



Spotlight

Dell's Locations Target More than Just Apple

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As extensively covered by industry press, Dell recently surprised the PC market by announcing it would open two of its own U.S. retail store locations. But what's behind the two locations Dell picked for its pilot project retail stores? Retail location impinges upon so many other business decisions that it can reveal clues about the market positioning and strategy of a retailer, as well as possible impacts upon competitors.

The starting point and the widest context for examining Dell's locational decisions lie in the choice of metropolitan areas, which are the New York-Northern New Jersey-Long Island and Dallas-Fort Worth-Arlington metropolitan statistical areas (MSAs). The New York MSA has the nation's largest urban economy and accounts for 8% of all personal income. The Dallas MSA is smaller at 2%, but is still the eighth largest in the nation and the largest in the South; this gives Dallas a credible claim as the economic capital of that region. In terms of per capita income, the New York MSA is among the wealthiest, and is ranked eighth. The Dallas MSA is not quite as affluent, but is still well above the U.S. average.

Metropolitan Statistical Area Income Data, 2004

| MSA | Personal Income | % | Rank | Per Capita Personal Income | Rank |
|------------|-----------------|------|------|----------------------------|------|
| Dallas | \$202 bln | 2% | #8 | \$35,502 | #43 |
| New York | \$812 bln | 9% | #1 | \$43,277 | #8 |
| Total U.S. | \$9,705 bln | 100% | N/A | \$33,050 | N/A |

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Within each metropolitan area, the two Dell locations are found in Dallas and Rockland counties, respectively. While Dallas County is the biggest constituent member of the sprawling 12-county Dallas metro, it should be noted that the Rockland County population of 293,049 is only a tiny fraction of the New York MSA's entire population.

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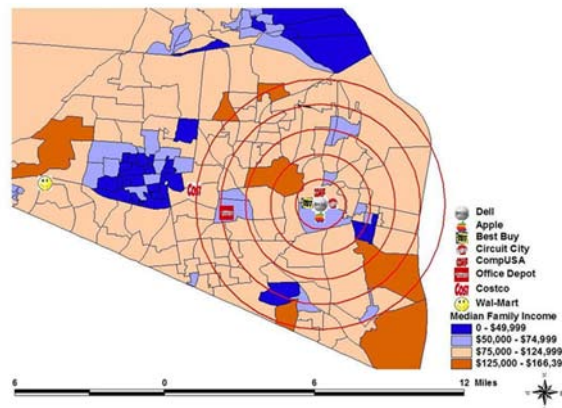
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Previous news reports have pointed out that Apple retail stores are located in both of the shopping malls that Dell chose (the NorthPark Center in Dallas and the Palisades Center in West Nyack), but the Palisades Center happens to also have the big three of consumer electronics retailing: Best Buy (a Magnolia store, incidentally), Circuit City, and CompUSA. The Palisades Center also has a BJ's Wholesale and a Staples store within its walls, which are retailers that also sell computers. In fact, as the following map shows, outside of the Palisades Center, there are only three PC retailers of any note (Office Depot, Costco and Wal-Mart) in Rockland County.

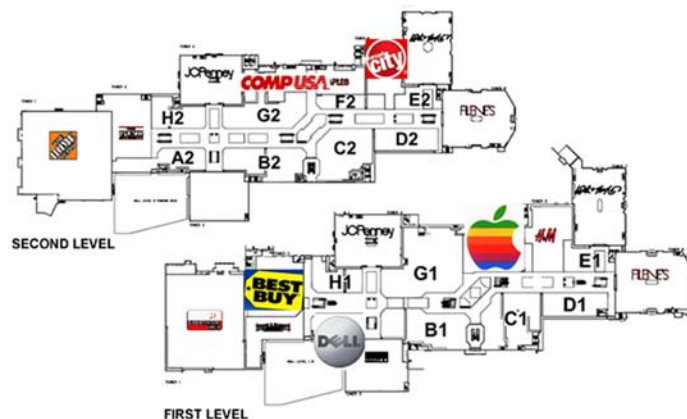
W. Nyack Retail Location and Nearby Competitors



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Zooming into the actual floor plan of the Palisades Center, we can observe that the Best Buy is located just to the side of the Dell retail store. The Apple store is farther along on the same first level, while the Circuit City and the CompUSA are one floor up, on the second level.

