

ESG Brief

Dell-EMC Customer Sentiment Analysis

Date: November 2015 **Authors:** Steve Duplessie, Founder & Senior Analyst; John McKnight, Vice President Research & Analyst Services; Bill Lundell, Senior Research Analyst

Abstract: ESG recently surveyed 202 senior IT decision makers at organizations that currently purchase from Dell and/or EMC Federation companies. This research found that customers are overwhelmingly positive about the possibility of a combined Dell-EMC, with 75% of respondents indicating that they view this pending merger of tech titans as a positive development for their firm.

Introduction

Ever since the October 12 announcement that Dell and EMC had signed a definitive agreement under which Dell would acquire the Hopkinton, MA-based technology stalwart, there has been no shortage of opinions and prognostications by industry insiders and observers—this firm included—about the relative merits of this transaction. While that discourse has its place, this brief will leave that conjecture for another day and will instead focus on what is arguably the only question that really matters: What do *customers* think this merger will mean for them?

To help answer this question, ESG conducted a snapshot survey of current Dell and/or EMC customers between October 26 and November 3, meaning that survey respondents had a minimum of two weeks to learn about the details of the announcement, hear both vendors' perspectives on the merger, consider media and industry observer commentary, and begin to digest what this could ultimately mean for their organizations. Survey respondents were primarily senior IT decision makers (C/VP/Director-level) at North American organizations that currently purchase from Dell and/or one or more EMC Federation companies or brands (i.e., EMC, VMware, RSA, VCE, Pivotal, and Virtustream). Respondent organizations included both midmarket (100-999 employees – 32% of respondents) and enterprise (1,000 or more employees – 68% of respondents) organizations. Please see the *Research Methodology & Respondent Demographics* section at the end of this brief for more details. Here's what we found out.

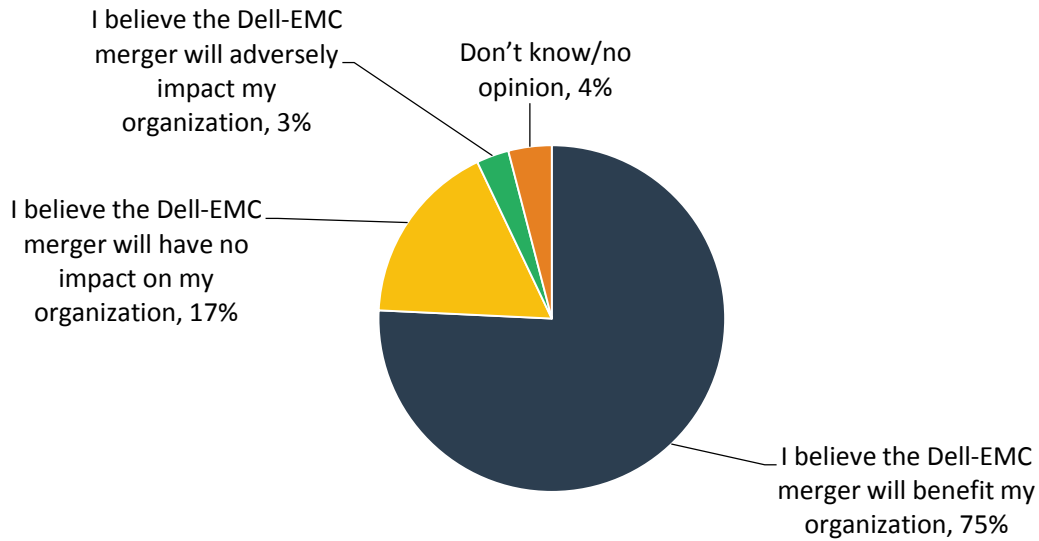
Customers Are Overwhelmingly Positive About This Deal

When asked to rate their current assessment of the Dell-EMC merger and what it could mean to their firm, three-quarters (75%) of respondents indicated that they believe the merger would be beneficial to their organizations (see Figure 1). As shown in Figure 2, current joint customers of the two firms (i.e., customers that buy from both Dell and some combination of EMC Federation companies) are most enthusiastic—84% of IT decision makers at these organizations believe that a Dell-EMC combination will be a net positive for their firms. To the extent that there is a pocket of skepticism, it lies with current EMC-only customers. Nine percent of these organizations say they believe the merger will adversely impact their organization. While this group represents too small a sample size for statistically significant further analysis, it is instructive

to note that the data shows that these organizations are most likely to be concerned about potential changes to their service and support models (more on that shortly), so these customers will need assurance that nothing will change when it comes to the lauded “white glove” customer service they’ve come to expect from EMC.

