

Google Software on Dell PCs Targets Microsoft

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Dell will bundle Google's Desktop Search and other software on its PCs. Dell will earn some per-PC revenue and likely will gain leverage in price negotiations with Microsoft. This is a win-win scenario for Google.

Event

On 25 May 2006, Google CEO Eric Schmidt said Google has entered into an agreement to pay Dell to bundle its Desktop Search and other software onto Dell notebook and desktop PCs. The agreement includes a joint Dell/Google landing page, which will replace Microsoft's MSN as the default home page on Dell PCs.

Analysis

Software bundling deals on PCs are not new, but this one is significant for two reasons:

- Google, instead of Microsoft, is getting its desktop search onto PCs coming out of Dell factories. Google's software is unlikely to be bundled on all Dell PCs, but the structure of the deal ensures Dell will favor Google's search over Microsoft's, even after Windows Vista has shipped.
- Dell gains an extra negotiating lever with Microsoft. As the largest supplier of PCs, Dell is Microsoft's biggest customer for its Windows operating system. Microsoft has signaled intentions to raise average prices for Windows when Vista launches by increasing the proportion of "premium" Windows versions it sells. Dell, which has struggled to meet financial expectations during its past two fiscal quarters, hopes to minimize the average Windows price increase.

Irrespective of how many Dell PCs actually ship with Google software, this is a good deal for Google. It will gain at least some new users and traffic to the joint landing page. Initially, we believe the bundling of Google applications will be limited to consumer PCs, but Dell's strong enterprise focus may also lead enterprises to deploy Google software.

Any commercial response by Microsoft will need to be financially attractive to Dell to counter the per-PC payments from Google. Whether such a response involves direct payments or a reduction in prices for Windows, Microsoft's obligation to offer equal terms to original equipment manufacturer (OEM) buyers means the result would be a reduction in overall revenue and margins.

Other PC OEMs will watch this deal closely because they face cost and margin pressures similar to Dell's. By the end of 2006, at least three more of the top 10 PC vendors will bundle Google search and other software components (0.8 probability).

Recommendations for enterprises

- Make your own decision about what desktop search engine to use. Do not allow your PC's default to guide you.
- If you decide to use Google Desktop Search, you should also use the Google Desktop for Enterprise kit to manage it.

Analytical Sources: Brian Gammage, Leslie Fiering, Whit Andrews, David Mitchell Smith and James Lundy, Gartner

RECOMMENDED READING

- "Google Ratchets Up Microsoft Face-Off With Writely Buy" — Google's purchase of the popular online word processor Writely moves it into knowledge worker productivity tools. **By Ray Valdes and others**
- "Further Consolidation Among PC Suppliers is Inevitable" — Growth in PC sales will average just 6 percent a year between 2006 and 2008, and many vendors will struggle in a crowded market. **By Brian Gammage**

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