MARKET NOTE

Dell Fine-Tunes Its Offers for Flexible Consumption 3.0

Susan G. Middleton

EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: Dell Fine-Tunes Its Offers for Flexible Consumption 3.0

This IDC Market Note provides a summary of the Dell teleconference call on April 4, 2019, to discuss updates to its loyalty program and flexible consumption models. This IDC Market Note focuses on the updates to the flexible consumption models.

Key Takeaways

- Dell's continued investment in these models is a testament to the customer demand for new procurement models that are opex based.
- IDC applauds Dell's move to offer more options and flexibility for base capacity levels as this is one of the requirements for IDC's definition of Flexible Consumption 3.0.
- IDC research shows that customers' adoption of these flexible consumption models is increasing because of the agility, transparency, and simplicity of these models, but the transition from legacy IT infrastructure to the new models continues to delay the adoption cycles for some customers.
- As more vendors and providers enter this expanding market, customers will measure vendors and service providers on not only the flexibility of the programs but also the efficiency of their dashboards and metering. Dell has a great opportunity through its partnerships with VMware and Virtustream to deliver on these attributes.

Source: IDC, 2019

IN THIS MARKET NOTE

On April 4, 2019, Dell hosted an analyst call to discuss updates to its loyalty program and flexible consumption models. This IDC Market Note focuses on the details of the updates to the flexible consumption models.

IDC'S POINT OF VIEW

The increase in demand for flexible consumption models has been well documented at this point, and IDC's research continues to underscore the growing demand for these models. IDC expects that by 2023, "60% of enterprises will use flexible, lower-cost IT consumption models that leverage centralized IT asset depots jointly run by hardware suppliers and collocation providers" (see *IDC FutureScape: Worldwide Datacenter 2019 Predictions,* IDC #US42582518, October 2018). Dell understands the nexus of this demand for opex models and, by its own metrics, has experienced 35% growth from 2009 to 2019. With over $2+ billion in assets deployed in over 40 countries, Dell's growth in this area is proof of the staying power of these models, and as a result, it continues to focus on three key areas of its flexible consumption offers: Pay as you Grow, Flex on Demand, and Data Center Utility.

Recently, Dell addressed new areas of opportunity in this market by updating key features of its Flex on Demand offer:

- Pay a single rate for all deployed capacity to ensure that customers committed pricing is competitive and they don't pay for idle capacity
- Scale up and down as needed with elastic capacity
- Multiple options at the end of usage term — customers can opt to go month to month, extend the term, or return the equipment

In the details is where Dell has done some fine-tuning about the Flex on Demand offer. Dell is offering ratios depending on the equipment type and targeting market opportunities like Hyperconverged Infrastructure (HCI), which is the foundational infrastructure for the Dell technology cloud. For example, offering different base and flex ratios for both HCI compute and storage allows customers enhanced flexibility than may be required for workloads and data. Variations in base and flex ratios provide an additional level of granularity that removes the one-size-fits-all option.

Specifically:

- For storage, the commitment thresholds are 40–80%.
- For HCI, the commitment thresholds are 60-80%.
- The deal commitment is $100,000.
- The term length varies from 36 months to 60 months.