FIGURE 1. Overall Customer Sentiment Towards Dell-EMC Merger

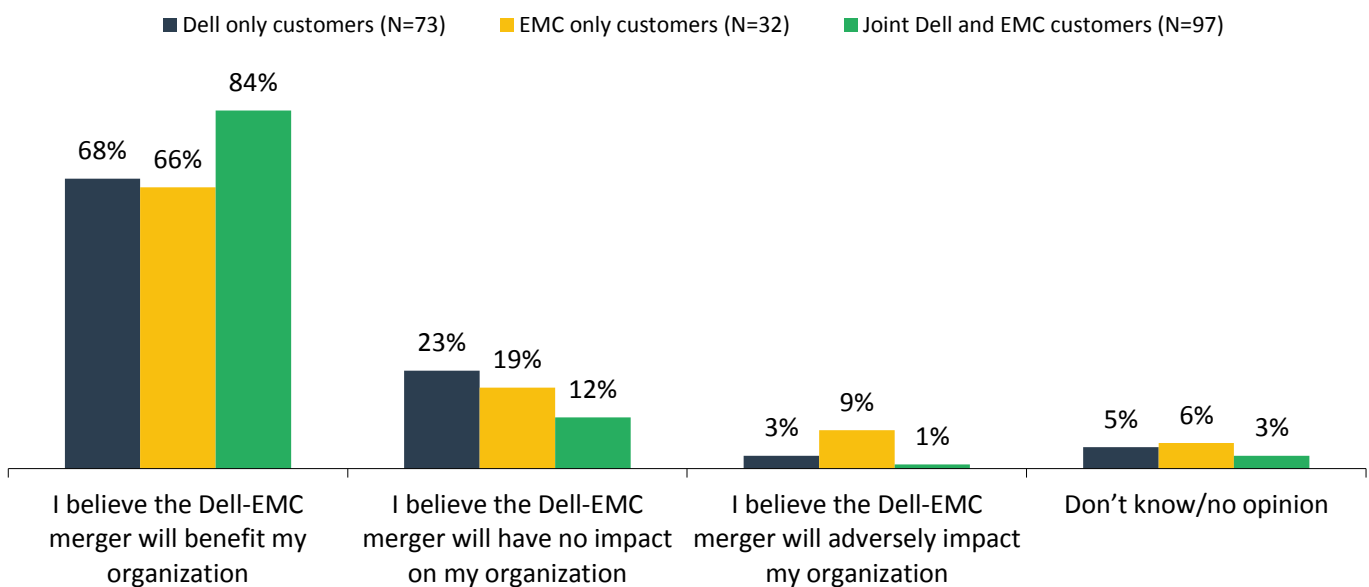
At this point, what is your assessment of the Dell-EMC merger and its potential impact on your organization? (Percent of respondents, N=202)



Source: Enterprise Strategy Group, 2015

FIGURE 2. Overall Customer Sentiment Towards Dell-EMC Merger, by Customer Status

At this point, what is your assessment of the Dell-EMC merger and its potential impact on your organization? (Percent of respondents)



