trying to do this in a people light more asset intensive way, asset light, but more technology intensive way than others. But invariably adding apps and projects means adding bodies, does it not?

So I guess two questions, one when you talk about non-organic growth, should we be thinking about relatively small tuck-ins, or is there a possibility for something you know that approaches Perot in size. And secondly you know when you talk about adding apps and projects capability, invariably you're adding a lot of headcount, and is that a change in strategy from you know three to five years ago?

Steve Schuckenbrock: So starting with your first question you know I'm not going to comment on you know specific size or nature of the acquisitions, but I would tell you that you know we are – my focus area will be on the geographies of EMEA and APJ, and the focus will very much be around adding industry IP and capabilities, particularly around the applications and project space. And we – you know I'm not overly focused on whether those are large or tuck-in, but those are the characteristics of capability that I definitely want to add.

I would tell you relative to the body shop kind of comment, I think Michael was really referring to the fact that there are new delivery models, and those new delivery models are more asset automation and technology dependent, and less people dependent. Having said that, he knows, I know that people are an incredibly important component of a services delivery model, and we will definitely add the right kind of skills that will enable our customers to make the migrations to these new delivery footprints that will serve them well. And so yes, we're absolutely willing and anxious to add the right kind of talent that brings that service to bear.

Toni Sacconaghi: OK, one more on this topic. You mentioned people, your revenue split in services today is about 70 percent Americas, 20 percent EMEA, and 20 percent APJ. Can you give us some sense on relative headcount? So you know if you were to look at the relative headcount of your services organization, how different would that be from your revenue base?

Steve Schuckenbrock: Quite a bit different. I mean you know I don't have the exact number off the – my fingertips, but it's well over a third of our headcount is in low cost delivery locations, as an example. And if you look at our growth plans – hold on, they're passing me a note here – yes, if you – basically it's well over a third of our headcount is in the low cost delivery locations, and I might have that number off by some percentage.

If you – and I can get back to the team with a – with an exact answer, if you'd like. If you look at the growth, we've been growing faster in the low cost locations relative to the higher cost locations. And I think you can see us continue to lean into that as we go forward. Clearly we'll do that through increasing the growth rates, and you know driving more and more leverage into those locations.

Toni Sacconaghi: OK, I have one more, and then I'm going to turn it over to Rod.

Steve Schuckenbrock: I will say it's the inverse of the 70, 20, 10. You know 70 percent Americas, 20 EMEA, 10 percent APJ, but it's pretty close.

Toni Sacconaghi: OK. But I have one more, and then I'll turn it over to Rod. At your Analyst Day last year, you stated – or you know Michael or Brian stated that services operating margins were solid double digits. Historically when I think of profitability, I think of support services as being extremely profitable, we're pretty confident in HPs operating margins and support are over 30 percent, we're pretty confident that IBMs maintenance and support is over 30 percent. You know maybe Dell's is a bit lower given that you don't support quite as expensive systems. But if we think about that as a rough ballpark, and we think, OK, overall services margins are maybe 20 percent operating margins. That would suggest that professional services operating margins are in the high single digits.

Can you comment on you know whether those estimates for relative margin capabilities are in the ballpark, and the opportunity for professional services margin improvement going forward? And, again, when I talk about PS, I mean both outsourcing and consulting.

Steve Schuckenbrock: Yes, thanks. And, by the way, let me correct my answer on the last question. It's over 50 percent of the total resource would be what we would call low cost locations, roughly 27,000 people. So sorry, I didn't have that at my fingertips, but that's the answer to your previous question.

Toni Sacconaghi: Thank you.

Steve Schuckenbrock: Relative to your last question, I won't comment specifically around margins, and whether or not you're in the ballpark relative to your predictions. What I will tell you is when we brought – bought Perot Systems, you might remember they were at a seven percent op inc number, thereabout, and I can tell you that we're doing a lot of work to make sure that we drive that up rather significantly, as we lean into the growth of our projects and our outsourcing business. We're doing that through a combination of things, you already mentioned taking advantage of labor in the right locations at the right time.

Second is making sure that we have a – is a leverage delivery capability to offer to our customers, and I talked about that relative to cloud and some of the things we're doing through standardization, consolidation, et cetera. Third is we're making sure that we're bringing innovation to customers, and that innovation will be based on repeatable reference architectures that allow us to have much better cost and quality control so that our service levels can in fact continue to improve, and we can do that with cost dynamics that make a lot of sense for both us and our customers.

And so I think your characterization of our, if you will, professional services business is roughly correct, and you know I just referenced a few of the things we're doing to obviously focus on increased profitability in that core business.

