

Dataquest Insight: Dell's Service and Support Strategy Will Disrupt the Industry Model

Gartner Dataquest Research Note G00160223, Tiffani Bova, 8 September 2008, R2865 09192009

Dell's acquisitions of Everdream, Silverback, ASAP, ACS and MessageOne collectively provide an expanded presence for Dell in the software as a service (SaaS) and remote monitoring and management market. Although most of what Dell is proposing is nothing new to the market, Dell's ability to combine these acquired companies' capabilities into one modular solution will have far-reaching implications for customers and the channel.

Key Findings

- Channel companies will be able to white-label/private-label these offerings in addition to providing service delivery, creating as much transparency as the partner chooses among the customer, the partner and Dell.
- Dell began providing its new ProSupport services globally in 1Q08 and has since expanded the services to include mobility services. Dell plans to continue enhancing service offers for partners from warranty support up through managed services.
- These new services are available for commercial customers. Dell has not announced plans to offer these services via Dell's newly formed global retail partnerships.
- Dell's new ProSupport services portfolio satisfies a specific piece of the services market (support and maintenance), to which Dell currently attributes 68% of its \$5.5 billion commercial services revenue; the rest is attributed to IT management services.
(Note: this figure is slightly higher than Gartner IT services database.)

Recommendations

- Dell should continue to invest in the Everdream platform by developing application programming interfaces that enable the channel (independent software vendors and developers) to create and deliver applications and services similar to what salesforce.com has done with Force.com and AppExchange.
- Traditional channel (value-added resellers [VARs], solution providers, system integrators) companies with a current support and maintenance portfolio (and limited remote monitoring and remediation capabilities) should consider testing the Dell offering to improve profitability, scale and coverage, especially if they are reselling Dell hardware.
- To minimize channel backlash, Dell must continue to invest in the development of systems and processes, such as Deal Registration, to manage potential conflict. Dell should also continue to develop a range of offers, particularly those that include and compensate the partner for its services component in co-branded services with Dell. This should continue to enable healthy growth from Dell's expanding channel partner "ecosystem."

- Dell customers should evaluate their IT support service spending and identify where it might be appropriate to test new offerings, especially if there is no support contract in place.
- Dell must develop programs that support working with partners in its preferred partnering model: affiliate, influencer, and agent or as a service delivery partner, or a private-label partner.

ANALYSIS

Similar to many hardware suppliers, Dell has been diversifying its business over the past several years, moving from relying solely on commodity products to putting a greater emphasis on higher-margin businesses, such as professional services and software. Dell's decision to change its approach to IT management, deployment and maintenance began when it hired Steve Schuckenbrock, president of Dell Global Services and CIO, in 2006. Having the leader of Global Services also be its CIO furthers Dell's agenda of developing a robust services infrastructure and platform by which Dell can help customers drive out unnecessary costs and improve their IT support and maintenance experience.

Dell launched its ProSupport offering globally in February 2008. ProSupport is a collection of global, prepackaged and standardized support services from the desktop to the data center. The ProSupport for IT services model provides registered channel partners, as well as Dell's small and midsize business (SMB) and enterprise customers, support services that are consistent with their individual level of knowledge, including the following:

- Ability to fast-track dispatch parts and labor, bypassing basic troubleshooting (online certification test required)
- 24/7 direct access to Dell Expert Centers
- Access to Dell IT professional training and certification
- Collaborative support for select third-party hardware and software vendors
- Single point-of-contact escalation management with customer-defined severity levels
- Global command centers to manage critical situations, monitor all mission-critical on-site dispatches and provide proactive crisis management coordination and communication during natural disasters

In June 2008, the company introduced Dell ProSupport Mobility Services, a suite of modular asset and data protection services, to help companies protect laptop computers and company information, especially when computers are lost. The new services include laptop tracking and recovery and remote data delete, allowing channel partners that wish to offer these services to expand their portfolio of offerings without investing in the development of the infrastructure.

