Dell Technologies Announces Planned VMware Spinoff

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By Analysts Sid Nag, Andrew Neff, Andrew Lerner

Initiatives: Sourcing, Procurement and Vendor Management Leaders

Dell Technologies announced plans to spin off VMware as a separate entity in the fourth quarter of 2021. Sourcing, procurement and vendor management leaders should expect minimal changes in 2021, but watch for long-term impacts from a roadmap, technology, support and from a market and financial perspective.

Overview

Impacts
- With the expected spinoff of Dell’s 80.1% stake in VMware — which was acquired in September 2016 through Dell’s acquisition of EMC — Dell simplifies its financial structure and improves its balance sheet. From Dell’s perspective, investors did not value that VMware stake at its full market value. Even when VMware was part of EMC, investors put a “conglomeration discount” on the VMware stake. Dell concluded that this factor was inhibiting its shareholder value.
- Despite the spinoff, Dell Technologies and VMware will remain strong and strategic partners in building joint products, solutions and offerings through co-engineered solutions through a commercial agreement.
- As an independent company, we believe that VMware will be likely to formulate or expand partnerships with competitors of Dell Technologies such as HPE, Lenovo and Cisco, creating new options for IT leaders. Dell Technologies, for its part, will be able to forge or expand its relationships with other partners such as Microsoft and Nutanix. Once the transaction closes, which is expected during the fourth quarter of calendar 2021, VMware will operate independent of Dell Technologies, which will impact certain products that the entities have jointly developed, sold and/or supported to IT leaders.

Recommendations

Sourcing, procurement and vendor management leaders working with Dell Technologies or VMware should expect minimal changes in the short term but should watch out for long-term impacts from a technology, market and financial perspective.

- Optimize investments with Dell/VMware by demanding statements in writing pertaining to the roadmap and support for jointly engineered products that include committed dates and features
Introduction

Dell Technologies announced plans to spin off VMware as a separate entity in April 2021. The transaction is expected to close in the fourth quarter of calendar 2021. Sourcing, procurement and vendor management leaders should expect minimal changes in 2021, but watch for long-term impacts from a roadmap, technology, support and a market and financial perspective.

Table 1: Impacts and Top Recommendations for Sourcing, Procurement and Vendor Management Leaders

<table>
<thead>
<tr>
<th>Impacts</th>
<th>Top Recommendations</th>
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<td>Dell Technologies is spinning off its VMware investment</td>
<td>Demand statements in writing pertaining to the roadmap and support for jointly engineered products that include committed dates and features before making large, long-term or strategic investments in Dell or VMware.</td>
</tr>
<tr>
<td>Dell Technologies and VMware will remain close partners</td>
<td>Assess the impact of increased competition to Dell Technologies and additional available choices for products and solutions as VMware formulates partnerships with Dell’s competitors.</td>
</tr>
<tr>
<td>Dell Technologies and VMware will pursue and/or deepen other partnerships</td>
<td>Document support adjustments via demanding written support plans for deployed products that are being jointly delivered today such as SmartFabric Director and VxRail.</td>
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Source: Gartner (May 2021)

Impacts and Recommendations

Dell Technologies Is Spinning Off Its VMware Investment

With the expected spinoff of Dell’s 80.1% stake in VMware — which was acquired in September 2016 through Dell’s acquisition of EMC — Dell simplifies its financial structure and improves its balance sheet. From Dell’s perspective, investors did not value that VMware stake at its full market value. Even when VMware was part of EMC, investors put a “conglomerate discount” on the VMware stake. Dell
concluded that this factor was inhibiting its shareholder value. SVPM managers should get clarity on what this means to their sourcing strategy and get this clarified in writing from both Dell and VMware. It must be noted that Dell Technologies and VMware will enter into a commercial agreement for the next five years with annual options to renew after that, which will preserve the companies’ unique and differentiated approaches to the co-development of critical solutions and alignment on sales and marketing activities.

**Recommendations:**

SVPM managers must:

- Request statements in writing pertaining to the roadmap and support for jointly engineered products.
- Get committed dates and features and capabilities before further investing in products and solutions they currently have or plan to procure in the future from either Dell or VMware.

**Dell Technologies and VMware Will Remain Close Partners**

As stated earlier, despite the spinoff, Dell Technologies and VMware will remain strong and strategic partners in building joint products, solutions and offerings through co-engineered solutions via a commercial agreement. However, that does not preclude either Dell or VMware from pursuing strategic alliances with other players in the industry. This will impact the current and future contracts as well as the overall IT strategy of your organization.

**Recommendations**

SVPM managers must:

- Assess the overall impact to their contracts and IT services strategy of increased competition to Dell Technologies and VMware as an outcome of this spinoff.
- Understand the areas where Dell and VMware plan to remain strategic partners after the spinoff and whether the contractual landscape may get altered post-spinoff related to products and solutions that your organization has that are built on joint Dell and VMware technology.

**Both Dell Technologies and VMware Will Pursue and/or Deepen Other Partnerships**

As stated above, as an independent company we believe that VMware will be likely to formulate or expand partnerships with competitors of Dell Technologies such as HPE, Lenovo and Cisco, creating new options for IT leaders. Dell Technologies, for its part, will be able to forge or expand its relationships with other partners such as Microsoft and Nutanix. However, once the spinoff is completed in the fourth quarter of calendar year 2021, VMware will operate independent of Dell Technologies according to the terms of their five-year commercial agreement, which will impact certain products that the entities have jointly developed, sold and/or supported to IT leaders.

**Recommendations**
SVPM managers must:

- Question and get clarity on the specifics of the competitive landscape that will emerge for Dell as VMware potentially formulates partners with the likes of HPE, Cisco and others.

- Conversely understand the degree of competition VMware will face as Dell is able to potentially partner with VMware's competitors such as Nutanix in the hypervisor and hyperconverged space, for example.

**Recommended by the Authors**

**Vendor Rating: Dell Technologies**

**Vendor Rating: VMware**
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