Dell Inc.
Wells Fargo Tech Transformation Summit
with Brad Anderson
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Jason Maynard: Alright, guys, welcome back. Very happy to have Dell with us today, Brad Anderson. Brad runs the Enterprise Product Group. Thanks for coming.

Brad Anderson: Well, thank you very much.

Jason Maynard: We've had an interesting day and a half so far. A lot of your peers have been here - NetApp, Cisco, HP, Oracle. A pretty interesting day in terms of commentary about what's going on in the market.

I thought what we'd do now is kick it off a little bit and just give us a couple minutes just on Dell's Enterprise Product vision, how you message to customers, and just maybe start that as a way to kind of level us at.

Brad Anderson: Yeah. We're a little bit different than a number of those OEMs. We're very much focused on open, capable, portable solution. And we say that because there seems to be a lot of momentum elsewhere in the market that kind of drive to much more of a vertically integrated stack. And as we look at our customers, or as we hear from our customers, very few of them have standardized on a single OEM for even one element of the layer, let alone one for every element of the layer. And so, choice continues to be hugely important. I don't think the innovation and technology is slowing down. And so, the more you vertically integrate, the more you kind of lock yourself out from participating in that innovation, as well as all the potential costs of synergies.

And so, we're very much providing open solutions in there. We have dramatically moved our products where we have IP in a number of those layers, but it doesn't lock out other providers. And so, even when we -- for example, our system management tools to help customers deploy converged infrastructure, if you will. Our tools will allow you also to deploy HP servers, IBM servers, Cisco switches. And so, it doesn't require end-to-end.

And we find that a very compelling value proposition. It's a compelling value proposition because it works with what the customers have installed. It works with the choices they've already made. It works with the choices

they're probably going to make in the future. And it doesn't introduce a completely new kind of island of infrastructure that has to be managed completely separately from all their other infrastructure. So, it works with their existing investments.

And so, where we're going is you're seeing us increasingly being in servers, be in storage, system management; even to a lesser extent, but we think there's a fantastic opportunity on networking. Investing in IP. Hitting those key pain points. Simplifying. And in some cases, providing bundles and others, and an integrated kit that allows the simplified deployment, but doesn't preclude infrastructure and choices they've made, and just driving more and more of a solution sale orientation.

To complement that, we are investing heavily on the go-to-market side. Where we historically had a more generalist sales force, we have invested very heavily in sales specialty around, again, server, networking, storage. And so, we're selling more and more value. And I think you saw -- you've seen that in our last couple quarters' results, where we're seeing -- selling much richer configurations. We're -- a function of the products, a function of really driving a much more end-to-end alignment in selling value rather than kind of depending on the historical Dell supply chain efficiency.

And it's resonating. We gained server share last year dramatically. We're number one in the US. Still opportunity in Europe. EqualLogic on iSCSI, another big change in our strategy where we're very much looking at first mover advantage and having a point of view where the market's going, rather than kind of being a fast follower. And so, with EqualLogic, it's been fantastic. Now we've expanded that with Compellent, so we're going to take that to the next level.

Acquisitions have been a very important part of extending that value proposition. But, it's acquisitions on where we think markets are going, not where they have historically been.

And then maybe finally putting the services around that because, as you provide choice, services become much more important in the equation, helping customers with the integration around their specific configuration choices.

Jason Maynard: And I think one of the things that may get lost sometimes is the size of your enterprise business relative to your peers, given the fact that their services organizations are so much larger. And maybe talk a little bit about -- you can either cut it if you want by sort of workloads in terms of where you fit into the enterprise, and maybe customer segments. And just talk about where you think your sweet spot is, where you're seeing strength, and maybe differentiate between the legacy workloads and the new workloads.

Brad Anderson: Let’s kind of go through a couple of those. So, let's just kind of go through servers and think about the workloads where we're participating in the server side.

So, we're number one in the US, and so -- and number two worldwide. So, there's not a big size difference between us and HP, whose number one globally. And we're competing across the entire stack. And so, what we saw last year was a tremendous expansion. Two socket continues to be the workhorse, but a lot of growth in the four socket and above. Partially because, with the Nehalem introduction, fantastic value proposition coming on the market; partially because Dell was in the market months ahead of the competition and with a highly differentiated product line. And so, we're moving more and more into those backend application -- mission critical applications. And so, we're seeing those workloads come on to Dell.

Equally importantly, tremendous success in -- SMB has always been a strong horse, but tremendous success in what I'm going to call the Data Center, the Next Generation Data Center. So, if you look at the Web 2.0 companies out there -- and it very much resonates with what I said earlier, Jason, is that they're adopting massive, large scale open architectural approaches. Dell has been incredibly successful in that marketplace; not just selling node infrastructure, but complete Data Center Solutions, designed with those customers. And so, if you look at the large of the large, those are not vertically integrated stack companies. Those are not blade oriented products. Those are not your household name networking.

