

CASE STUDY

PC Wholesale Expands Horizons with White-Box Servers

Sponsored by: Intel Corporation; Microsoft Corporation

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March 2003

INTRODUCTION

After the Y2K boom, system builder and component supplier PC Wholesale found itself retreating after a spectacular 1999 and, like many IT companies, downsizing to stay healthy. Basing its business on local presence, superior warranty, and strong service philosophy, it was in a position to grow; however, its business model needed to change. By focusing more on finished systems, PC Wholesale brought itself closer to its direct customers, and by adding a true server product line, it increased its relevance as a solution supplier to larger organizations.

PC WHOLESALE

PC Wholesale, based in San Antonio, Texas, serves small business customers in southwest Texas through its network of resellers and customers of all sizes in both the private and public sectors through its direct sales force. Most of the company's public sector business is local, especially K-12 school districts, but it also has state and federal government accounts.

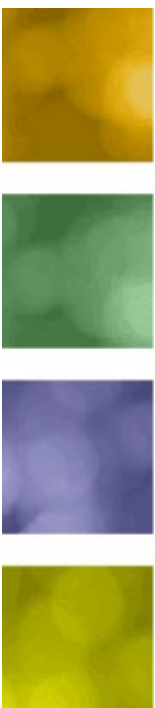
Founded in 1991, the company originally distributed computer components, and it wasn't until 1997 that it ventured into finished desktop PC products. Although PC Wholesale still furnishes its resellers with components, the majority of its business is desktops and servers. PC Wholesale has annual revenue of \$15 million and 40 full-time employees.

Over time, the company found that direct customers lacked the expertise to build reliable servers from components, and sorting out the problems strained its resources. This issue even occurred when the customers bought finished systems but tried to install and configure them as servers.

The turnaround really came about with the introduction of servers based on the Intel® Xeon™ processor and Intel server kits. Although PC Wholesale had been in the desktop PC business since 1997 and had provided server products since 1999, the company, like many other builders, built everything to order and made servers that were essentially based on desktop components.

With the introduction of Intel Xeon processor-based server products in mid-2002, PC Wholesale took a different approach. Rather than building everything to customer specification, it decided to base the majority of its production on standardized configurations. In addition, the company took advantage of the Microsoft® original equipment manufacturer (OEM) preinstallation kit (OPK) for Windows® 2000 Server and Advanced Server to bring each system up to the latest revision level before releasing it to customers.

The move to standardization has delivered significant benefits. The effort the company now expends on warranty service has been drastically reduced, more than compensating for the additional effort of preinstallation and configuration. It also



saves customers time because the equipment is completely up-to-date on delivery and ready to receive the application software.

Building servers for corporate clients required the company to develop expertise in software licensing, and early in 2002, it dedicated a full-time staff to the task. This investment has paid off recently. PC Wholesale believes that recognition of this expertise has elicited new levels of cooperation and investment from Microsoft. In particular, the two companies are working to develop opportunities for the Microsoft Class Server in southwest Texas.

Microsoft Class Server is a solution for K–12 schools that facilitates curriculum planning, scheduling, and parental involvement in children's education. Demand for the solution is being driven by the U.S. federal government's No Child Left Behind Act of 2001, and PC Wholesale sees itself on the ground floor of a valuable opportunity. In the expectation of school districts clamoring for solutions that help them tap into sources of funding, CEO Warren Wilkinson describes the opportunity for technology companies as "the biggest since Y2K."

BEST PRACTICES

Many white-box system builders add value by building to customer specification, but PC Wholesale distinguishes itself by concentrating on a set of standard desktop and server configurations. Giving up some flexibility provides advantages to customers in areas such as system reliability and support, allowing PC Wholesale to price competitively by minimizing its warranty support costs. Customers benefit from this approach through reduced implementation and maintenance costs.

The addition of Intel Xeon processor–based servers with the Microsoft Windows 2000 Server operating system has redirected PC Wholesale toward higher-level relationships with its customers and suppliers. Microsoft's Class Server solution has opened up a ground-floor opportunity to provide new servers and desktop upgrades to Microsoft Windows XP and to grow its emerging services business. Working in conjunction with Microsoft and Intel, PC Wholesale is firmly established on the path to transforming its business from components and desktops to systems and solutions.

SERVER TECHNOLOGY

System builders such as PC Wholesale have found that using industry-standard components and software has helped them overcome customers' tendency to buy from name-brand manufacturers. By using Intel-recommended components and Microsoft-supported software installation procedures, PC Wholesale has been able to use the pull of the Intel and Microsoft brands to overcome resistance and get a foot in the door at larger accounts.

Intel's building-block approach to servers has helped builders ramp up their server production quickly, with minimal investment. Intel provides training and support for builders, including "Tech Builder Summits" (Technical Solutions Training) that give technicians hands-on experience building server configurations. Intel complements this training with ongoing 24 x 7 technical support. This approach has enabled PC Wholesale to build and support reliable, high-performance servers to meet today's enterprise application requirements without having to bring in outside expertise. "We couldn't have done it without them," says Barry Field, vice president of sales and marketing at PC Wholesale.

Being in the Intel Xeon processor-based server business has brought PC Wholesale closer to its customers. Not only do servers help sell other products, such as desktops and services, but they also keep competitors at bay because they allow the company to offer a one-stop shop. PC Wholesale is also dealing with customers at a different level. Unlike desktop purchases, which involve MIS directors or network administrators, server decisions usually involve school superintendents and CFOs. By engaging the customer at a higher level, the involvement of top-level authorities in large solutions purchases is far more likely.

Field says that Intel is "probably the best business partner I've ever worked with." He also praises the Microsoft Education Team for recognizing PC Wholesale's licensing expertise and great relationships with local school districts, which has led to a joint initiative to roll out Microsoft's new Class Server solution. All but a handful of PC Wholesale's servers ship with Microsoft Windows 2000 Server or Advanced Server.

FUTURE OUTLOOK

Most system builders base their value propositions on competitive pricing, at least in part. The most successful builders also add value in other ways, providing better-than-average service levels in their local communities, flexibility of configuration, ease of installation, value-added services, or knowledge of customers businesses or industry. The big issue for all builders is brand recognition and credibility — areas in which the support provided by Intel and Microsoft is paramount.

Training seminars offered by both companies, for instance, ensure that system builders are capable of manufacturing reliable systems using standard components and procedures. Branding programs such as Intel Premier Provider and Designed for Windows help ensure that customers receive a quality product that will be compatible with the software they run. Both Microsoft and Intel supported PC Wholesale directly with marketing and sales support, adding further credibility to the company's message.

Today, PC Wholesale relies on its knowledge of Microsoft licensing, its Intel Premier Provider and Microsoft Certified Partner status, and a disciplined approach to system building and configuration to expand its horizons into corporate and education accounts.

Field sums up this change in customer relationships: "Before we were reacting to their requests, now we are planning what their technology road maps are going to be."

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