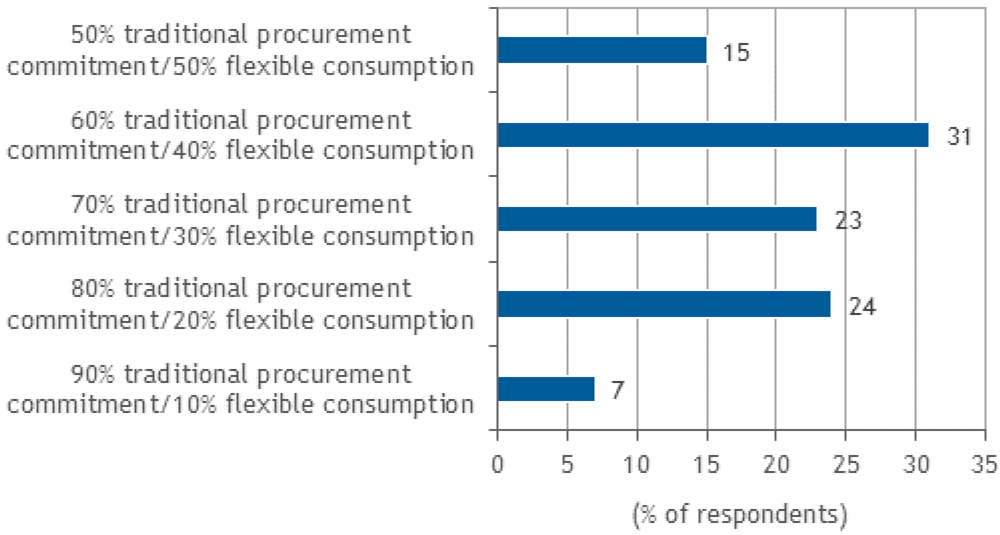
IDC research underscores that customers are embracing these models because of the simplicity, flexibility, and agility of these programs. Dell adopted these key themes by modifying these models to ensure customers get the performance and capacity they need but pay for only what is used. Adjusting the base and flex ratios is another important step in the evolution to true flexible consumption models because it addresses how the customer wants to consume, instead of a ratio that reduces the OEM's risk.

Interestingly, IDC's August 2018 *IT Procurement Trends and Consumption Models* indicated that the preferred ratio for base versus flex is 60:40, an improvement over the typical 70:30 offers from OEMs (see Figure 2). Dell has taken these ratios one step further by offering even more choices.

FIGURE 2

Preference for Minimum Capacity Requirements

Q. When procuring equipment, which ratio best describes your company's preferred minimum capacity commitment for a flexible consumption model?



n = 300

Source: IDC's *IT Procurement Trends and Consumption Models,* August 2018

Outlook

One of the key themes of our research about the evolution of flexible consumption models is that, as the market adoption increases, the attributes of the models are changing too. According to IDC, a flexible consumption offer, at a minimum, must have the following three attributes:

- Metering
- Ability to flex up and down with predetermined base and flex ratios
- Defined term length

In 2018, the market has evolved to what we call Flexible Consumption 3.0. During our 2019 Directions presentation, we discussed this trend in depth and focused on the following attributes as necessary to remain competitive in this space:

Key attributes of Flex Consumption 3.0:

- Hybrid cloud model with on-premise and off-premise managed by one provider
- Metering and dashboards available and integrated into all customers access points (sales portals, mobile)

- Ability to flex up and down
- Any configuration of base and flex requirements
- Any month term length
- Subscription-like model (no ownership)
- Option to walk away
- Clear pricing provisions
- New entrants to space include distributors, SIs, partners, AWS Outpost

IDC believes that Dell's latest updates to its flexible models focus on some of the key attributes outlined previously and are adjusting the models to meet customers' evolving needs. Dell's continued investment in these models is a testament to the customer demand for opex-based procurement models, and IDC applauds Dell's move to offer more flexibility and choices for capacity levels. Dell and all players in this space will need to continually adjust models to respond to this rapidly changing market, specifically in areas of dashboard and metering to provide true transparency. IDC believes that in this area, Dell has a great opportunity to develop robust dashboard and metering platforms through its partnerships with VMware and Virtustream.

Overall, with this latest announcement, Dell has demonstrated that it is prepared to embrace the attributes of Flexible Consumption 3.0 and is well positioned for continued success.

LEARN MORE

Related Research

- *Asset Procurement: Why Flexible Consumption Models Are Disrupting Buying Behaviors* (IDC #DR2019_T6_RB_SM, March 2019)
- *The Impact of Flexible Consumption Models on the IT Procurement Process* (IDC #US44382218, October 2018)
- *IDC FutureScape: Worldwide Datacenter 2019 Predictions* (IDC #US42582518, October 2018)

Synopsis

This IDC Market Note focuses on the details of the updates to Dell's flexible consumption models.

"IDC believes that Dell's latest adjustment to its flexible models focuses on some of the key attributes of Flexible Consumption 3.0 and are adjusting the models to meet customers' needs. Dell and all players in this space will need to continually adjust models to respond to this rapidly changing market." – Susan G. Middleton, research director, Technology Financial Strategies

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