Toni Sacconaghi: Final one for me, just to follow up. You know when we look at best practice in terms of margin, professional services players, IBM and Accenture, you kind of back out you know captive hardware sales, et cetera. You're probably looking at about a 13 percent, 14 percent operating margin you know you stated that Perot was seven when you bought it. Is that – is that starting point – and I appreciate the things you're doing to improve it – is that starting point delta versus best practice a function of mix, is it a function of scale? And is it realistic to think over time you could ever get anywhere near quote the big boys in terms of profitability?

Steve Schuckenbrock: I think it's a – there's several functions, I think the combination of things I referenced a few minutes ago will close that gap. It does – you know scale is always helpful, and I think you'll see, as we play out the strategy that I alluded to a few minutes ago, that will bring scale to those areas of the business that benefit greatly from it. But frankly you know what drives profitability is repeatable leverage solutions. And especially in the infrastructure space, that's critical, and I think we can do a lot with that that we have not done year-to-date – or services to date, if you will.

Toni Sacconaghi: OK, that's very helpful. Rod, do you want to fire away?

Rod Bourgeois: Great, absolutely. So Rod Bourgeois here, good to talk to you today, Steve.

I want to ask a couple of questions about your outsourcing business, and then also a question about your consulting practice as well.

So Perot was clearly one of the early firms in the services industry to recognize the opportunity in the RIMO business, or the remote infrastructure management outsourcing market. And I also know that Dell, before it acquired Perot, had interest in the RIMO market. We actually wrote a white book back in 2007 that looked at the opportunity in RIMO, and we thought that both Perot and Dell could be up and coming players in that market, and that would be a market that could really in some ways revolutionize the traditional infrastructure outsourcing business.

And, by the way, it also could represent an opportunity where traditional players, like IBM and CSC, may not proactively exploit that market given the offshore driven cannibalization that would likely be involved.

So my question for you, with that as the context, is do you view the RIMO market as a revolution in the infrastructure outsourcing market? And do you see any catalyst for you to really start to scale in the RIMO business given that you now have not only the legacy capabilities at Dell, but also the momentum that Perot bulked in that very market?

Steve Schuckenbrock: Thanks for that question. And yes, I read that white paper, and I absolutely agree with the fundamental premise, both in terms of the value proposition that RIMO represents to customers, but also the opportunity for disruption through RIMO. And I think what's happened since that white paper was written is not only is RIMO proving out to be a very important foundational capability in our strategy, and also in the market overall, but I think when you combine RIMO with this massive move towards standardization and cloud like infrastructure as an underpinning, I think the combination of those two things is pretty exciting as a growth platform for us.

If you look at RIMO specifically relative to the Perot and Dell legacy around this topic, when I ran services before, I was really in the market looking for world class RIMO capability for the reasons that you cite. And I think there's a combination of that RIMO capability, not only in our core outsourcing business, but actually as a further capability in our support business.

I referenced a couple of things a few minutes ago with Toni that we can do around our hardware. Well let's assume we deliver those virtual machines, and we monitor those virtual – that virtual machine architecture I described before, whether it's in our data center or in theirs. And we monitor that through RIMO capability, and we can make adjustments to the delivery capability that balance service levels to the operating needs of each of our customers. I think that's a wonderful example of where the line between traditional support services and new wave outsourcing services begin to blur. And I think Dell has an ability to lead the way, and has an access to that market that could be pretty exciting.

When I was in search of that capability, I found good capability with some of our Indian competitors, and I also found really good capability at Perot. And it turns out that in their early days with the joint venture they had with HCL, they were actually pioneers along that space, as you reference. And it was one of the real reasons we made the decision to acquire Perot Systems, because it brought a lot of that sort of leading edge capability to play.

Rod Bourgeois: Yes, I mean it looks like the RIMO market's growing in the vicinity of 20 percent over the last year or so. Are you able to comment on whether you're seeing that kind of growth in your RIMO practice? I mean recognizing it's – it may be off of a small base, but are you seeing the early signs that that business can be scaled?

Steve Schuckenbrock: Yes, I am seeing the early signs that that business can be scaled, I won't comment on the specific growth.

Rod Bourgeois: OK, great. Another question on the outsourcing side. I mean one of the most noteworthy trends that we've looked at in the last few years in the outsourcing market is a pretty dramatic drop in the average outsourcing deal size. And I guess the question I have for you is, is the drop that we've seen in outsourcing deal size in the industry over the last several years, is that a good thing or a bad thing for Dell Services? Seemingly, it's a good thing in that Perot's history has been focused on midsize outsourcing deals, rather than the heavy emphasis on megadeals, as some of the other players have focused in that area.

But on the other hand, the drop in average deal size is causing the larger outsourcing players to have to more aggressively pursue the smaller deals. So you know I guess my question is, is this a good thing or a bad thing? And are you seeing better growth prospects for Dell in the IT outsourcing market due to the drop in average deal size? And are you also seeing added competition from the larger players as they have to chase the smaller outsourcing deals? So how do you look at that equation?

