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PC WEEK

Inside

ONLINE business.pcweek.com

DECEMBER 16, 1996

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FORWARD SPIN

The Web is the perfect place for the same sales schemes used to sell soap, herbal remedies and facial cream.

Amway Of The Web

BY DENNIS ESKOW

Pssst. Wanna make a killing? Point your browser at InterGO Communications' World Wide Web site (www.intergo.com) and click on the button marked, appropriately enough, Easy Money. Then just sign up your own Web site to display a link to InterGO's. And guess what? Each time someone buys a copy of InterGO's $49.95 Internet software suite via your URL, you get a five spot. Better yet, if you get other Web-page owners to link to InterGO, you get two bucks more for each sale they nab.

Now sit back, relax and prepare, as InterGO itself says, to "retire to an island in the Pacific."

Whatta life. Maybe. And then again, maybe not. In its respectable form, InterGO's setup represents a sales model that has kept the likes of Mary Kay Cosmetics in the pink. Salespeople recruit other salespeople who recruit still others, on and on for several tiers—with those above earning commissions on those below. If it sounds like a pyramid scheme, the approach, in its more disreputable moments, can be just that. Even if it doesn't get you a life of leisure in Tahiti, InterGO's tiered marketing scheme is still worth watching. The reason: It's one of the first attempts to bring multilevel marketing—MLM—to the Internet. InterGO's effort appears fully legit. In fact, others may soon follow. Even consumer guardians admit the Web may be tailor-made for MLMs. "The Internet opens some intriguing opportunities for legitimate networked marketing," says Joseph Goldberg, a Pennsylvania assistant attorney general who's prosecuted several MLM scams.

InterGO conceived its MLM program thanks mainly to the mother of invention—necessity. Its Internet interface—a

(See **Amway,** *Page* A4*)*

Photo: Alfred Gescheidt/The Image Bank; Photo Illustration: Stephen Anderson

BILLBOARD: Thanks to NT and the Pentium Pro, the business PC market will enjoy a growth spurt of up to 20 percent by the end of the year.

Signs Of Life

Outlook After a terrible first half, the business PC market is soaring up and off the charts. Now Compaq, HP and a newly revived IBM are ready to give the direct vendors a pasting.

BY BILL SNYDER

Less than a year ago, the commercial PC market was as dull as a road trip to Toledo. It seemed like nobody had come up with a fresh idea in years and sales were actually shrinking. But not any more. Fueled by Windows NT and the Pentium Pro, a long-awaited upgrade cycle is getting under way that promises to be one of the biggest in years.

And the signs of that dramatic turnaround are as easy to read as a 40-foot billboard on the freeway. PC sales to U.S. corporations, which were off as much as 11 percent in January, are back up. Growth this quarter will hit a healthy 15 percent or 20 percent, and next year could be even better, says Computer Intelligence analyst Matt Sargent. Another telling sign: shrinking inventories. Instead of worrying over warehouses filled with rapidly aging components and systems, vendors, particularly notebook makers, say they can't build systems fast enough to keep pace with orders.

The fourth-quarter bump is the leading edge of an upgrade cycle that should extend into mid-1997 and probably beyond. Why now? In part, the answer is simple economics. Many companies depreciate hardware over three or four years, so it's time to replace the aging armada of underpowered 486s and low-end Pentiums. But there's a technological impetus at work, too. "Windows 95 caused confusion," says Compaq Senior VP Michael Winkler. "IT managers weren't sure what card Microsoft was going to play." But no one's confused anymore—NT, not Windows 95, is the enterprise solution. "We think that 35 percent or 40 percent of the desktops sold into corporate accounts in 1997 will run NT," says analyst Peter Kastner, of Aberdeen Group. And clearly the processor of choice for NT will be the Pentium Pro, which was designed with a 32-bit operating system and apps in mind.