Palisades Center Floor Plan



Palisades Center floor plan published on July 6, 2006. Copyright 2006 Current Analysis, Inc. www.currentanalysis.com

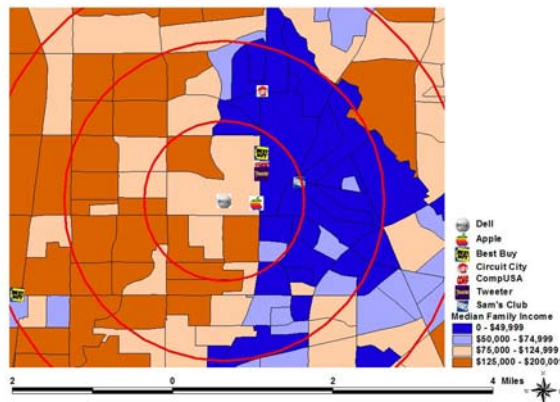
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Unlike the Palisades Center in West Nyack, the only other PC retailer in Dallas' NorthPark Center mall is Apple. However, other retailers are located a short distance outside its environs, as the following map shows.

Dallas Retail Location and Nearby Competitors



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A Best Buy and a CompUSA are located within a one-mile radius, just to the northeast of the NorthPark Center. A representative of the third leg of the consumer electronics big three, Circuit City, is located within a two-mile radius. Tweeter, which generally does not sell computers but is an important niche player in other consumer electronics, is within the one-mile radius, as is a Sam's Club.

Wealthy Consumers

All the evidence suggests Dell's retail stores are part of an attempt to sieve the golden nugget of wealthy consumers. Examining both the metro- and neighborhood-level context confirms this, but it also shows an important difference. In West Nyack, Dell is attempting to key into the Palisades Center's metro-level comparison shopping potential in the nation's biggest urban economy. With so many key retailers clustered together, this creates a real destination point, perhaps only rivaled by one of Fry's Electronics' Deathstar-of-retailing 100,000+ square footage stores. There is some support for the desire to take advantage of comparison shoppers in Dallas, but also evidence that Dell is interested in being very accessible to an impressive number of highly affluent families.

Obviously, Dell wants to take away business from the big three of consumer electronics plus Apple; one strategy is to directly step in between one of those retailers and the customer ("intercept"), while the other is to locate very close residentially, and go right up to the customer ("tackle").

Prominent in Dell's offensive to take away business from its retail rivals is the incipient Digital Home. Major industry players like Microsoft and Intel want the desktop computer to be the central node in the Digital Home, allowing the time- and space-shifting of video, audio, and other media content. Dell wants to join them, and has been making repeated forays into high-end computing with its XPS series, culminating most recently in the slick XPS 700. Dell also

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wants take part in the burgeoning digital TV market, which will be an important part of the Digital Home, regardless of whether the desktop computer is or not. Dell's lack of success so far is sometimes attributed to the unwillingness of consumers to buy a television sight unseen. Dell's retail stores hold out the promise of marrying Dell's computer prowess with its early-stage digital TV business.

Swimming against the Tide

However, a concern here is that Dell is trying to swim against the tide. TV tuner-clad Media Center desktops (which allow the recording of television) have yet to experience the same breakthrough as their TV tuner-less brethren. Moreover, the performance desktop market has markedly shrunk in the last couple of years, as computing power needs have stayed in place, while once-performance components have filtered down to lesser segments. This has resulted in a 47% share for sub-\$500 desktops, according to Current Analysis Retail Sell-Through Panel May 2006 data.

That said, Dell's locations are well suited for swimming against the tide. Dell chose the largest urban economy in the U.S., as well as the largest in the South and its home state of Texas. Large cities, with their more complex economies, tend to generate higher per capita incomes. If one wants to sell more performance computers, as Dell certainly does, it makes sense to snuggle up to the well heeled.

It also makes sense to intercept the customers headed to its retail rivals, and Dell appears to have pulled a needle out of a haystack with the West Nyack location. The Palisades Center has a highly unusual cluster of consumer electronics stores; they are usually found in big-box strip malls, not in pedestrian shopping malls. Sitting literally just outside of Best Buy is a provocative, stare-down-like move, and suggests Dell is gunning at least as much for Best Buy as for Apple.

There is also comparison shopping potential in the Dallas location. While there are actually seven one-mile radius clusters of the big three electronics retailers in the Dallas metropolitan area, Dell chose the only location where it could combine Apple with the big three, all within a two-mile radius. However, this isn't quite the same as the West Nyack Palisades Center mall, which allows rapid comparison shopping entirely on foot. Underscoring the Palisades Center's comparison shopping anchor aspect is the fact that the local area, Rockland County, doesn't have enough people to support all of its electronics stores. A comparative spatial analysis of accessibility using Census Block Group data shows that this is especially true among the highest-income families, those in the \$200,000+ bracket.

