

Why the Dell / EMC Combination Makes Sense for Customers

Synergistic product portfolio and go-to-market strategies have potential to set IT customers up for success in the digital economy

Executive Summary

One of the biggest technology deals in history at over \$60 billion is about to unfold as Dell prepares to buy EMC. At EMC World in May 2016, Michael Dell made this acquisition more real than ever when he announced the new entity's name, Dell Technologies, which will be an umbrella brand for the collection of companies that will include enterprise and client solutions and services, and other strategic assets including VMware, Pivotal, RSA, Veeva, and SecureWorks. With just a few major milestones to go, it appears that all is on track for the companies to merge the enterprise organizations as Dell EMC under the umbrella brand and to begin operating as one by around mid-year.

Dell and EMC are positioning themselves as the path to the cloud for IT customers. Moor Insights & Strategy (MI&S) believes Dell's leadership in compute and EMC's leadership in storage and converged infrastructure have the potential to become building blocks for a one-stop shop for enterprise datacenter customers. Other assets such as security, virtualization software, and cloud solutions can help round out the portfolio. Moreover, Dell's client computing business and IoT practices can bring insight into client computing and IoT models that will be key drivers for future datacenter requirements. Dell EMC should focus on continuing to build up their networking business and making it a more cohesive part of their end-to-end datacenter story. In addition, Dell EMC will need to invest further in the development of open, cloud-native solution stacks to meet the needs of customers looking for hybrid cloud solutions.

Dell's strength in SMB together with EMC's success within the enterprise means the combined entity has the channels to cover more ground. Current Dell and EMC customers will still need to wait to see how the details unfold, but now is the time for customers to provide feedback about product interest areas and future strategies as product portfolios are rationalized and streamlined under the new merged company.

Helping Customers on their Journey to Cloud

Dell and EMC are on track for a merger so substantial that it will make the history books of the technology industry. If the deal goes through as planned, and it appears it will, the combined forces will be the world's largest privately-controlled integrated technology company and the largest cloud infrastructure company in terms of [revenue share](#). Dell is positioning the new combined company as the "essential infrastructure company for the next two decades" that will help IT leaders ready their organizations for the digital economy.

Beyond tying up the legalities of the partnership, including the deal's approval by EMC shareholders, Dell and EMC are proactively setting themselves up for success on day one of the newly formed company. A senior leadership team has been identified with a strong blend of executives from both Dell and EMC. In addition, many integration planning work streams are well underway with a goal of combining the best of each company to optimize the customer and partner experience moving forward.

The time is right for this acquisition, as we enter a phase of significant transition in the IT industry. Over the next several years, the explosion in smart connected devices and nodes will create massive new information sources that can be mined for better insights. The smart devices that will form the backbone of this new digital, connected world will require datacenter infrastructure to be architected very differently. Datacenters of the future will be based on cloud-native infrastructure where compute, storage, and network resources will need to work seamlessly to deliver real time analytics and insights.

MI&S attended EMC World in May 2016 where we saw many of these market drivers discussed throughout the week. The theme of the event, "Modernize", was EMC's first major push to talk about how they plan to take their customers to the cloud. The day one keynote featured a superb handoff between Joe Tucci (chairman of the board, and CEO of EMC) and Michael Dell (founder and CEO of Dell) to set the tone for the event that sent a positive message about the state of the acquisition. MI&S believes the combined entities of Dell and EMC will bring together a synergistic IP portfolio and complementary go-to-market strategies to help customers as they modernize their IT strategies to be successful in the digital economy.