Important as they are, the market projections tell only part of the story. The move to more complex, enterprise-oriented technologies and widespread concern over the escalating costs of maintaining networked PCs present an opportunity. But not for everybody. The most sophisticated com-

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Life

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panies—IBM, Compaq and Hewlett-Packard—will have a chance to distance themselves from the direct vendors and the lower-tier "box pushers." And the smaller vendors know it. "The cost of ownership issue has really raised the bar for us," admits Norman Choi, Acer America's director of product marketing for commercial systems. "We know we can't just compete on price."

Moreover, IBM, Compaq and HP are learning to move a lot faster as they take dead aim at the speediest vendor of all—Dell Computer. "We're going to make the indirect model as efficient as the direct model," says Compaq's Winkler. It's a shot worth taking—the high velocity business model keeps cash and products flowing at top speed. But catching the Texas flash won't be easy. Dell turned over its inventory an astonishing 29.1 times in the last quarter, compared to 9.2 for Compaq, which hopes to boost turns to about 15 next year. Nevertheless, Dataquest analyst Scott Miller says Dell needs to watch out: "They're all working fast and furiously to increase velocity. As they do that, it will take some of the value proposition away from Dell," Miller says.

Pokey old IBM has turned a manufacturing disaster zone into a competitive advantage. "It hasn't performed like this in years," says longtime IBM watcher Sam Albert. The revolution began when Richard Thoman (now IBM's CFO) began consolidating IBM PC Co.'s far-flung U.S. manufacturing sites into one in 1994. But an even more profound change occurred this year: IBM's unmanageably wide product line has been slashed from 1,634 SKUs in April to about 70 today, says IBM desktop czar Rodney Adkins. "Reduced complexity ripples through the entire business," he says. "It affects everything from parts procurement to inventory management and our relationship with the distribution channel."

IBM's marketing people insisted they needed the broad product line, says Bill Amelio, IBM's vice president of re-engineering. But he got the facts: "Eighty-nine percent of our sales came from just 40 models," he says. In June, Amelio said he expected the results of the sweeping changes at the PC Co. to become evident by the end of this year. In fact, the difference was obvious by the end of the third quarter, when the company leaped past Dell and into second place in the U.S. business market, behind only Compaq. IBM's share of the market (including desktops, notebooks and servers) jumped to 12 percent, up from 9 percent the year before, according to IDC analyst John Brown.

The lesson of IBM's rebound has not been lost on the rest of the industry. "Increasing velocity is at the top of our list," says Emilio Ghilardi, HP's marketing manager for commercial desktops. By spring, he says, HP will reduce the number of SKUs in his division by about 20 percent, compared with late 1995. Not only does HP have fewer SKUs, the ones that remain will have a sharper focus. Its Vectra desktops, for example, have been segmented into mainstream and performance.

But balancing the needs of vendors, users and resellers is tough. Users expect a panoply of systems and configurations. The vendors want to simplify. And the channel is caught in the middle. "Manufacturers build to forecast, but we in the channel ship to order. At times, there's a huge gap between the two," says Glenn Miller, VP for strategy and research at Entex, the Rye Brook, N.Y., reseller and service provider. So some vendors now allow channel partners to assemble systems from components supplied by the OEMs. Entex is already shipping thousands of fully configured IBM PCs from its center in Erlanger, Ky., and is in talks with Compaq, which is likely to let the channel assemble at least some of its machines.

BIG BLUE 'It hasn't performed like this in years,' says longtime IBM watcher Sam Albert.

Racing to get systems out the door is critical, but speed alone won't determine next year's winner in the business computing wars. The winners will be the companies that make it the easiest for users to move to NT while reducing the cost of operating a networked PC. "Thinking about this issue is beginning to pervade our entire product line—as well as our customers' lines," says Intel Executive VP Frank Gill. And well it should. Although many insiders think Gartner Group's often-quoted estimate of $13,000 a year to buy and maintain a PC is too high, there's no doubt that TCO (total cost of ownership) is the buzzword of the year. "You actually get sick of hearing about it," jokes one PC company exec.