Steve Schuckenbrock: Yes, I feel like the net is a very positive for Dell. I mean if you look at a couple of things we can bring to that new equation rather quickly. One you know we're kind of historically both at Perot and at Dell been more geared towards that smaller deal size, if you will, and never really dependent on the super large megadeals in any way, shape or form. We've got some really large customers, but we do not have a lifeblood that's sort of tied to those mega contracts.

Second is we have a sales force that's geared accordingly, both our direct sales force within Dell, as well as our services sales force. And third is, I think by being a technology company, that can bring reference architectures and bring pre-bundled solutions to bear, we have a lot of speed and flexibility that we can put into those smaller deal size that are not as customized as these all – you know as these big mega outsourcing deals had been.

So I think we've got a lot of good things going our direction relative to this. Of course, we see the other guys trying to mobilize to chase more smaller deals, but it's a very different sales motion than they're accustomed to. And I think you know we might actually be able to capitalize on some of that.

I would say we were happy, but not overly enthralled with our growth last year in that specific area of the market. And I think you'll see us bring new levels of energy and attention to that.

Rod Bourgeois: OK, great. And then just turning to what's happening in the consulting market, and you know and recognizing this is a market where you have some presence, and are clearly trying to scale up there. You know our thesis about IT services demand is that we've moved into a phase where there's more demand for more transformational services, like systems integration type work. And this was certainly evident in Accenture's recent report.

If you agree that we've moved into this more transformational services demand phase, how is that affecting Dell Services' overall demand you know given that Perot has some consulting and systems integration capabilities, it seems that segment of Perot would be benefiting from this improved transformational demand phase. But on the other hand I wonder if transformational demand could somewhat detract from some of the spending you guys normally see in your data center oriented businesses, and your service is more focused on cost takeout for clients throughout outsourcing deals.

So what's the net effect there for Dell if we're now in a stronger demand phase for systems integration and software deployment type services, instead of just the cost takeout stuff in the data center?

Steve Schuckenbrock: Yes, first of all, I do agree with that trend, and I do agree that those types of skill sets are important to tomorrow's growth.

We've got a pretty decent business, and the – if you add our applications projects business, and our consulting business, where we actually do this type of consultative work, we're scaling that aggressively, not only in the U.S., but in Europe and APJ, we're hiring you as fast as we can find the people, the right skills for the team.

The business is growing, higher than our overall services average, and it is doing exactly what you just described, Rod, in that it tends to be the tip of the spear for helping customers plan their migration to new kinds of efficiency and flexibility. And in that process, drags with it a fair amount of both Dell hardware, software, but also our services. In fact, all three of our – actually, I shouldn't say it that way – three of our largest deals in EMEA were all led by the consulting effort, as opposed to the traditional sort of sales model, which I think is indicative of what you're talking about.

When you look at the general trend that we're seeing you I think the – or let me just say, the reason I see this as so important, and the reason I answered Toni's question earlier relative to the kind of organic and non-organic focus we'll have for growth, is when you look at the economics of the cloud, and you consider that you know cloud data centers can run 40, 50 percent less – for – at 40 to 50 percent less cost than traditional data centers, and you look at the fact that just like very major inflection point in technology, the constraining reality to achieving those kind of economics, or the new disruptive economics, is always the application workload and how that application workload can be migrated.

And so I think you know through our consultative expertise on infrastructure that help customers understand what kind of economics are available to them, and through our consultative capability relative to application migrations, I think the combination of those things give rise to growth in that systems integration market you referred to. We've got more work to do, but I think we got a good start on it.

Rod Bourgeois: Well with that said, I guess I'd be remiss if I didn't ask, I mean as you build the consulting capability, the players that typically do well there tend to focus on targeted industry segments. Perot had – you know before you acquired Perot, half of their business was in the healthcare market. Are you targeting other select industries as you build out those application and consulting skills, and try to build on the success Perot had in the healthcare market? I mean are there other target industry segments that are key to the Dell story at this point?

Steve Schuckenbrock: Yes, there are. First, we want to continue to drive healthcare globally, and we're doing some interesting things in both Asia and EMEA in that regard. We are expanding in education where we have a really high presence, and lots of good capability from both our traditional business, as well as some real growth prospects in our services business. Banking and securities are a very good space for us that we have some capability, but obviously intend to do a lot more. And retail (CPG) and manufacturing are all spaces where we intend to you know obviously grow both organically and otherwise.

Rod Bourgeois: OK. Toni, you want to pick up on the questions?