Although Dell has not been known for acquisitions, in the past 12 months, Dell has acquired a number of companies (SilverBack, ASAP, Everdream, MessageOne and EqualLogic) that lend themselves nicely to its stated strategy of helping companies "simplify IT." Individually, these companies had product offerings

focused on specific markets and customer segments with varying levels of success. However, Dell's investment to further improve offerings and integrate the disparate products creates a set of offerings that quickly begins to separate Dell from its main competitors by leveraging SaaS and managed services. Dell will push some of its new capabilities into the product (upfront), making it easier to deploy, use and manage over the entire life cycle. If done right, Dell and its channel partners will have the opportunity to use these (customer) efficiencies to its advantage by opening up more of the customer's budget for growth and innovation initiatives.

These acquisitions (although not the entire list of acquisitions) expand on Dell's current IT services offering to both SMB and enterprise customers, while adding VARs and managed service provider (MSPs) as a new set of prospective clients to the mix. These VARs and MSPs can leverage Dell's core hardware offering into their existing base of customers if they are not already Dell clients. The key acquisitions that will be leveraged in these new support offerings include:

- **ACS** (November 2006), an IT application management services company based in the U.K., was focused on providing remote software deployment and packaging, application management and deployment services, as well as consulting on systems and other infrastructure issues.
- **Silverback** (July 2007) developed a service delivery platform for remote monitoring and management of IT infrastructure, such as servers, storage, networks, desktops and notebooks. Silverback was completely partner-driven, developing products that could be leveraged by MSPs to build out a managed services business. This program was the foundation of Dell's MSP partner certification path. Silverback also developed Silverstreak, which is a remote tool that will discover all the physical assets in an environment to assist in designing a support package.
- **ASAP Software** (November 2007) will strengthen Dell's software business by integrating ASAP's complementary expertise in managing software licensing, purchasing, renewals and compliance with its eSmart tools, along with the License Technologies Group, which specializes in licensing and e-commerce services for software publishers and their partners.
- **Everdream's** (November 2007) core market is providing Dell customers with asset management, online backup and restore, and security management for PCs, mobile and hard-to-manage systems in distributed environments (retail, multinational), as well as providing the software service delivery backbone of the new offerings. Everdream's go-to-market approach was to deliver best-of-breed desktop management capabilities to the market via its SaaS-based platform. This was accomplished through the internal development of products delivered via SaaS, as well as enabling industry leaders (such as Symantec, McAfee, Iron Mountain, Microsoft and Cisco/WebEx) to leverage Everdream's SaaS-based platform with its multitenant capability as an additional channel for its best-of-breed capabilities to reach the market. As such, Everdream's model is

to leave certain products/offerings to its partners to develop, as opposed to trying to cover a large portion of it through its own product development efforts. This makes Everdream attractive to the channel, because it is a real platform play for these partners, without complicating Everdream's efforts by building product that would eventually encroach on its partners' products.

- **MessageOne** (February 2008) has developed a SaaS-enabled, enterprise-class e-mail business continuity, compliance, archiving and disaster recovery service. MessageOne's services not only meet the needs of large companies – with a roster of existing Fortune 500 customers and large partners – but can also scale down cost-effectively to meet the needs of SMB customers.

Dell's recent acquisitions clearly highlight how Dell's and HP's service strategies continue to diverge. HP's recent acquisition of EDS adds custom service capabilities and more than 135,000 employees to focus on delivering large, custom solutions and outsourcing primarily for enterprise clients around the globe. HP has not made any recent acquisitions or developed new products to assist with the Total Care and Care Pack offerings for automation and remote diagnostics. Although HP historically has been channel-friendly, pushing a majority of its service maintenance business for distributed systems to its channel partners, HP has used traditional delivery and service models to facilitate that support without providing much remote monitoring or management capabilities for its partners to leverage outside of leveraging products such as OpenView.

HP certifies and trains its partners as an "authorized support partner" (ASP) or an "authorized professional services partner" to increase partner revenue and profit from selling and delivering HP services associated with its products. HP and Dell approach the market in the same way when it comes to field labor services that are sold directly – both organizations tend to deliver on-site services via third parties such as subcontractors (in Dell's case) or Authorized Service Partners (in HP's case), which are segmented by platform and specific customer set.

Routes to Market

In mid-2008, Dell began selling its managed services portfolio directly to businesses with fewer than 500 employees (although managed services are available to all size customers, including larger midmarket and enterprise clients) in a U.S.-based pilot program in Dallas. The Managed Services for Small Business (MSSB) pilot will soon expand to New York and the U.K. and will include a channel offering. The company expects to automate a number of routine computer maintenance tasks and proactively manage a number of end-user issues through Dell-operated service centers that coordinate with Dell technicians and channel partners when on-site repairs are required (per a customer's contract and instructions).