And so, that's kind of where we think the world's going and we have a -- we've had tremendous success in those things. And we think that kind of gives us a lot of confidence that we're actually on the right track as that stuff leads more into private cloud deployments.

Jason Maynard: The challenge, I think, a lot of investors have in this area is how do you size that workload opportunity? I mean, you can look at sort of some of the traditional market share metrics. And you can obviously look at what's been deployed and the legacy applications. I mean, how much of that bleeds into sort of traditional applications? I mean, is there a rough way to think about sizing this?

Brad Anderson: Well, I think the largest cloud providers today, if you will, are those Web 2.0. Those are like new workloads. I think there's very little of the traditional workloads that are being moved into that space today. And so, most of those -- and so, that's pretty much incremental opportunity. I know there's a lot of concerns about at some point is there cannibalization and then what happens. We haven't seen that. I think where companies are at on private cloud is very, very early. And the number of them moving a massive amount of their scale out into the public, very, very few. And so, most of the consumption there is social media and things that wasn't even in the calculation. So, this is net new business.

Jason Maynard: So, we've talked about a cloud and I've obviously put a lot of cloud-centric companies on this panel. But, I think we've actually reached the point now where cloud means everything --

Brad Anderson: --Everything --

Jason Maynard: --And nothing --

Brad Anderson: --And nothing. Nothing.

Jason Maynard: So, I don't even know what it means anymore. So maybe -- when you say private cloud, help us understand. What do customers -- what does that really mean? What does this look like?

Brad Anderson: The way I think about it, or the way we think about it, is that the big key here is customers are looking for efficiency and flexibility. And it's going to be a big continuum. And so, across that continuum -- and I think as you go forward you're going to see customers kind of maybe in four different areas. They're going to have this traditional physical infrastructure. And so, some of their workloads are going to be physical and others are going to move. And then, adjacent to that, it's going to be virtual and they're going to try to gain efficiencies by taking advantage of virtualization technology. And then the next step is, are there things they can go do, either taking virtualization to yet another degree with significantly more automation, or begin to restructure their applications in a fundamentally different way to kind of move to what we're going to call a private cloud, to kind of get a hold of the economics that the -- the large public cloud.

If you go to the full, large public cloud, you don't see -- well, there's no 100 percent case but, typically, that's not through virtualization technology. That is through restructuring applications in a fundamentally different way to drive breakthrough efficiencies. And so -- and what's important about that is, I think because customers are going to have workloads in all four of those, a winning strategy, or the only viable strategy, is a company who looks at that as a continuum. Because if you don't look at that as a continuum, these are just the next generation of silos. And so, today, you've got server, storage, networking, applications. Those are silos and that's where all the cost is. If all of a sudden how you manage your physical, your virtual, your private, your public, if those are just new silos, you have now just created a new set of boundaries.

We at Dell, we look at that as a continuum. And so, where we've had tremendous success in the Web 2.0 companies and the large of the large today, we're bringing those same technologies down and the same toolsets with our virtual such that customers can migrate across that continuum, because they're going to have workloads in all four.

Jason Maynard: Now, I wanted -- you touched on it a little bit, but I want to maybe just -- you can make a finer point on this. There clearly is a view being articulated by vendors in the market that the vertically integrated stack is the way to go. And you've seen there's obviously a market for that historically with mainframe technology. So, part of this is moving back to that scale of the model. Help us understand, though. Is there a rich market to work with your software partners without having everybody sort

of wearing the same jersey and sort of designing this from sort of the base silicon all the way up to the software workload?

Brad Anderson: Well, the vertically integrated -- I understand that what I think is a limited value proposition that, hey, one through open choke, we'll do it all. And I can understand why that might resonate because a lot of CIOs are really in a box. But, I think long term that's a lock-in, in my opinion. And when I look at the things that are being vertically integrated and then I compare that with the, if you will, frankly, the Web 2.0 and I compare the economics -- not the technology, because I think we can get hung up on the technology. But, if I compare the economics, if I look at the large of the large, many of them are operating at about one-fifth of the storage coasts. They're operating at about one-sixth of their networking costs. Their data center efficiency is about two times what these solutions are. And so, I think, independent of what the CIO wants, I think there's CEOs and CFOs say, hey, Jason, why are we paying $2 a megabyte when somebody's paying $0.50? And I think that economics are going to force people down that curve because the different is so great.

And so, yes. The short answer is that, because you know that's more indicative of where the future is, and that it's really important that the present doesn't preclude that and that there's a set of technologies. And customers aren't going to necessarily start there because some of the -- those companies take advantage of scales of operations to a degree. And so, if you're a smaller company or even a large company but the scale of your operations aren't quite the same, you still want to deploy technologies that don't preclude that. And so, you're going to embrace virtualization.