Source: Enterprise Strategy Group, 2015

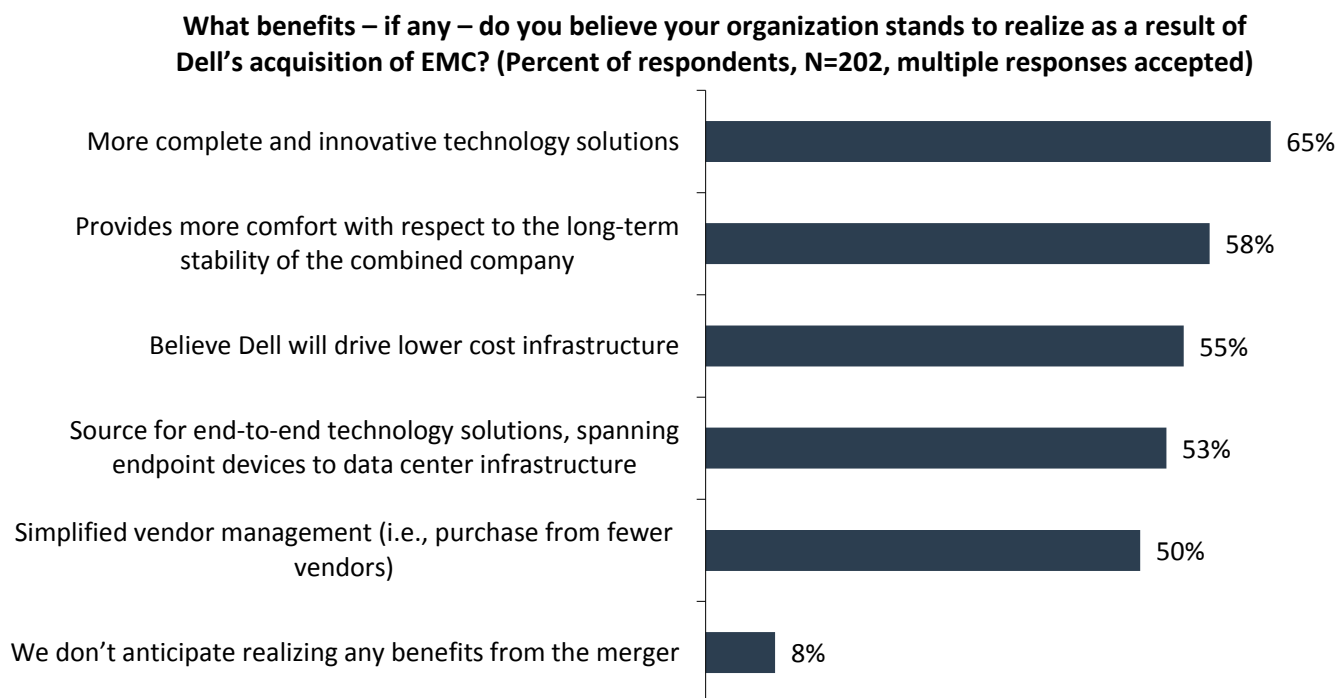
Expected Benefits and Customer Concerns

Why are current Dell and EMC customers so positive about the prospects of a combined company? Figure 3 shows that nearly two-thirds (65%) agree that the combination of Dell, EMC, VMware, RSA, VCE, Pivotal, and Virtustream assets should result in new and more innovative technology solutions. Note that ESG deliberately made a distinction between this response (and the idea of innovation) and the fourth most-cited response, i.e., that the new company would represent a single source for end-to-end solutions spanning the endpoint to the data center. While 53% of respondents view this breadth of offerings as a potential benefit, we find it significant that customers are more likely to expect an increased level of *innovation*. To the extent that Dell can deliver on this vision and harness the innovation coming out of EMC, VMware, and other Federation brands, that should bode well for customer loyalty to the new combined entity.

With respect to other expected benefits, customers also report an increased comfort level regarding the long-term stability of the new company. It's no secret that the tectonic plates of IT have been shifting significantly over the past few years (e.g., HP's split into two companies, IBM's ongoing business model transition, the rise of cloud entrants like Amazon Web Services (AWS), high-profile activist shareholder pressures, and so on), so customers have had to contend with a considerable degree of uncertainty and speculation. While the Dell/EMC of 12 and 24 months from now will clearly not look like the company(ies) of today, as markets, products, and organizations are rationalized, ESG interprets this survey data as customers recognizing that the new entity should be a large, viable, and stable supplier for years to come.

Finally, from a more tactical but equally valuable perspective, 50% of survey respondents cited simplified vendor management as a potential benefit of this transaction. This was particularly important to senior IT managers at joint Dell-EMC customers: 63% of these individuals cited simplified vendor management as a key benefit.