Boring or not, the issue is on the table. "For years, we [vendors] pushed the market to buy more power. But now the market is pushing back and saying, 'How can you save me money or make me more efficient?' " says HP's Ghilardi. What is HP doing to answer the call? The company's new commercial desktops allow system administrators to remotely control configuration attributes of scores of PCs at the same time, and more importantly, ensure that users confine themselves to an approved list of software. HP claims that implementing those changes, along with some other modifications, allowed it to reduce its own annual PC operating costs by $200 million.

HP has an answer to the network computer, too. It's planning to introduce by midyear a stripped-down, "task-oriented" PC aimed at workers whose jobs require only limited computational power, says Duane Zitzner, VP and general manager of HP's Personal Information Products Group. The still-nameless device will be based on the NetPC initiative now being developed by Microsoft.

IBM, meanwhile, allied with Intel in October to reduce support costs of networked PCs. In the first stage, Intel will incorporate Wake On LAN (remote boot capability for network administrators) into its LAN adapters and LANDesk Client Manager software. IBM will incorporate the Intel LAN products into its Pentium and Pentium Pro commercial desktop lines early next year. Intel, says Gill, has been working on manageability for at least four years. But "with the NC crowd screaming about cost of ownership at the top of their lungs, we've gotten really energized about this issue," he says.

Intel's push to make manageability part of the motherboard will make it somewhat easier for vendors that aren't able to develop sophisticated software to hold their own on the TCO issue. And thoughtful engineering, says Acer's Choi, can do a lot to make PCs cheaper to manage. "We make our machines very MIS-friendly, with features like a toolless chassis and a rear-accessible drive tray." Those may sound like small beer compared with the big software packages offered by HP and IBM, but LAN managers say those features really matter. "Much as I would love to stop playing with the innards of my PCs, I'm inevitably forced back inside for this or that, and I would be forever grateful to the OEM that makes the trip painless," says Ruth Reed, a systems administrator for The Partners Group, an insurance brokerage in Austin, Texas.

Painless? Not yet. But hitting that target is well worth the trouble, because the prize keeps getting bigger. Last year, corporate PC sales topped $29 billion, nearly double the home market. And this year, corporate sales in the first nine months of the year were just under $27 billion, according to Dataquest. Now a lot of people are starting to fret over holiday PC sales now. But so what? It's going to be a great New Year for those who can follow the signs to the suddenly not-so-boring business market.

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Amway

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browser, dialer, address book, E-mail engine and other such utilities—put the two-year-old Plano, Texas, developer and its $1 million in annual sales up against Microsoft and Netscape. As you might expect, the issue was getting attention—and getting it on the cheap. The Web-based MLM was just the way to do that. "We saw the MLM as a way to get cross-referenced links from a lot of sites for little or no up-front investment," says Lyle Griffin, InterGO's 35-year-old founder and former Micrografx CTO.

InterGO isn't the only high-tech company to embrace multilevel marketing. Hand Technologies, an Austin, Texas, company headed by former Dell marketing guru Andrew Harris, has some 600 people in a three-tiered MLM network selling brand-name hardware and software—and making commissions of 1.5 percent to 15.5 percent a sale, depending on their place in the hierarchy. Three-year-old BrightIdeas, of Beverly, Mass., has been so successful at selling educational software via its 600-person MLM network that it recently attracted a minority investment from book publisher Addison-Wesley. BrightIdeas has no plans to transplant the approach to Web. But Hand does, sometime next year perhaps, after expanding its presence in the Northwest and Northeast.

MLM experts are actually surprised it's taken this long for MLMs to meet the Web. "The Web provides the contact mechanism for the MLM and even the accounting mechanism" for tracking small commission payments across the network, says Joe Beasy, a partner in Minneapolis-based Trinity Ltd., a financial services MLM. Beasy, with a decade's worth of experience working with the concept, also notes that people who use the Web generally have a high level of technical sophistication and are used to purchasing software online. "The MLM is simply the next step for them, and for the software vendors, it could be the best thing that ever happened."

