
Dell's EqualLogic Buy A Boon For Mid-Market & SMB Storage Buyers

Date: November 2007

Author: William P. Hurley

Title: Senior Analyst

Executive Summary: The acquisition of EqualLogic immediately benefits SMB & mid-market storage buyers, and of course Dell, as it explodes the limited options and price-points for innovative yet dependable storage solutions. The deal will test the metal of Dell's 6 year long, SMB focused partnership with storage giant EMC. The acquisition price paid by Dell is nearly a steal as the technology categories EqualLogic plays in are among—and will remain—the fastest growing in all of high tech.

The News

Dell, Inc. has announced the acquisition of EqualLogic, a Nashua, NH based storage maker, in an all cash transaction of \$1.4 billion. Dell, the hardware brand most closely identified with SMBs and the mid-market, has realized mixed success with data storage and data management products thereby limiting its ability to maximize its revenue and market-share opportunities. 6 years ago Dell linked its fortunes to those of EMC, choosing to kill products that were driving its server customers to seek storage alternatives from other vendors. Dell realized high profile if not high margin success as a reseller of EMC's storage arrays and management tools—and more recently VMware virtualization. There is no doubt that the EqualLogic buy will stress the Dell/EMC partnership. It should, however, cement a more fruitful relationship with EMC subsidiary and growth phenomenon VMware.

The Analysis

The name of the game for server makers that also make and/or resell storage systems is attach rate. Attach rate is a ratio that describes the percentage of servers sold with that vendor's storage systems bundled or "attached." Attach rate is a critical measuring stick wielded by corporate masters over storage lines-of-business within diversified systems vendors. Dell partnered with EMC in 2001 to remedy its attach rate shortfall. Though at times rocky, the relationship has proven sufficiently fruitful for both vendors that they re-inked the partnership arrangement in 2006.

Breakaway Information Group

However, as rewarding as a “fruitful relationship” maybe, maximizing market share in not one but two technology categories experiencing explosive growth is critical to any vendor--Dell included. These growth categories are virtualization and iSCSI storage. iSCSI is an Ethernet- and Internet Protocol-based alternative to Fibre Channel. The complexity, real and perceived, of deploying and operating EMC arrays and the cascade of expensive, *a la carte* data and system management tools nipped at the margin and market share potential that Dell executives saw in its core markets.

In EqualLogic Dell gains an immediate leg-up in its core markets, being the SMB and mid-sized Enterprise. These markets make-up a significant though underserved portion, of the consumer-base for standard’s based technologies that deliver economies of scale with reduced operating costs. EqualLogic’s iSCSI-based, high performance, virtualization-enabled arrays have led to a rate of growth for EqualLogic that is nearly double that of the red-hot iSCSI category itself. Furthermore, the robust nature of EqualLogic’s arrays open the door to more new system sales opportunities with Enterprise-class buyers--buyers who are well-staffed and sufficiently savvy to select storage solutions independently from server or other technology purchases.

For its part, EqualLogic and its investors are rewarded with a handsome payday even after having filed with the SEC to IPO the company. Even though Dell is notoriously parsimonious, the combined market opportunities now within Dell’s reach should loosen the purse-strings toward keeping EqualLogic’s technical innovation thriving. A failure to sustain EqualLogic’s innovation will hinder Dell’s near- and long-term success given the anticipated level of acrimony experienced by a truly surprised long-term partner in EMC, as well as the many other hungry stake-holders in these markets being HP, IBM, Network Appliance, and Compellent among others.

The Takeaways

- Dell’s acquisition of EqualLogic will improve systems sales revenues, improve attach rates and drive higher levels of enthusiasm for Dell throughout the channel.
- Dell’s unambiguous presence in the virtualization and iSCSI markets will have a commoditizing effect on margins for all players, while ballooning the overall addressable market opportunity for all vendors.
- End-users can now confidently rely on another vendor as they seek to standardize their expanding Ethernet and virtualized storage and server infrastructure.
- Commoditization will benefit price sensitive, SMB and mid-market storage buyers.
- Dell must leverage EqualLogic’s entrepreneurial executives as it now has “skin in the game” with hot yet novel technologies, a novel position for Dell.
- Independent storage vendors such as Network Appliance and Compellent will benefit as iSCSI & virtualization technologies are validated by this \$1.4 billion acquisition.
- EqualLogic now avoids the challenging financial circumstances faced by Isilon and other long-time “start-up” companies that have recently IPO’ed.