Dell will package these offerings and present them to the market with a combination of Dell direct sales initiatives, as well as via its registered and certified PartnerDirect partners. Dell's continued direct sales strategy will lend itself nicely to this product set

(especially for a small business), because Dell will be able to attach additional services (to the box) improving average selling price and margins at the time of purchase (both online and offline). Dell must invest in upgrading the skills of its existing sales force in selling SaaS, especially since the traditional acquisition and delivery models will not be in play here. As more large OEM vendors invest in these types of solutions for their customers to take advantage of, the adoption rate in the SMB market will follow. Cost efficiencies, improved support, predictability, redeployment of internal resources to more innovation and growth projects are all compelling reasons for SMBs to consider alternative delivery and acquisition models.

To enhance its push into the SMB market with the new offerings, Dell has integrated its managed products into its recently launched PartnerDirect program. Anticipating backlash from its channel partners, Dell has committed that it will not pursue deals for its new services with any opportunities that one of its certified MSP partners has registered and will even assist the partner in closing the deal. Also, Dell will not pursue deals with customers who are under an existing managed services contract with a certified Dell MSP. This means that certified Dell MSPs are protected from competing with Dell on new managed services opportunities, as well as contracts in their existing managed services customer base.

Dell has invested in a number of new training and certification tracks to ensure its partners are qualified and trained to leverage Dell's service offerings and products. Once a partner becomes registered, it can choose from two certifications in North America, MSP and enterprise architecture (EA), and two in Europe, EA and SMB expertise. Dell has developed a new MSP certification track that will replace the legacy Silverback (partner) program and training curriculum. Partners can choose from the following three specializations:

- Server/network infrastructure
- Desktop management
- Server/network/desktop

Dell will provide its modular a la carte services:

- Dell direct and partner resale (at a standard discount yet to be determined)
- Purely as a platform for channel partners to enable them to deliver their own (managed) services (private label – white label)
- Co-branded, in which case the partner has the ability to be part of the delivery process of Dell services

Products and Pricing

Dell's current pilot program of its newly formed MSSB is an example of how Dell's a la carte, modular service strategy works. MSSB's direct offerings include three different levels of offerings ranging from a Level 1: alerts package for monitoring devices for a price per month (PPM) cost of \$9 per client, \$29 per network device and \$59 per server, which includes:

- 24/7 fault, performance
- Security alerts
- Networks, systems and applications
- Monthly reporting by e-mail

The next level of services falls under the Level 2: resolution package for a PPM of \$29 for a client, \$89 for a network and \$199 per server, which includes the following:

- Monitoring features
- Named escalation manage at service desk
- 24/7 remote remediation
- On-site support
 - Up to two hours of on-site support per month (per customer)
 - Available 9/5
 - Same-day/next-day response (on-site)
- Annual assessment and planning

The third offering, Level 3: management package, is the highest level of service. It carries a cost of \$59 for a client, \$119 for a network and \$299 per server, which includes:

- All monitoring and remediation features
- End-user how-to help desk
- Vulnerability scanning
- Patch management
- Asset tracking
- Quarterly assessment and planning

These prices are what Dell will charge its end-user customers, while partners will be able to receive a discount, allowing partners to set their own end-user pricing based on “marking up” these prices from Dell. *(Note: Although not defined at time of publication, partners will likely get a standard revenue share, so they will be able to offer the service at the same price as the direct offer. No financing options are available.)*

The partner will be billed directly and responsible for billing the customer. Dell will also offer the option to “partner brand” the services so the customer is not aware that the back end is being delivered by Dell, unless the partner wants the customer to know this. This markup may prove challenging for partners to justify, and it may create unnecessary channel conflict if the customer can purchase the same service from Dell for less than – or close to – what they can get it from their partners.