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The table below first shows the results for the Dallas metro, Dell's place in it, and is rank-ordered by the \$200,000+ family bracket. Wal-Mart has the most of these coveted families within a two-mile range of its stores, but this is unsurprising, because the Dallas metro is home to a whopping 80 Wal-Mart locations! Best Buy is in second place, but is also in second place in terms of store count.

Number of Families within 2 Miles by Income Bracket, Dallas

| Retailer | Store Count | \$75,000+ Families | \$125,000+ Families | \$200,000+ Families |
|--------------|-------------|--------------------|---------------------|---------------------|
| Wal-Mart | 80 | 276,564 | 96,637 | 31,154 |
| Best Buy | 26 | 113,623 | 47,644 | 19,538 |
| Circuit City | 15 | 77,900 | 28,966 | 10,899 |
| Sam's Club | 18 | 90,098 | 32,978 | 10,852 |
| Apple | 4 | 31,469 | 19,049 | 10,224 |
| Tweeter | 6 | 41,756 | 21,513 | 9,890 |
| CompUSA | 10 | 57,458 | 22,362 | 9,349 |
| Costco | 6 | 40,562 | 17,928 | 7,261 |
| Dell | 1 | 8,475 | 5,532 | 3,522 |
| Fry's | 4 | 17,131 | 5,638 | 1,610 |
| MicroCenter | 1 | 6,110 | 2,180 | 698 |

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The picture changes when we adjust for the store count, and derive the average number of families by income bracket that each Dallas retail chain is accessible to. The Dell NorthPark Center location rises to the top, with an average of 3,522 families earning \$200,000 or more, well ahead of even Apple, which is the next closest, with 2,556.

Average Number of Families within 2 Miles by Income Bracket, Dallas

| Retailer | Store Count | \$75,000+ Families | \$125,000+ Families | \$200,000+ Families |
|--------------|-------------|--------------------|---------------------|---------------------|
| Dell | 1 | 8,475 | 5,532 | 3,522 |
| Apple | 4 | 7,867 | 4,762 | 2,556 |
| Tweeter | 6 | 6,959 | 3,586 | 1,648 |
| Costco | 6 | 6,760 | 2,988 | 1,210 |
| CompUSA | 10 | 5,746 | 2,236 | 935 |
| Best Buy | 26 | 4,370 | 1,832 | 751 |
| Circuit City | 15 | 5,193 | 1,931 | 727 |
| MicroCenter | 1 | 6,110 | 2,180 | 698 |
| Sam's Club | 18 | 5,005 | 1,832 | 603 |
| Fry's | 4 | 4,283 | 1,410 | 403 |
| Wal-Mart | 80 | 3,457 | 1,208 | 389 |

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The following table shows Dell's accessibility to the same family income brackets in the Palisades Center mall of West Nyack. With only one store, Dell's absolute and average numbers are the same.

Number of Families within 2 Miles by Income Bracket, West Nyack

| Retailer | Store Count | \$75,000+ Families | \$125,000+ Families | \$200,000+ Families |
|----------|-------------|--------------------|---------------------|---------------------|
| Dell | 1 | 5,382 | 2,611 | 792 |

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Dell's Palisades Center store in West Nyack doesn't allow it to tear off nearly as much of the upper-crust of \$200,000+ families – there are just 792 such families surrounding the Palisades Center versus 3,552 surrounding around the NorthPark Center. This disparity is further evidence that the immediate neighborhood is very important in the case of Dallas, but less so in the case of West Nyack.

These are both great locations for Dell, but it will be easier to find more retail ecologies like Dallas' than like West Nyack's. Moreover, Dell will even find that potential Dallas-like locations become scarce pretty rapidly. The fact that consumers won't actually be able to immediately take home a Dell product probably makes ensuring the comparison shopping potential of any new location an imperative.

While Dell is actually targeting Apple, Best Buy, Circuit City, and CompUSA, minor A/V player Tweeter could end up getting trod underfoot. Tweeter's locations tend to be accessible to wealthy families (it has a similar rank in the retail hierarchy in San Diego as it does in Dallas, for example), and Dell's Dallas-variant "tackle" locational strategy will tend to bring Tweeter some unwelcome new neighbors.