FIGURE 3. Expected Benefits from Dell-EMC Merger



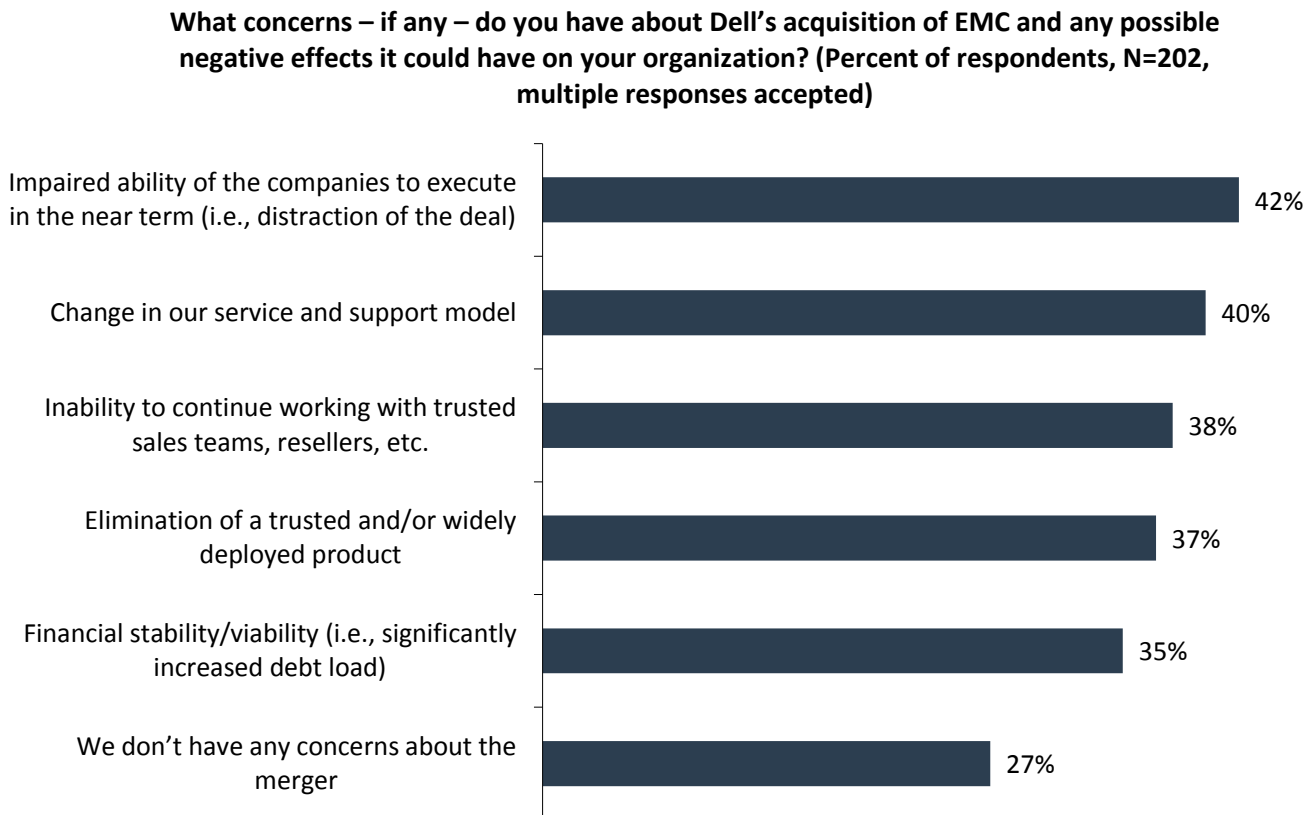
Source: Enterprise Strategy Group, 2015

While customers are generally positive about the prospects of a combined Dell-EMC, any corporate merger of this size will nevertheless present challenges and potential areas of concern for customers. As shown in Figure 4, survey respondents—

regardless of whether they are positive, negative, or neutral towards this deal—are most concerned that the mechanics of the merger will represent a distraction that impairs both companies from executing effectively. More specific concerns involve any potential changes to service and support (cited by 42% of respondents), possible disruption to customers' trusted "front-line" contacts—i.e., their sales representatives, system engineers, channel partner of choice, etc. (38%), and fears that the status of a currently-deployed product may be altered during the portfolio rationalization process (37%).

Twenty-seven percent (27%) of respondents report having no concerns with the merger, compared to just 8% who did not identify any potential benefits (see Figure 3).