Along with the managed services offerings, Dell will provide its existing and newly acquired SaaS products to its channel as individual modular offers that can complement current offerings from service providers and MSPs. Similar to managed services, channel partners will have a margin opportunity to “resell” Dell-delivered offerings and, where appropriate, programs to allow the partner to take part in the installation or delivery of the service. Revenue for resale is at a standard revenue share that has yet to be determined. Examples of these modular services include the following:

- SaaS-enabled infrastructure monitoring and management:
 - Multitenancy and scalable
 - Policy-based resolution
 - Performance monitoring/alerting
 - Agentless asset discovery
 - Client-side deployment
 - Remote device management
 - Security vulnerability
 - Intrusion and firewall monitoring

- World Wide Web transport
- Windows, Unix, Apple and Network devices
- SaaS-enabled desktop management:
 - Asset management
 - Data encryption
 - Data backup and recovery
 - Anti-malware and antivirus
 - Software license management
 - Software distribution
- SaaS-enabled image management:
 - Remote image creation
 - Customer factory integration
 - Image deployment
- E-mail-enabled management:
 - E-mail continuity
 - E-mail archiving
 - E-mail security
 - E-mail alert/find crisis management

Many of the services Dell will be offering can be found on the Gartner IT commoditization curve as “Mature Mainstream” or “Legacy,” which means that finding a way to automate, scale and improve margins becomes more critical. Most of these services have limited, if any, customization requirements allowing for multitenant scalability and price advantages that are otherwise difficult to realize.

BACKGROUND AND CONTEXT

Although Moore’s Law continues to be the barometer of technology innovation for hardware and software products, the IT services market has not maintained this rapid pace. Although some fundamental changes have taken place in the IT services market over the past 10 to 15 years, the delivery methods and deal structure (time and materials, fixed fee, long-term contracts, staff augmentation and outsourcing) have remained fairly constant. Technical advances, such as improved bandwidth, virtualization technologies, service-oriented architecture and Web services have allowed IT organizations to improve internal IT operational processes. These improvements have allowed for increased standardization and automation, which has reduced unnecessary complexity and labor costs and increased economies of scale. Innovation in delivery and acquisition models has created a notable flux in the support and maintenance supply chain, creating alternative means by which IT services are consumed and contracts crafted. Dell appears to be maximizing these technological advances at a time customers are looking to simplify their environment, improve service delivery, drive out unnecessary costs and improve the overall IT experience.

Historically, HP and Lenovo (and previously IBM) have driven as much of their on-site support contracts and delivery for client systems through their resale channel, providing direct support only where required. Dell has not used the channel as much, especially in the U.S., where Dell has been perceived as being “anti-channel” for a long time. Dell primarily has used subcontractors that were not product resellers to deliver maintenance and support. For client systems in the U.S., these subcontractors have included BancTec, DecisionOne and QualxServ, and for other parts of the world, Unisys and Getronics have been the most-often-used partners for service delivery.

In the past 12 months, however, Dell has begun to put together a global channel network, and Gartner expects Dell to send a portion of the delivery support to these partners, many of which also provide support for competing brands Lenovo and HP. Unlike in the U.S. market, Dell had a channel network already in place in Europe because of local market conditions.

Nevertheless, HP has some substantial advantages in its channel relations. First, it has been doing this far longer and with more partners. HP reports 150,000 business partners. Gartner estimates that at least half of these can provide on-site hardware support and about half of those are located in the U.S., with the rest elsewhere. Dell's program is far less proven; there is lingering skepticism about Dell from some channel players, although much less than just 18 months ago. The Lenovo channel efforts more closely echo those of HP, but Lenovo has gone through serious changes, first in ownership and then in channel leadership. Even in the best of circumstances, these will have had some impact on their partners.

Dell appears to be taking the same strategy it did when it successfully disrupted the hardware market in the mid-1990s with its build-to-order products at competitive prices, and Dell is applying this strategy to its recently announced IT services offerings. Dell is aggressively expanding beyond its traditional "close to the box" offerings by building services that allow customers to have a similar configurable experience as they do with Dell hardware.

Dell is trying to capitalize on the SaaS trend, which has predominately focused on the business application space but has become much more applicable in the infrastructure management space as it matures. As Dell aims to help customers simplify IT, it hopes to replace conventional computer services with a new system that automatically solves most problems before they start. Since some companies spend 70% of their current IT budgets just to "keep the lights on" – streamlining and automating some of those processes will free up time for IT personnel to focus on growth and innovation.