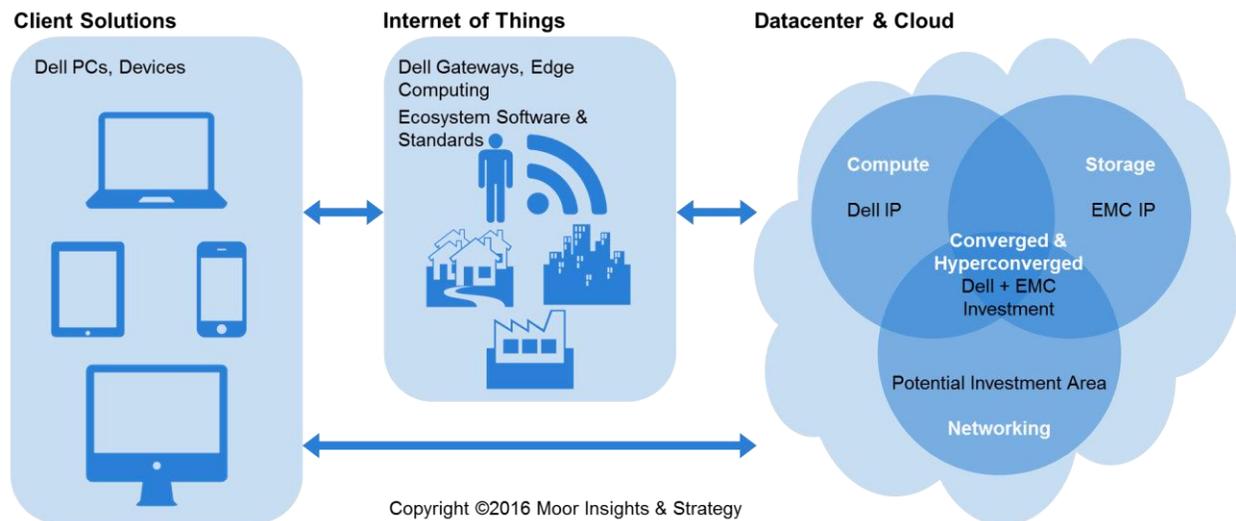
Solid Foundation & Portfolio

At a high level, Dell and EMC have a very synergistic product portfolio to go after the datacenter infrastructure market. Between the two companies, Dell and EMC are in a #1 or #2 position today across servers, storage, converged infrastructure, virtualization, security, and PCs. Dell also brings to the table a strong play in thin clients, and both sides have solid professional services and support capabilities.

Strong Product Synergies

Figure 1 outlines the future Dell EMC and Dell client solutions business areas of strength and potential areas of investment required to be a one-stop shop for enterprise customers large and small.

Figure 1: Infrastructure Portfolio for the Future Dell EMC & Dell Client Solutions Businesses



As Dell EMC rationalize its product portfolio to streamline operations, MI&S expects that Dell's PowerEdge product line will be a foundation for Dell EMC's compute portfolio and that EMC's stable of storage IP will be a foundation for much of the storage-centric business. Dell EMC will need to make some serious long-term decisions on how to streamline its storage product lines, particularly in the mid-tier with competing brands such as Unity, Dell Storage PS Series, and Dell Storage SC Series.

The new company will be well-positioned in the converged and hyperconverged areas. Both EMC and Dell have growing product portfolios in this space through VCE and Dell Engineered Solutions in the areas of hybrid cloud, virtualization, analytics, and HPC. The converged infrastructure teams from Dell and EMC will need to join forces to create a consolidated converged infrastructure strategy and prove to customers that they will continue to offer a wide range of choices in converged solutions. If Dell and EMC get this strategy right, MI&S believes customers can expect to see a strong mix of hyperconverged entry points and a roadmap backed by solid R&D resources to address this market as it continues to transform. We are interested in what Dell Technologies has in store to add full composability, or the ability to swap applications dynamically and to re-allocate the right compute, fabric, and storage.

Dell Technologies has other essential IP elements needed to compete in the digital economy such as security (RSA, SecureWorks), virtualization (VMware), and cloud software (Pivotal, ScaleIO, Virtustream, Dell Boomi), as well as strategic software partnerships. Dell's strength in the PC market sets up Dell Technologies well to create a client solutions portfolio that ties nicely into the overall company strategy to provide technology solutions from endpoints to the cloud.

Opportunity for Growth in Value-Added Areas

Dell has already begun to sell “non-core assets” to help offset some of the costs associated with the merger. For example, the company agreed to sell its Perot Systems business to Japan’s NTT Data for just under \$3.1B. MI&S expects additional divestiture announcements leading up to and after the merger closes.

To achieve their goals of being “the essential infrastructure company”, MI&S believes Dell Technologies needs to invest in several areas to ensure they round out the portfolio for an end-to-end infrastructure play.

