

JANUARY 31, 2006

News Analysis

By Louise Lee

http://www.businessweek.com/technology/content/jan2006/tc20060131_186011.htm

Dell's Expanding Indian Footprint

Eager to grow in this booming market, the PC maker is bulking up operations in India. Coming next: A computer-making plant?

India is clearly on the mind of Dell (DELL) Chairman Michael Dell. At the World Economic Forum meeting of business and economic leaders in Davos, Switzerland, he was glued to the Indian contingent: Dell attended a bash to celebrate India's Republic Day, chatted up business executives from the South Asian nation, and on the side met with Indian Commerce Minister Kamal Nath (see BW Online, 1/30/06, "Selling India Inc. at Davos").

So it seems only fitting that India is the focus of the latest expansion announcement by the world's largest computer maker. Boosting its investment in India, Dell is setting up another call center there, its fourth since 2001. On top of that, according to Nath, Dell is expected to begin building a computer-assembly plant in India in the next two months.

GROWTH MARKETS. A Dell spokesman declined to comment on any specific plans to build a plant. "We realize that as we grow our business in India, it'll require a manufacturing facility," says spokesman Jess Blackburn at Dell headquarters in Round Rock, Tex. He also wouldn't confirm Indian press reports indicating that Dell would hire a total of 5,000 Indian workers over the next two years.

But there's little doubt that as sales growth in its core U.S. market slows, Dell needs to increase revenue in India as part of a larger strategy of global expansion. "Emerging markets are growing well for them, but not enough to compensate for slowing in the U.S.," says Jason Maxwell, an analyst at TCW, an asset-management and mutual-fund company that holds Dell shares.

At the moment, Dell's sales in India are tiny. It sold 43,450 computers there in the third quarter of 2005, compared with 9.48 million worldwide, according to market researcher IDC. Dell's market share in India was 3.66%, compared with Lenovo's 9.1% and Hewlett-Packard's (HPQ) 19.05%, says IDC. For the entire Asia Pacific region, for the nine months ended Oct. 28, Dell's revenue was \$4.87 billion, or about 11.9% of total sales, up from \$4.03 billion, or about 11.2% of sales the prior year.

QUICKER DELIVERY. Opening an assembly plant would likely bolster Dell's sales in India, as a local factory would let it ship computers to Indian customers more quickly. Currently, Dell's closest factories are located in China and Malaysia. Within India's population of more than 1 billion people is a rapidly growing middle class that's hungry for computers as well as other consumer electronics. According to Semco Research, 2006 sales of personal computers in India are expected to reach 6.25 million, up 18% from 2005. Dell follows a raft of PC and software giants in broadening operations in India (see BW Online, 1/11/06, "Oracle Ups Its Indian Ante").

A Dell assembly plant in India would also mark a victory for the country, which has long been trying to attract tech companies to open hardware facilities there. Cell-phone makers Nokia (NOK) and Motorola (MOT) already plan to open factories in India. But India has been less successful in luring other companies. It's particularly keen to attract semiconductor-manufacturing facilities but hasn't snared any yet (see BW Online, 12/6/05, "Intel's Eager Passage to India").

While Dell has factories and call centers in many countries in Southeast Asia and North Asia, India is the only country on the subcontinent where it has significant operations. Dell opened its first Indian

sales office in Bangalore in 1996. Five years later, it set up its first call center in that city. The PC outfit opened call centers in Hyderabad and Mohali in 2003 and 2005.

KEY ROLE. Besides having a large well-educated, English-speaking workforce, "where India has great infrastructure is in telecom," Chairman Dell said at a gathering of analysts last year. The company also plans to double the size of its India-based product-development team during the next two years. Dell now has about 300 workers in that area, working on products, including servers and storage systems, for business customers.

By the end of 2006, the newest call center, to be located in the city of Gurgaon, is expected to add 700 to 1,000 jobs in India. Dell already employs about 10,000 in India, or about 16% of its total workforce of 63,000. The call centers in India play an especially key role: While Dell's 30 other centers take calls from customers only in their own regions, the centers in India are the only ones that take calls from customers worldwide.

If Dell's computer sales in India take off, those call-center representatives will increasingly find themselves helping their own countrymen.

Lee is a correspondent in BusinessWeek's Silicon Valley bureau
Copyright 2000- 2006 by The McGraw-Hill Companies Inc.
All rights reserved.