The IT support market is moving away from fixed-price, bundled packages toward mass customization of support services. Instead of continuing to offer traditional fixed-priced, fixed-entitlement support packages, more IT vendors will likely follow Dell's move for dividing standard maintenance portfolios into individual elements from which customers construct their own support packages.

The overall IT services market consists of two major segments: infrastructure support services and professional services. Gartner has predicted that by 2012 hardware maintenance and support will reach \$106 billion with a compound annual growth rate of 3% from 2008 through 2012. Worldwide spending for infrastructure support services is projected to reach \$150 billion in 2008 and \$186 billion by 2012. Annual growth of the market is running at a slightly increasing rate, reaching 6% in 2012. In 2008, the split between hardware maintenance and software support in the overall infrastructure support market was 63% and 37%, respectively. By 2012 we anticipate the split to be a 58% and 42%, respectively, as growth in software support outstrips hardware maintenance.

Annual growth of the market is running at a slightly increasing rate, reaching 5.7% in 2012. Infrastructure support services include maintenance and availability of all IT assets, including the hardware (computers, storage, networking and peripherals) and software (operating systems, applications, utilities and middleware) that are integral components of the IT infrastructure. Reducing the cost and complexity of support will be a critical issue for customers and IT support providers and vendors in 2008. Cost pressures and shrinking margins are similarly forcing service providers and vendors to segment their services, delivering some themselves and others through lower-cost support models.

Dell service business, which accounts for about 10% of Dell's annual revenue of more than \$61 billion, is where Dell's IT management services business is accounted for. Dell's \$5.5 billion in service revenue for fiscal year 2008 is 100% derived from the delivery of infrastructure management, support and consulting services. Services growth for Dell grew 5% over fiscal year 2007 (compared with a 20% increase in 2007 over 2006). With the growth numbers Gartner expects, it appears that Dell is in single digits for market share and has plenty of opportunity to capture additional services revenue if it is able to capitalize on these significant changes to its service model.

THE IMPACT

Fundamentally changing the model in which customers consume IT support and maintenance services into one that is based more on individual user and company needs will have far-reaching implications. From a channel perspective, there will be two schools of thought about Dell's new services offerings and strategy. One set of partners will welcome the opportunity to partner with Dell to deliver services they otherwise would not be able to offer, while another set of partners may believe that Dell is encroaching on the very service business they have invested in over the years to augment rapidly declining hardware margins.

Dell's MSP channel partners have developed their own unique services based on the Dell platform. As such, the pricing, offer design, delivery costs and ultimately margin are entirely dependent on the partner. From now on, channel partners will have access to a broader portfolio of managed services that do offer greater partnership with the Dell MSSB direct delivery team. In this case, partners will be able to sell the Dell delivered service, where available, and earn an ongoing revenue share at a standard percentage.

Alternatively, Dell will offer partners the ability to be the on-site installation, remediation and assessment provider – either with payments from Dell for the delivery or as part of a co-branded service with Dell in which the partner prices the offer and purchases select delivery components and monitoring functionality from Dell. Until these percentages and processes are solidified, the channel will react cautiously to these moves. Without a clear delineation between Dell's offerings and the channel partner's offerings, the fixed price from Dell to both customers and partners challenges the partner's ability to mark up the price without customers choosing Dell directly based on price.

CONCLUSION

The service delivery platform that Dell is building will attempt to provide managed services at the end-user level across multiple devices (Dell and non-Dell) in a scalable, globally consistent platform. What Dell is attempting has never been accomplished by a major global IT vendor. Dell's ability to pull together these diverse software and managed services companies, based on different, non-SaaS architectures, to create a holistic offering, including IT remote management and IT software as SaaS (where some of the world's largest IT outsourcers have been unsuccessful), may prove to be just too complicated and challenging in the long run. However, the initial indication is that Dell is committed to making the necessary investments and internal changes required to accomplish these lofty goals.

The execution of this new service strategy has far-reaching implications to customers, partners and internally at Dell. The back-end systems and processes required to make all these moving parts pull together seamlessly will take time, and there is no guarantee Dell will be successful. Customers should consider piloting these offerings and taking advantage of the varying degrees of end-user support this flexible model offers. Dell partners that do not have managed services capabilities and are considering adding them to their portfolio should look to gain certification and training on the products and test the solution with customers prior to fully committing to the model, or to Dell as the preferred provider.