- **Networking:** Dell brings along a strong set of networking IP that could be a starting point for investments in this business, but Dell currently has single-digit market share in the networking space. Dell has made strong progress with networking in campus and edge computing environments, particularly in the mid-market where end users are not heavily entrenched with traditional networking vendors. With the rise of SDN / NFV and converged systems, VMware’s NSX SDN offering and [Dell’s open networking](#) approach are well positioned for growth with continued investment and focus.
- **Internet of Things:** [Dell has made headway in the IoT space](#), creating an IoT business unit in 2015 with products such as IoT edge gateways and embedded PCs plus a growing partner ecosystem. As client computing evolves with new form factors and IoT devices drive a data explosion that impact the datacenter, it is important for Dell Technologies to continue to drive an IoT strategy with investments in new technologies and partnerships.
- **Open Software Initiatives:** VMware’s historical success in the datacenter serves as a strong foundation and customer base for future solution sales. As enterprise IT looks to the cloud for their future, Dell Technologies will need to balance the VMware portfolio with investments in open software initiatives to provide flexible options for hybrid cloud deployments. Both EMC and Dell have made headway in participation with open software movements to date, and this focus must continue under the Dell Technologies umbrella. This includes increased investments in OpenStack, container technologies such as Mesos and Kubernetes, provisioning capabilities like Puppet and Chef, and continued enhancements to PaaS offerings via the Pivotal portfolio of products.
- **Cloud-Agnostic Capabilities:** IT organizations want to ensure they have a full range of agile and flexible choices as they move to hybrid cloud models. Dell and EMC have hybrid cloud strategies that include their own private cloud offerings, integration with leading public clouds, deployment support for OpenStack, and application integration. It is important to avoid the perception of vendor lock-in with a VMware-centric strategy by continuing to enhance their interoperability strategy with OpenStack, other private cloud frameworks, and major public clouds like AWS, Microsoft Azure, and Google Cloud Platform.

Expected Customer and Ecosystem Benefits

In addition to their combined product strengths, Dell and EMC have a synergistic go-to-market strategy with Dell's historical strength in SMB along with EMC's strong reputation in the enterprise. We hope to see Dell leverage its historical strength in the hyperscale market with the DCS and DSS product lines to grow share in the service provider space. MI&S suspects significant overlap currently exists between the goals of the Dell and EMC sales and channel programs that will need to be rationalized and streamlined over the coming quarters.

We noticed at EMC World that EMC is very focused on selling customers the "buy" option, meaning EMC provides a complete system solution for their customers. But a large segment of the market wants the "build" option, where users have the flexibility to choose their hardware configurations and solution stacks. We think Dell's choices around "build" in the compute, storage, and networking arenas will help the combined entity provide a solution set that appeals to a wide range of customers.

Potential Impact of the Merger on the Competitive Landscape

The Dell and EMC merger could have a colossal impact on the industry. The combined company will have significant scale and be able to play in nearly every aspect of the datacenter and enterprise. It is yet to be seen if the company will use its immense size advantage as a strength or if it will make the company less nimble and unable to change at the pace the market requires. That said, our takeaway thoughts post-EMC World are that Dell and EMC both have a strong track record of integrations and acquisitions, and the executive teams appear to be aligned in a way that will set this acquisition up for success.

Dell Technologies' sheer scale has the ability to make Dell and EMC of greater strategic importance to customers. As IT organizations look to Amazon, Google, Microsoft, and others with leading edge technologies and deep pockets, Dell Technologies has the capability to thwart the threat of pure public cloud approaches with a more comprehensive hybrid cloud stack that is hopefully interoperable with other industry leading cloud stacks.

HPE prides itself on becoming more lean and focused after its split from the HP, Inc. business. HPE will have to use that nimbleness to find entry points to gain share if Dell and EMC experience stumbles through the merger. However, as the worlds continue to intersect between IoT, client, and datacenter computing, HPE may lose sight of the end-to-end infrastructure view if they lose deep insight into the changing world of client computing.

Cisco and EMC historically have had a strong partnership based on their history with VCE, and EMC sells a lot of Cisco switches and server hardware today. This business arrangement could be at risk long-term as SDN becomes enterprise-grade and scalable and as Dell EMC is able to fill these historical gaps in the EMC portfolio via Dell's server compute and networking technology.

Call to Action

Dell looks to be on track to acquire EMC and is expected to begin executing under one umbrella as Dell Technologies by the end of 2016. All of their customers are watching very closely as the two entities combine to create one new company. We believe if executed properly, Dell Technologies could be well positioned to help its customers transition to the cloud.

EMC World provided some clarity on the state of the acquisition and where Dell can help bring value to EMC in areas like the mid-market, high-volume rack and blade servers, more open solutions from Microsoft and RedHat, and of course, in open networking. Further, Dell's leadership in PCs and IoT initiatives bring insight into client computing and IoT models that will be key drivers for the datacenter requirements of the future.

Dell and EMC customers will still need to wait to see how the details unfold, but IT organizations who use products from these companies should evaluate what the combined portfolios may mean for their future IT strategy and provide feedback for Dell and EMC about product interest areas and future strategies.

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