It could also be the worst. The biggest problem is that MLMs can easily turn into pyramid schemes, a fraud in every state. University of Texas marketing Professor Robert Peterson, an MLM guru, says InterGO's MLM is nothing like the typical rip-off, because it only goes down two levels. "The kinds of weird deals we hear about in the newspapers and courts are usually more than four levels deep," he says. What's more, even legitimate MLMs can be corrupted. "A lot of MLMs start off legitimately enough, but there are groups of MLM 'gangs' that follow a leader," says Peterson. "The leader lands on a particular deal, then he has his inner circle that buys into it through him. By the time you get down six or seven levels, there are thousands of people at the bottom stuck with product, and the investment they made is worthless."

The other big problem comes in the form of expectations. By their very nature, MLMs rely on recruiting lots of individuals with the lure of getting rich quick. Even with the reach and breadth of the Web, making money could be anything but swift. Peterson says it could take several hundred, perhaps thousands of sites to generate a reasonable profit.

After almost seven months on the Web, InterGO, for one, has signed up only about 50 MLM partner sites. It generates only about five or six sales each week. "It's not easy money," CEO Griffin concurs. Right now, anyway, it's not easy enough to get him—or anybody else, for that matter—to a life of sipping papaya juice on a private island somewhere in the Pacific.

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Inside Looking Out

Resellers Rant And Rave At Dell, But Are Really Wrong

Aaron Goldberg

Back when I was young and idealistic, I used to get outraged when I read something in the press that was misguided, unfair or just plain wrong. These days I tend to just let it slide. Getting riled takes too much time and effort for an old fart like me. But every once in a while, a story comes along that is so blatantly off-base, so clearly ignorant of the underlying biases of sources and so totally estranged from the facts that I just can't let it go unchallenged.

So, what's bugging me now? It's a story that ran in Computer Reseller News on Nov. 4. Under the headline "The Truth About Dell and Gateway," the story purports to tell us how some resellers hired by end users to install, custom configure and set up Dell PCs are finding huge rates of failure and other, lesser, quality problems. CRN is normally a decent publication, but this story is a journalistic travesty. It's one-sided. It's unsophisticated because it doesn't evaluate the motives of the resellers. And on top of all that, it has the facts all wrong.

Here's the essence of the story: Writers Craig Zarley and Edward Moltzen report that Dell's DOA rates are roughly three times those of IBM, Compaq and Hewlett-Packard. To be sure, their sources are identified, and they're heavyweights in the reseller community. Among them are Mike Steffan, Inacom's president of operations; Ed Anderson, CEO of CompuCom Systems; and Bill Tauscher, CEO of VanStar.

> Iôm for blowing the whistle on a manufacturer when there are real quality problems. But this time it isnÕt true.

Normally, you'd have to consider these guys to be blue-chip sources. But not when they're Dell's sworn enemies. Think about it. Dell cuts them out of the deal by selling its products via a direct sales force and telephone marketing. Resellers make their living by selling PCs manufactured by Dell's competitors. Naturally, it is in their interest to bad-mouth Dell's products. That makes them very untrustworthy sources for a story like this.

Now let's look at the facts—ones that don't lie, that is. If Dell had quality problems, we'd be hearing about it from customers. And, right now, the silence is deafening. Dell is one of the largest provider of business PCs in the country, and it has had huge sales increases in the past few quarters. No sign of disaffection there. On top of that, Computer Intelligence's regular monthly measurements of customer loyalty show that among regular Dell purchasers, loyalty to the Dell brand has actually risen. This survey has consistently shown that when product quality goes bad, loyalty drops like a stone. If Dell had so many DOAs, we would see it in the survey results. And we don't.

I did some snooping to check what the resellers said about Dell's customer service hold times. I've called the Dell service line eight times in the last week. The result: normal response. If we were in Failure City, waits would be longer.

I'm all for blowing the whistle on a manufacturer when there are real quality problems with its machines. And I believe the resellers should do their part. But where was the big hue and cry when Compaq's LTE portables were failing at alarmingly high rates? Some accounts reported failure rates of more than 60 percent. And where were the resellers when the IBM server 730 had bus problems? Sorry, but it sounds just a little too convenient to me that all of a sudden, Dell has these purported problems and the resellers are out there trying to do the customers a favor. Give me a break!