And we're of the mind that we're going to go work with those companies on the system management side. We're doing lots of interesting things to help you better manage in a virtualized environment. But, at the same time, we have worked with VMware, with Microsoft, that those toolsets integrate into their existing frameworks so that we are not just releasing yet another set of tools.

Jason Maynard: We've got about 10 to 15 minutes left, so I want to definitely be respectful for audience questions. So, think about a question and we'll come around here in a second and grab you. But, let's drill down on some of the individual product areas right now.

Brad Anderson: Sure.

Jason Maynard: The Compellent acquisition was a big deal for you guys. It got you into a broader footprint. Maybe give us an update.

Brad Anderson: Sure.

Jason Maynard: What's going on there and where you think it (inaudible)?

Brad Anderson: Well, the deal closed -- we announced it in, I think, the second week of December. The deal closed mid-February. We're well into integration. We are jointly selling Compellent around the globe. We have -- the senior management team is in place from the Compellent team. We have already -- we're seeing the pipeline grow very aggressively. We have really good synergy in the field and the go-to-market between the Compellent team and the Dell team.

We have hung on to almost all of the channel, which as we find -- a fantastic thing. They have a fantastic storage channel. The good news is there's quite a bit of overlap with some of the Dell channel and so that's good. But, it's also expanded us putting EqualLogic and even Dell servers into the broader Compellent channel. And so, it's been -- the customer adoption has been really good. We have trained something like 12,000 of our sales folks on the Compellent technology and we're really excited on the Compellent side. The engineering teams are working excellently together.

We're -- the Compellent technology is different than EqualLogic, but very similar in some dimensions. It's a frameless technology. You could buy their Series 40 controller and actually enhance a Compellent configuration bought seven years ago. And so, it provides unprecedented investment protection compared to many of the competitive alternatives, who you tend to go through a frame and a software and relicensing event every generation. A Compellent, absolutely not.

The degree of virtualization is outstanding. With the automating carrying we're finding that we're winning. Compellent was a company where they didn't get enough at-bats and we're giving them tons of at-bats and we're winning because of -- the value prop is that, in many configurations against legacy vendors, you only need about 50 percent of the storage with the Compellent storage because of the efficiency of the auto-tiering and with kind of the frameless lifetime licensing. Completely fundamentally different lifecycle ownership model. So, really good there.

Jason Maynard: How's the transition been from EMC and how does that sort of play out in the field?

Brad Anderson: Well, EMC -- I just want to say, a fantastic partner for 10-11 years and we continue to work with EMC, but the relationship's more tactical. Before, the relationship was strategic. It's much more tactical. We have a large joint installed base. We are working very collegially, doing the right thing for the customer on the installed base. But, we're competing for future business. And highly professional. So, doing the right thing in front of the customer. But, we're competing more and more. The Compellent product basically spans the whole VNX product and we think -- when we think about what we can do with Compellent, we think it's a better solution than the VNX. And we think we have the opportunity with EqualLogic, and even our earlier acquisitions of Ocarina with dedup and compression, Exanet with

file system, that -- a huge opportunity to drive a real storage solution that provides data mobility.

About two years ago we kind of hit that inflection point where customers are now spending more to manage data than store data. And the key to be able to manage data across mobile storage architectures is a common toolset, common interface, but common file system, common dedup technology and others. And we got a much simpler task than others who are trying to get seven or eight different architectures integrated or finding the common denominator.

We have two highly virtualized storage architectures, more similar than dissimilar, that -- we got work to do, but we think we have an outstanding opportunity to really kind of make good on the -- actually, the Compellent use the moniker fluid data. We've been talking about data mobility. But, that notion where you can now move data seamlessly across -- the data lifecycle across those two different architectures.

Jason Maynard: Makes sense. Let's open it up to the audience here and see if we've got any questions.

Audience Member: Thanks. EMC came out with the VNXe. Obviously, a similar price point to EqualLogic and they're actively building out of their own distribution channel. Maybe you could talk about how the product differs from EqualLogic and if you're seeing any competition in the channel from that.

Brad Anderson: So, the VNXe is their very low end, below VNX. It's kind of positioned at the very low end of EqualLogic. Yeah, we do see it in the marketplace, but we're faring very well against that product. EqualLogic is -- what really resonates with EqualLogic, one is a fantastic iSCSI technology, but the whole ease of use. And as a customer installs one array and adds another array, you've got automatic load balancing. And so, it's really designed for that space where mid-sized -- smaller customers, mid-sized customers are kind of deploying that first SAN. And it doesn't have all the -- necessarily the technical talent to go do this; and so the experience around that, the performance around that.