FIGURE 4. Customer Concerns with Dell-EMC Merger



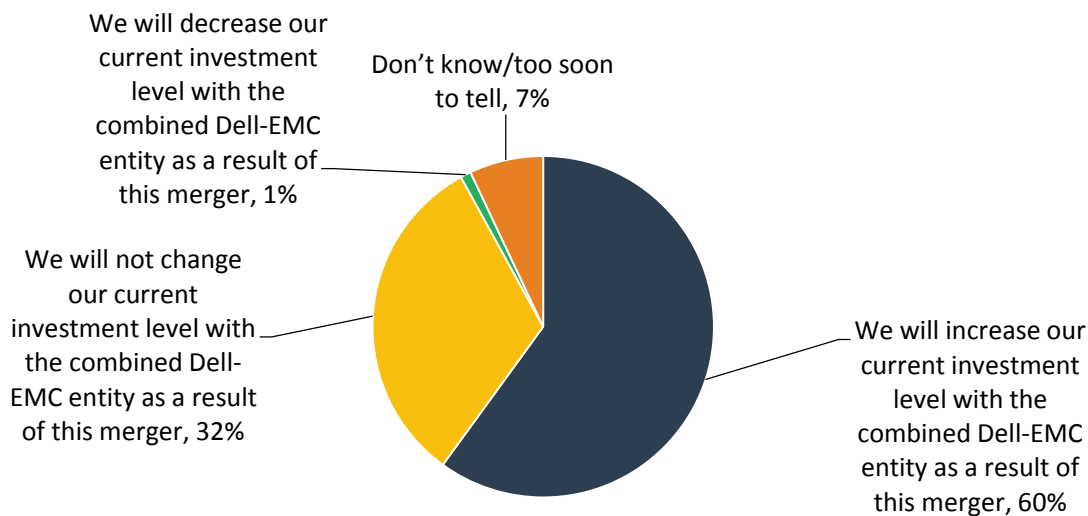
Source: Enterprise Strategy Group, 2015

Buyers Will Put Their Money Where Their Mouth Is

If current Dell and EMC customers think the merger will be a net positive for their organizations, expect new and innovative solutions, and report a greater comfort level with respect to the long-term stability of the new entity, will they continue to purchase from, or even increase their spend with, Dell and EMC brands? The results of ESG's initial customer poll reveal that the answer is a definitive yes. Assuming of course that the transaction closes, 92% of customers would expect to *increase or maintain* spending levels with the combined company in the long run (i.e., over the next 36 months), with a considerable 60% looking to increase spending (see Figure 5). Once again, joint customers are most likely to report stable or increased spending: 96% of joint customers say they expect to increase or maintain spending with Dell and EMC brands over time, with 72% of these customers reporting that they are likely to increase their investment levels with both firms.

FIGURE 5. Expected Spending Change with the Combined Dell-EMC

Relative to your typical level of annual spending with Dell and/or EMC, to what extent do you believe that your organization's spending with the new combined entity will change over the next 36 months? (Percent of respondents, N=202)



Source: Enterprise Strategy Group, 2015

What about VCE?

One of the more interesting subplots and points of debate/speculation surrounding this merger is the impact that it may have on the future of VCE, the EMC converged infrastructure company still partially owned by Cisco. Will the new Dell-EMC replace Cisco hardware with Dell alternatives? Is this the end of VCE as we know it? Consistent with ESG's objectives for this survey, we wanted first and foremost to understand the customer perspective on this issue—in particular, their preference (if any) for one vendor's infrastructure components over another's. To this end, we asked respondents a simple question: *If Dell infrastructure was offered as an alternative to Cisco infrastructure, how would that affect your organization's decision to buy a VCE solution?*

