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WEEKLY INSIGHT
Dell dives into printer market
Dell Computer, the vendor that some years ago revolutionized the personal computers market with its direct sales model, is now entering the printer market. In order to do so, the company has reached an agreement with Lexmark International to develop Dell-branded printers and supplies. The resulting products will start to be sold during the next holiday-shopping season. With this move, Dell emphasizes the diversification process initiated some months ago with the addition of networking switches, digital projectors and data storage switches to its portfolio. Moreover, Dell is trying to grab part of the unrivalled Hewlett-Packard market share and to compete in better conditions with other vendors’ bundles. Dell will apply its successful production on demand model, which is known for its ability to keep prices low on commodity computers. However, analysts observe it’s not proved this model can work in the printer market. From Reuters [Full Story]

Highlights
- Founded in 1984 by Michael Dell, the company, headquartered in Austin (Texas), bases its business model on selling computer systems directly to customers. This direct model eliminates retailers that add unnecessary time and cost, and allows the company to build every system to order at competitive prices. In just eight years Dell was included among Fortune 500 roster of world's largest companies.
- In 1994, Dell led commercial migration to the Internet, launching www.dell.com and adding e-commerce capability in 1996. The following year, Dell became the first company to record $1 million in online sales. Since 2001 Dell ranks No. 1 in global PC market share.
Revenue for the last four quarters totalled $32.1 billion. However, in the second 2002 quarter Dell has only registered $8.4 billion, an 11% down on the same period last year. Analysts justify this decline saying that strategically, the desktop PC market is not a good business.

Dell’s potential entry into the printer market had been scoffed by HP executives, who alleged it won't be able to match HP's research and development prowess or its connection with customers.

Press Review
From News.com
"Dell is going to face unique challenges that are not easily overcome. Not only do we have a successful model in place and a (intellectual property)-rich business, but we understand that growth will be fuelled by transformational plays in digital imaging, digital publishing and commercial services--areas where Dell does not have capabilities,' Diane Roncal, an HP spokeswoman, said in response to the Dell announcement Tuesday.

‘Dell could use the relationship to introduce blockbuster products, such as very inexpensive colour laser printers, or to give inkjet cartridges more bang for the buck', said Steve Baker, an analyst with research firm NPD Techworld.

‘People look at ink the way they do at tuna fish, paper and gallons of milk. People are pretty good about item price-shopping,' Baker said. 'If Dell's strategy is going to change (the market), it's going to have to be with products like a $20 full-size cartridge (which typically sell for $30 or more now) or very long-lasting cartridges. It has to do something that really changes the printer-ink relationship'."

From Knowledge@Wharton
"The problem with PCs is that they are a commodity. You can't make money selling computers for, what is it now, $599?' says Morris Cohen, professor of operations and information management and co-director of the Fishman-Davidson Center for Service and Operations Management. 'There hasn't been a killer app in a few years so if you stick to PCs you're selling a commodity with a shrinking price and a shrinking margin. Unless there's some technological push, it's like selling refrigerators.'

To cope, Cohen adds, Dell is looking to diversify its products and move into more profitable areas, including servers, communication switches and other sophisticated business systems. 'They have definitely set a standard for what you call the direct model. Now they are looking at their next generation of systems development and trying to extend and enhance their model throughout the full value-chain and supply-chain network'.

The choices, he says, are difficult. Sticking with the low-end PC business dooms Dell to tight margins forever. But moving more into high-end products, such as servers, puts Dell in a market glutted with competitors struggling with overcapacity following the Internet bust. 'The high-end market is promising but temporarily awful. The low-end is permanently awful. You don’t get a lot of benefit by avoiding the blood bath in the high-end, then going into the scorched earth of the low-end'."

From Business 2.0 (August 2002)
"To justify Dell's current valuation, you have to assume not only that Dell can keep taking market share from struggling rivals like Gateway and the new, not-necessarily-improved HP -- an assumption that’s probably reasonable -- but also that Dell will be able to make significant inroads into new markets -- not only servers and storage but printers and handhelds as well.