And then, what Dell has done and what we have done is further simplify that, particularly in things like networking and others, where when you install EqualLogic and products with PowerConnect and others, while it works with every switch, the switch automatically configures. So, we've kind of taken that ease of use that was kind of confined to the EqualLogic system itself and pushed that out into the adjoining infrastructure of components that touches it. And you're going to see more of that to really kind of drive that proposition even more broadly. So, to the earlier comment, moving away from kind of point solutions to more solution orientations for very specific customer segments.

Audience Member: Yeah. Hi, Jason. And if you'll indulge me, I actually have two questions. One is, as Dell suppliers beginning to directly sell server, storage and

networking equipment to end users, how will you compete with that and strategize about that? And then the second question is, Dell's certainly been selling a lot of Data Center service lately. How is that growth and what are the expectations around that? And also, how will Dell compete directly with the Data Center suppliers, more traditional as well as the REITs (ph)?

Brad Anderson: On the first one, Dell suppliers sell their own servers directly. What we're finding, where we're most successful, is that -- and most of that -- and there's very -- there's not that many of them, by the way. Because if you go look at the white box market, it really hasn't changed dramatically in a gazillion years.

But, where we're successful, and most -- and it's really part of what most of those large customers want, they're not buying a node. They're not -- and they're less interested in what that 2U server or whatever form factor. They tend to be much more interested -- the promise tends to start more like, hey, I got this much floor space, I got this much power in, I need this much compute capability, I got this much airflow. And it tends to be much more of a Data Center design, solving that total solution rather than solving the one node design.

Customers who just want one node, yeah, there's going to be -- there will be companies coming up with very inexpensive single nodes. But, when you think about the efficiency numbers, more and more of that is designing that with the facility and other things in mind rather than designing one box at a time. And so, we're faring quite well in that. I think if you go survey the largest of the large, I think you're going to find us in those accounts much more than just kind of the -- I'm going to say the 1U merchants of the world.

On Data Center services, I'm going to answer it two ways. We're moving into a whole new set of Data cCnter services. As our products have advanced and are being used for more mission critical workloads and for new workloads, we're finding customers are looking for us for a whole different set of surfaces. And so, you're seeing us participate in opportunities that, three or four years ago, Dell wouldn't have necessarily been in the consideration side of companies of a lot of sizes.

I'm not going to mention the name of the bank, but I was talking to a CIO of a large bank and he said he would never have thought that he was running his ERP applications on Dell. And today -- and we were making calls on him because they were kind of stuck into what Dell delivered five, six years ago. And we were joking that not only is the ERP application, but his database is now on PowerEdge. And so, where we have come from a product group has gone tremendous strides there. And very compelling product that's in the marketplace well in advance of many of the competitors.

But, to play in that space, a company -- Perot and others are really important because, to have the professional services to be there, but to provide the integration capabilities. Because we're accommodating the choices those customers have already made, rather than kind of forcing them -- or go in with the proposition that, no, no, no, no, let's put in a completely unique piece of infrastructure, completely different. Well, that's kind of introducing a whole new set of management change points and costs, frankly. And so, we're working within customers' existing choices and investments.

Jason Maynard: Maybe we'll squeeze in time for maybe one more out there if we've got one. Well, I'm going to steal it then. So, one thing maybe just to wrap up on. You've been acquisitive and you've actually had a lot of success with the acquisitions that you've made. And without trying to push you into saying give me a list of what you're thinking about but, given that you've got a broad product area to think about in terms of where you want to make bets, obviously different ways you can go. There's even software assets that you could tie in to make the hardware assets more valuable, like in the systems management space. What's the process? How do you think about sort of making those decisions? And just sort of give us some insight into how you kind of consider these things.

Brad Anderson: Maybe just a couple things. I mean, I think Brian Gladden and others, I mean, we've kind of said storage, some system management services. I think we've even indicated networking -- there are some networking opportunities.

I mean, I think a couple things. We're looking for what we think is a valuable IP, kind of solving real specific pain points; existing and future pain points. We very much want to look at technologies where we think the market's going. And so, it's less so of kind of acquiring in our rearview mirror of what -- more legacy technology. I mean, EqualLogic and Compellent was iSCSI when iSCSI wasn't popular. Compellent, you can say that's storage. That's really advanced virtualization. I mean, the degree they have virtualized is so far beyond any other storage enclosure.

And so, we're looking at -- be it any market - server, storage, networking. I think networking has some fantastic disruptions coming. Like, where are the markets going? And we want to participate in that -- kind of that next wave rather than kind of invest on the existing wave. And so -- and those same spaces that we've kind of articulated all along.

Jason Maynard: That's fair. Alright, guys. Well, thank you very much. We appreciate it.

Brad Anderson: Well, thank you very much.

Jason Maynard: Thanks, everybody. We'll take a short break then we're going to come back. So, thank you.

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