This is the kind of careless reporting that gives the media a bad name. The worst thing is this: CRN didn't quote a single customer and it provided only a brief response from Dell. No balance. No truth. It shouldn't have been a story.

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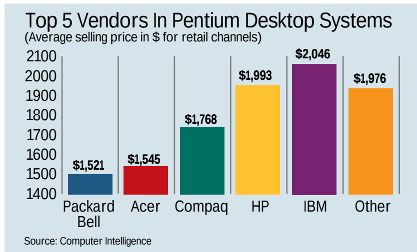
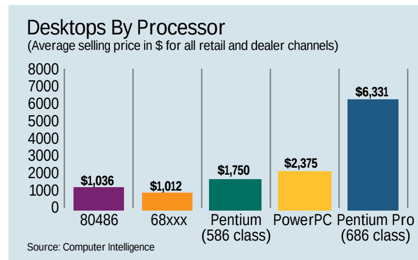
October Survey: Notebooks, Desktop Systems

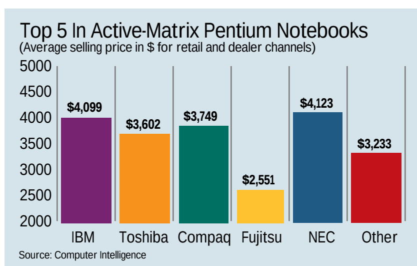
The Pricing Pulse



Kindness Of Strangers Compaq eased the pricing pressure in October, giving traditional low-cost leaders Acer and Packard Bell a respite. And why not? In the past year, Packard Bell has lost about 10 percent of its market share while Acer's has dropped more than a third, according to Computer Intelligence. The reason, says CI analyst Matt Sargent, lies with buyers who have become more interested in features than just low prices.

Back To Business With corporate America's hunger for the one-two punch of Windows NT and Pentium Pro, sales of business systems have revived (see Page A1)—and availability has tightened. Reason: Manufacturers dedicated their resources to making home systems for the big retail holiday season. The upshot? Business system prices are rising. Pentium Pro prices, too; the processor cost more in October than in September, Sargent says. If you can't remember the last time this happened, don't worry—the last business upgrade cycle ended in Q1 1995.





Good 'n' Plenty Just in time for the holidays, supplies of active-matrix displays have started to catch up with demand. Now, for the first time in two years, prices on active-matrix notebooks are coming down. What's more, vendors other than Toshiba can actually compete. (By selling a P100 active-matrix notebook for about $2,600, Fujitsu became the category's price leader for the first time in a long time.) But don't get your hopes up. When the bigger active-matrix screens get here, expect history to repeat itself: We'll see higher prices and tight availability.

—Valerie Rice

Top 10 Desktop Vendors and Models

COMPANY	MODEL	PROCESSOR	AVERAGE SELLING PRICE	% OF WHOLE MARKET	% WITHIN VENDOR
Compaq	Deskpro 2000 P133	Pentium	$1,510	3.0%	7.1%
IBM	PC 750 P133	Pentium	$1,908	2.8%	9.4%
HP	Vectra VL4 P133	Pentium	$1,688	1.3%	9.6%
Packard Bell	Tower P133	Pentium	$1,517	5.4%	39.8%
Apple	PowerMac 7200/120	PowerPC	$2,101	0.9%	10.2%
Acer	Aspire 2831P133T	Pentium	$1,538	1.0%	26.0%
Toshiba	Infinia 7130 P133	Pentium	$1,524	1.3%	7.9%
NEC	Ready 9620 P133T	Pentium	$1,748	0.3%	8.4%
Sony	PCV-90 P200	Pentium	$2,457	0.5%	63.8%
Digital	Venturis FXST P100T	Pentium	$1,550	0.1%	14.3%

Note: October StoreBoard results; sales through dealer, retailer channel.

Source: Computer Intelligence