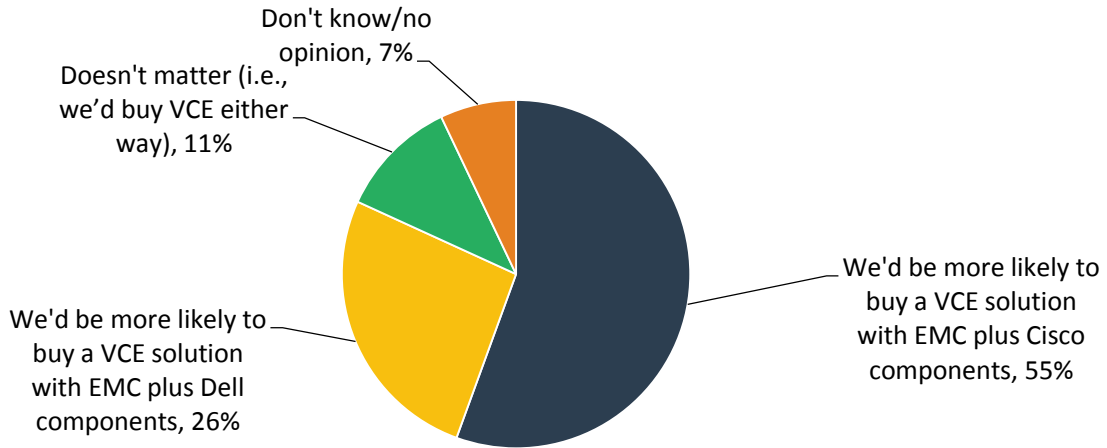
As shown in Figure 6, there is a clear preference for Cisco hardware: 55% of all respondents say they would be more likely to purchase a VCE solution with a combination of EMC and Cisco components, while 26% say they would prefer a combination of EMC and Dell hardware. Eleven percent (11%) say that they have no preference and would purchase both solutions. Figure 7 reveals that current vendor relationships are playing a key role here—i.e., while Dell-only customers (which skew more towards midmarket firms) indicate a more modest preference for Cisco over Dell, current EMC and joint customers (which skew towards enterprise firms) are more steadfast in their desire for an EMC-plus-Cisco solution. Most dramatically—and unsurprisingly—Figure 7 demonstrates that the vast majority (83%) of current VCE customers report a preference for the status quo (which makes sense given that these customers have already made their bet and deployed an EMC-plus-Cisco configuration).

ESG believes this data sends a clear message with respect to VCE: The customers have spoken. And while a sizeable component would consider non-Cisco solutions, the majority still favor the original VCE formula. Given that they are three of the smartest and most customer-centric vendors in the industry, we believe that Dell, EMC, and Cisco recognize this reality and will remain committed to offering choice to VCE/converged infrastructure customers for the foreseeable future. There simply is no reason to change. The profits generated by the multi-billion dollar VCE business far outweigh any upside associated with forcing an alternate strategy on customers—VCE customers are already huge Cisco customers, EMC customers, and VMware customers. A Dell-based set of offerings would simply be additive to the product line, offering

extensibility to existing VCE customers in new areas, and opening up entirely new market opportunities for non-VCE customers. VCE is largely, and successfully, sold at the top of the customer food chain—in large enterprise accounts where all three vendors have significant footprints already. There is no logical reason for any of the parties involved—Dell, EMC, or Cisco—to upset the proverbial apple cart in this market.

FIGURE 6. VCE Infrastructure Preferences

If Dell infrastructure was offered as an alternative to Cisco infrastructure, how would that affect your organization’s decision to buy a VCE solution? (Percent of respondents, N=202)