Trouble is Dell's seemingly magical 'direct model' may not prove quite so magical outside the PC business. In the PC biz, as Dell has shown, keeping inventory low can mean the difference between a profitable PC business (like Dell's) and an unprofitable one. But that's because PC inventories are so poisonous; a PC on the shelf goes bad faster than an overripe banana, losing value with stunning speed the moment it comes off the assembly line. Many observers seem to think that Dell can simply apply its fast and cheap formula to new businesses and reap a quick reward. While servers and storage are far less commoditized businesses than the PC business, they're similar enough to PCs for Dell's direct model to give it considerable cost advantages over rivals like, say, Sun, which has had trouble bringing its bloated cost structure into line with new realities."
Commentary by...
Lluís Renart, IESE professor

Printing problems
Dell, the most successful firm in PC sales, has just announced its intention to compete in the laser and inkjet printer market. Will it be able to succeed in these product categories? From a first impression, I'm afraid it will be difficult. For starters, competition in this kind of equipment is fierce. Small printer margins are very low and vendors base their business on the consumables. Hence, the retail price for a printer equipped with an inkjet cartridge is almost the same as that of the ink cartridge alone. It's something Gillette discovered many years ago: “We can give away razors in order to earn money later selling replacement blades”. However, Dell wants to enter this market together with printer vendor Lexmark. Will there be enough margin for both? And, in case there is, will they be able to overcome the many difficulties that this kind of alliance may face? Supply chain maladjustments, corporate culture clashes and an endless obstacle list too long to mention here. Yet even more difficult: Dell will have to face the omnipresent Hewlett-Packard. Besides an overwhelming advantage in all printing segments, HP leans economically and technologically on big format printer lines (so-called 'plotters'), in which it holds an outstanding 70% of the global market share. IBM tried for some time to scratch some share in this segment and had to abandon without success. On the other hand, it’s not so clear that printer sales, not to mention replacement cartridge sales, given their relatively low value, match very well the direct sales and the logistics model that Dell uses in the computer arena.

Success drivers don’t seem to be the same for the printer and the PC markets. Lastly, Dell’s decision seems to have been made, at least in part, for the sake of maintaining the price/benefit ratio of its stock shares at 35 times benefits. Given the present stock exchange situation it seems stratospheric. If Dell fails to dig into the printer market, we could see those shares falling during the next few months. Obviously I don’t wish this, but we will have to keep an eye on both its commercial and stock exchange evolution.

EBCENTER ARTICLE
Data protection forces up company expenses
By Joaquim Barberà, Research Assistant, EBCENTER
Governments are forcing companies to adopt measures to avoid cyber crime, guarantee security and protect personal data. [Full Story]

REPORTS
Web site errors are bad for companies
Tittle: League Table of the FTSE 100 Websites
Source: Business2www
Date: September 16, 2002
Abstract: Business2www evaluates periodically how FTSE 100 Corporate Website works. The last report points out that, in terms of the commercial damage, it was recently estimated that company website ‘crashes’ in the UK alone cost businesses over £500m in 2001, and that this figure will rise to nearly £750m in 2002. However, executives are simply unaware of the scale of the errors and problems in their websites, or the potential damage that these can cause to the company or institution from a commercial, legal, compliance, operational and/or reputation point of view. According to this analysis, only three out of the FTSE 100 websites are error free: Next, Associated British Foods and Enterprise Oil (part of Royal Dutch Shell). The Pearson Group web site is the web with most errors, followed by the British Telecom web site.
In addition to errors, Business2www takes into account server response time and download speed. The best web sites are Old Mutual, Bae Systems and Great Universal Stores. The EMI Group web site is number nine. Scottish Power, Reuters and Prudential hold the lowest three places.
[Full Story]

53% of companies will underspend their remaining budget this year
Tittle: IT Spending Survey
Source: Goldman Sachs
Date: July 2002
Abstract: Although Goldman & Sachs last survey about IT spending in USA showed some stability in the 2002 budget outlook, things appear to have worsened a little bit in the last two months. In all, 38% of respondents indicated that they expect their IT spending to be down for the full year, versus about 30% in our last two surveys. More than half (53%) expect to underspend their remaining budget this year.

According to the report, the top ranking IT spending priorities are information security, followed by application integration, cost cutting, infrastructure/system integration, disaster recovery/business continuance and new software application deployment/development.

The survey also points out which enterprise system/server providers are gaining and losing share of their IT spending dollars. Among the winners are Dell, Compaq and IBM. On the other hand, Sun Microsystems is the company that has lost most clients.