Toni Sacconaghi: Yes, maybe we'll just round out with the support business. I think you had – and obviously it's disproportionately important today, given its revenue size, and high margin profile. You had stated that it would kind of grow with your hardware business. Is the fact that you're potentially having larger customers purchase x86 servers, so you know you look at these large cloud data centers that are being bought you know often 50,000 plus servers? Is the service attach rate likely to be as high? And as x86 servers become arguably replaceable, with the average x86 server costing four or $5,000 today, is the need for support still there? And is there a risk that – or I should say why isn't there a risk that support attach rates actually go down as, (A), the servers become kind of more disposable, and (B), your customers – you know these – you know whether they be private or more likely public clouds become very large, sophisticated buyers?

Steve Schuckenbrock: Yes, first I think you know there's multiple different models out there, and we talked already about our footprint with super large cloud companies. We didn't spend much time on that. They have a bit of a different support model, but still you know very dependent on Dell's services, and we have a very good business with those customers. But we also talked a lot about the midsize, or less than Fortune 2000.

And I would tell you that in all of the commercial space, non super cloud, all of that midsize market – we're still talking about mission critical applications that they run on this infrastructure. And what we're seeing is, is a very high emphasis on support as a leading decision criteria for who they pick. And as I said, we've been fortunate enough to be leading in the support space for quite some time, I think it's incumbent on us to always innovate, and not assume support just means break fix. I think support will morph into some of the other things we've talked about on the call relative to security, relative to – I'm sorry, monitoring, and management, and different types of operations we can do on behalf of our customers as we help them optimize their infrastructure footprint.

So I think you got to lean into innovation in the support arena, and how you know we can bring new kinds of services that you and I and Rod might have talked about as outsourcing services in the past. But frankly, just become extensions to our support business in the future, I think that's where you'll see continued aggressive growth, and very good profit profiles in that space.

Toni Sacconaghi: Steve, if I could follow up and finish with one last one on this topic. You talked about a different support model for the cloud players, perhaps you can go into more detail. And then secondly, I appreciate the fact that for smaller companies, you may have x86 running mission critical stuff. But a lot of x86 servers today are being used for Intranet or Internet applications where they're kind of racked and stacked, and if one goes down, the load balancer kicks in, redirects, the server gets pulled out, and a new one gets pushed in. You know in those kinds of workloads, is anyone buying support? And if so, why?

Steve Schuckenbrock: Well the answer is yes, and you know to fix the servers, even though – even if they – even if some servers break down and get offline those customers may be picking a different type of support for basic break fix, but they're still picking support, and that's worked quite well. Now I would also go back to you, Toni, and say while there's a significant amount of x86 infrastructure that's used for Internet or, if you will, all sort of peripheral applications, there is a huge move toward x86 as the standard for mission critical applications. And I think if you go look at some of the innovation out of the big ERP players, you look at some of the things SAPs now doing off of an x86 backbone, their ability to pull transactional systems, and business intelligence into a real time system. I think you're seeing a growth for x86, and a greater dependency on the support models that come with it for those mission critical type applications.

So I think there's a mix in this dialog, and I wouldn't want to just isolate one type of support model, which is actually relatively small compared to all the others.

Toni Sacconaghi: Right. So if we were to look at a multiyear trend qualitatively, if you look at your support attach, which is dollars of support per dollars of hardware sold, has that number been constant, down or up over the last five to seven years? Given you point out the fact that there are kind of various forces at work.

Steve Schuckenbrock: It has been up.

Toni Sacconaghi: And is that due to higher dollars per – is that due to richer level of services per device, or is that a higher attach rate to devices? Meaning higher attach in terms of percentage of units where you have any kind of support, or is it for the units that you have support, the dollars per server has gone up?

Steve Schuckenbrock: It's a combination of the two. And I would tell you, we've seen no diminishment in our attach rates in either the commercial client or commercial data center business.

Toni Sacconaghi: OK. That's it for me. I don't know if you'd like to make any concluding remarks, but on behalf of Rod, I just wanted to say thank you for this opportunity, that was a helpful call.

Steve Schuckenbrock: Yes, first of all, thank Rod and Toni for hosting the call with us, I really appreciate your insightful questions. Second is, is I'm delighted to be back in the services arena here at Dell, and absolutely am very bullish on I think the prospects we have.

To reiterate, I think this is a growth business, because there's a tremendous amount of white space, both in terms of industries and geographies that we have not yet penetrated, but secondly because the industry is at a – yet another inflection point, and I think that inflection point is going to create new windows of opportunity in the services space. It happens to be an inflection point that's playing directly to Dell's traditional strengths around open, capable, affordable systems. And I think the services proposition, and our extension off of a very strong support business into other types of service offerings are going to be at the heart of our strengths.

And so thanks for the time today, and I look forward to a much more in depth discussion when we get to the Analyst Meeting in June.

Operator: Thank you. This concludes today's conference call. You may now disconnect.

END