

# Dell Continues Transformation

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Linux and possible channel model are the latest significant moves by the beleaguered OEM.

Less than a year after announcing that it was finally ready to put chips from Advanced Micro Devices into its hardware, Dell is continuing to reinvent itself as it combats declining market share, disappointing financial results and image problems resulting from customer service complaints and a federal investigation into its accounting practices.

The latest moves include a partnership with Canonical to preinstall Ubuntu Linux in Dell desktops and notebooks, and the possibility that the Round Rock, Texas, company is preparing to embrace the channel to complement its direct sales model.

The renewed focus on the customer - to show that it can still be an innovator, according to analysts - also includes offering the latest in SSD (solid-state drive) technology in select Latitude laptops and promises to users to offer PCs with both Windows Vista and XP from Microsoft.

Analysts said the developments, on both the technology and marketing sides, signal more changes on the way.

"It's all part of one umbrella idea that the company is no longer focused on efficiency but is now focused on getting its customers back," said IDC analyst Richard Shim, adding that Dell wants to show that its PCs have value beyond just dollars and cents. "A lot of this technology that they are pushing right now is new, so they might get burned. With the

solid-state drives, for example, people are going to argue that the company is either desperate or that they are innovative and pushing the envelope. In reality, it's a little bit of both," Shim said.

Lew Moorman, senior vice president of strategy and corporate development at Rackspace, which has been a longtime user of Dell's PowerEdge servers, said he has been aware of some of the changes coming from the company, including its rethinking of the direct sales model and its move toward Ubuntu Linux PCs.

Rackspace, in San Antonio, uses thousands of servers that run Red Hat Linux, and Moorman said many IT managers run Linux - including Ubuntu - on their desktops.

The Canonical partnership, announced May 1, is "an interesting move, although I don't know if there's a huge market - for Linux desktops - ," Moorman said. "It's a very aggressive move and a little risky, and it reminds me of when Dell said they would start offering Intel and AMD. I really think the company is trying to experiment and try new things."

Dell spokesperson Jeremy Bolen said the move addresses customer needs. "Our general view is that when customers win, Dell wins," Bolen said. "There is growing demand for Linux in the desktop and notebook space, and we believe that there will be positive response to our efforts."

Also gaining attention were reports of an April 27 memo from Michael Dell, who reassumed the CEO job Jan. 31, to employees hinting that the company may be softening its direct-only stance. In the memo, Dell said that selling directly to the customer was a revolution, "but it is not a religion."

"Michael is willing to try these things," said Roger Kay, an analyst with Endpoint Technologies Associates. "He's not acting like a financial guy."

He's acting like a very hands-on operational manager, and the whole Dell model seems to be on the table," Kay said.

All these moves come at a time when Dell is trying to rediscover its footing in the PC market. Gartner and IDC said April 18 that Hewlett-Packard continues to lead the worldwide market, while smaller companies, such as Acer, have picked up some of Dell's lost market share.

While Dell remains in second place in worldwide sales, Gartner found that the number of the PCs the company shipped fell from 9.4 million in the first quarter of 2006 to 8.7 million this year, a 7.8 percent drop. Meanwhile, HP watched its shipments jump more than 28 percent, while Acer's shipments increased 46 percent.

"Acer is among a number of companies, including HP and Apple, that is gaining rapidly in the consumer market segment, potentially taking customers away from Dell," Shim said.

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