Half of U.S. Internet users have a television and PC in the same room
Title: Use of PC and TV
Source: comScore Media Metrix
Date: September 2002
Abstract: Lines between television and Internet media continue to blur, creating a major opportunity to reach consumers via simultaneous media delivery and interactivity. 48% of Internet users regularly watch television and have a television and PC in the same room. This analysis – which includes U.S. persons age 18+ who used the Internet from a PC in the first quarter of 2002 – also determined that among the 45.1 million wired adults that have television and PC in the same room, nearly half (47%) reported they frequently use the Internet while watching television, 29% reported occasionally, 18% reported rarely and only five% reported never doing so.

15% of those with a television and PC in the same room reported visiting a Web site about the television show being watched; 11% reported sending e-mail or chatting online about a show being watched; 11% reported searching for listings or television reviews; and 10% researching or browsing products featured on a television show or in an advertisement.

Conversely, 74% reported conducting other online activities unrelated to the television show being watched; and 52% reported using the computer for offline activities.

COMPANIES
Sony, a new PC giant
Japanese consumer-electronics giant is the fastest-growing major PC maker in the world. Sony has marched from its No. 12 spot in worldwide market share at the end of last year to No. 8 at the end of the second quarter. According to analysts, Sony mixes the operational excellence of Dell, some of the gaga design of Apple and some of the total solutions idea from IBM.

Yahoo! will offer games on demand
Games on Demand service let US portal users rent 40 different games from Internet. Yahoo! is hoping the service will bring more of the die-hard gaming community to its site and drive demand for the new broadband service through a partnership with SBC Communications.

Google to Launch News Search Site
The popular Internet search engine has created a new site for searching news called Google News, which will offer news from 4,000 English-language sources. Google will use the same basic technology it currently uses to rank search results in order of relevance. Initially, the news service will be free because the company wants to see what kind of demand the site generates before it considers possible ways to make money from it.

WE RECOMMEND
Wi-Fi, Negroponte’s bet
Wi-Fi technology will dominate wireless to the detriment of 3G, according to Nicholas Negroponte, the prestigious founder of MIT Media Lab. The famous guru’s reasons are diverse. On the one hand, 3G, in its most generous projections, will deliver data speeds of 1MB per second — in two years. Today, Wi-Fi commonly provides 11MB, offering up to 54MB.
Moreover, it can cover more than 20 Km with suitably directional antennas, thus it can reach places that do not have sufficient commercial value to justify classic infrastructure. On the other hand, 3G is still voice-centric.
Currently, it is estimated that there are 15 million Wi-Fi connections in the US, but prices have experienced a significant decrease since Negroponte signed a contract for this kind of service in 1997. The expert reminds us that this technology does not stop at the walls of the connected home and, far from worrying about warwalking, he describes a situation where more homes and buildings are connected, creating an environment where users can surf through Internet wherever. Negroponte compares that with a pond with one water lily, then two, then four, then many overlapping, with their stems reaching into the Internet.
Three things make this peer-to-peer structure so interesting: the viral growth; unlike mobile telephones, its performance increases with the number of nodes; and it has a lower health risk.
From Wired [Full Story]

Are you innovator?
Inc.com magazine publishes a series of articles which make an in-depth analysis of the men and women who are coming up with today’s market-transforming inventions. In addition to their inventions, the authors examine their personalities, their methodologies, their drive, and even their very brains. That is the case of Stanford Ovshinsky, a 79 year old inventor with 274 patents, who not only thinks in three dimensions but also in different colours. Most people, the article explains, think in two dimensions. The article insists that innovation is not an extraterrestrial phenomenon; it’s what we mortals do best. They also offer you the chance to calculate your personal "innovation quotient" by taking a special quiz. But don't fret if you score poorly, because as the authors say, to innovate is human.
From Inc.com [Full Story]

INTERESTING INFORMATION
2nd MEETING OF E-LEARNING
E-learning in today's companies: paths to new forms of training?
The e-business Center PwC&IESE contributes with the second meeting of e-learning that will take place on 23rd and 24th October 2002 in the IESE Barcelona campus. Roger Schank, Distinguished Career Professor at the Carnegie-Mellon School Of Computer Sciences and one of the most reputed experts in online education will be there. More than thirty national and international experts will explore the additional training possibilities that have been opened up with the use of new information technologies, particularly the Internet, and it will examine how leading businesses and academic institutions are incorporating these ideas into their training and learning programs. [More information]