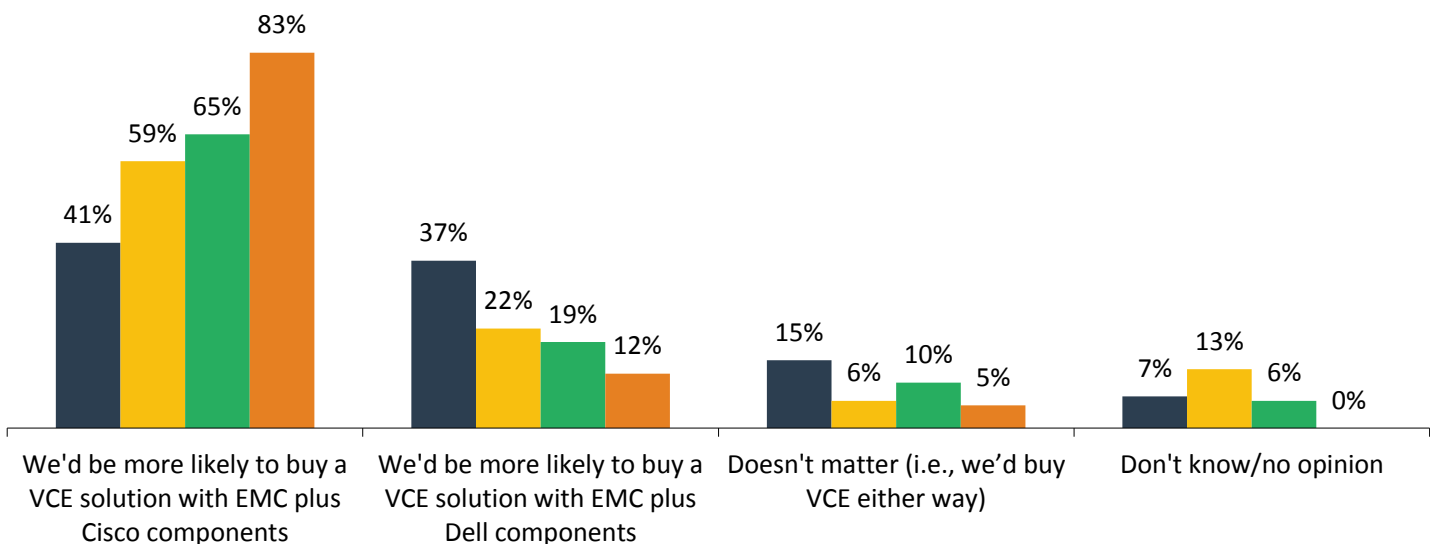


Source: Enterprise Strategy Group, 2015

FIGURE 7. VCE Infrastructure Preferences, by Customer Status

If Dell infrastructure was offered as an alternative to Cisco infrastructure, how would that affect your organization’s decision to buy a VCE solution? (Percent of respondents)

■ Dell only customers (N=73) ■ EMC only customers (N=32) ■ Joint Dell and EMC customers (N=97) ■ VCE customers (N=42)



Source: Enterprise Strategy Group, 2015

The Bigger Truth

As we write this brief, we are still many months away from Dell's acquisition of EMC officially closing. Regulatory hurdles have to be overcome and a lot of hard work lies ahead as strategies are formulated, organizations aligned, and products rationalized. During this period, customers will undoubtedly need lots of attention and both Dell and EMC must be proactive with constant, consistent, and clear messaging with respect to the new entity's future plans. Nevertheless, this research data clearly indicates that—at this point—customers are optimistic (and perhaps even enthused) about the prospect of a combined Dell/EMC. It is certainly safe to say that customers are *not* reporting high levels of skepticism or discouragement. The obvious but important caveats to this particular data set are a) many of the questions are clearly predicated upon the transaction actually closing and b) this data represents the attitudes of the current Dell-EMC installed base. While retaining and growing these customers will be critical to the new firm's success, its aspirations will not stop there. As the new Dell-EMC looks to steal market share from incumbents such as HPE and IBM, and fend off encroachment from cloud entrants like AWS (among others), its ability to foster the levels of interest described by respondents in this brief with these non-customers will be essential.

Research Methodology & Respondent Demographics

The data presented in this brief is based on an online survey of 202 North American (US & Canada) IT professionals conducted by ESG between 10/26/15 and 11/3/15. To qualify for this survey, respondents were required to be IT professionals responsible for/familiar with their organization's IT infrastructure and strategy. Respondents were also screened for IT purchase authority and/or influence. Additional details on the respondent base are included below.

Survey respondents by title:

ESG targeted senior IT executives for this survey, although qualified IT managers and staff titles were also accepted.

- 69% senior IT management (e.g., CIO, VP of IT, Director of IT, etc.); 24% IT management; 7% IT staff

Survey respondents by company size:

- 68% enterprise organizations (1,000+ employees); 32% midmarket (100-999 employees)

Survey respondents by customer status:

All respondent organizations were required to be current customers of Dell and/or one or more EMC Federation companies or brands (i.e., EMC, VMware, RSA, VCE, Pivotal, Virtustream)

- 48% Dell and EMC customers; 36% Dell-only customers; 16% EMC-only customers

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