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## White-box PCs retain appeal Non-branded models now rely on service vs. price edge

By [Rex Crum](#), [CBS.MarketWatch.com](#)  
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**SAN FRANCISCO (CBS.MW)** - Lee Shornick never had any illusions that his two-man shop, PC Max, would be a threat to the likes of Dell and Hewlett-Packard, especially since he works out of a small office and doesn't have a phone-book listing.

Yet his Atlanta-based business has posted \$450,000 to \$900,000 in annual sales over the last 15 years building customized PCs for individuals and small businesses, Shornick said. The difference is the company now counts on personalized service and support, rather than past price advantages, to retain its 200 active clients.

"We try to stick to business customers," said Shornick, who usually fills orders for PCs assembled from components within five business days.

Shornick is a long-lived member of the largest and most-overlooked area of the PC industry -- the "white box" market that's evolved with the times. Where small, PC-assembly shops once prospered selling no-name systems at steep discounts to name-brand models, in the era of the \$399 package, white-box sellers keep flourishing by providing support services the major producers can't afford in the sub-\$1,000 PC world.

"We don't make a lot of money on individual machines," Shornick said. "But we're pretty much guaranteed some service sales because we know the people we sell to."

### Turning back the clock, just a bit

The image of white box makers might be a 21st century throwback to the early days of the PC industry, when computer memory was measured in terms of kilobytes, floppy disks actually were floppy, and Steve Jobs and Steve Wozniak were building Apple computers in a Silicon Valley garage.

In the PC industry, white boxes refer to any of the personal computers not made by the Dells ([DELL](#): [news](#), [chart](#), [profile](#)) and the H-Ps ([HPQ](#): [news](#), [chart](#), [profile](#)) of the world, and which come from PC Max and more than an estimated 10,000 companies in U.S. alone. However, even PC analysts say its difficult to categorize white box PCs.

"White box remains a mysterious term," says Roger Kay, of research firm IDC. "I look at it like anyone who's not in the top 10 (sellers),

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but proportionally, it varies regionally around  
the world."

Based on IDC's most recent research and  
parameters, during the third quarter of this  
year, PC vendors shipped 14.2 million  
computers in the U.S. Of that number, 10.6  
million units came from the top 10 vendors -  
Dell, H-P (including Compaq-branded PCs),  
IBM ([IBM: news, chart, profile](#)), Gateway  
([GTW: news, chart, profile](#)), Apple, Toshiba,  
eMachines, Sony ([SNE: news, chart, profile](#)),  
Acer and Micron PC.

The remaining 3.6 million PCs—a full 25 percent  
of the third-quarter U.S. sales and enough to  
claim second place overall if included together -  
fell into what IDC calls the white box market.

If the average person isn't aware of the white  
box PC sector, he can probably blame industry  
advertising for his ignorance. Inundated by  
slick ads featuring Dell's interns, H-P's use of  
the Cure song 'Pictures of You' and Apple  
Computer's ([AAPL: news, chart, profile](#))  
iconoclastic iMac, the giants of the personal -  
computing world have almost unlimited means of putting their products, and image, in front of consumers.

"When you say 'white box' some people think, "Oh no! No service! No support," says John Monroe, vice president  
of research at Gartner. "On the contrary, some place like Ralph's PC might give you better support because he's  
local and near you."

A look through the phone book of nearly every city will unveil a cottage industry, revealing at least one, and more  
likely dozens of listings for corner-store companies that offer to build custom made computers, many times at  
prices that are competitive with their much larger rivals. And without high overhead and marketing issues to deal  
with, local white box sellers can devote their attention to providing immediate customer service, often cited as the  
main reason why demand remains for such small operations.

"That idea of trust goes back to the roots of personal computers," said Rob Enderle, of the research firm the  
Enderle Group. "If you have a problem with your PC, you don't have to send it back somewhere you don't know  
about. You can have a personalized experience with your computer dealer."

[See here for what to look for in a white box.](#)

## Big players take notice

Just because the white box market is dominated by thousands of small -businessmen doesn't mean it flies  
completely under the view of the powerhouses of the PC industry. Nearly all white boxes run on Intel ( [INTC:](#)  
[news, chart, profile](#)) microprocessors and equipment from other chip companies and disk -drive makers, making  
for a quietly attractive selling source.

"The No. 1 use for a white box PC is to run a cash register in a small business," said Stephen DiFranco, vice  
president of corporate marketing and branding at disk -drive company Maxtor ([MXO: news, chart, profile](#)). "For us  
this is the unseen part of the PC industry." DiFranco estimates that half of Maxtor's business, which reached  
\$2.92 billion for the first nine months of the year, came from channel partners, including white box makers and  
distributors.

"One of the reasons white boxes can succeed is because of Intel," said Gartner's Monroe. "What they want is a  
large number of customers that are buying their chips and selling them into channels such as white boxes."

Dell, the world's No. 1 PC maker has also seen the benefit of getting in the white box game, albeit on what the  
company says is a very small scale. Amy King, a Dell spokeswoman, said the company sells an undisclosed  
number of PCs that don't bear the Dell name through some of its channel partners both in the U.S. and overseas

"We saw it as an opportunity to provide a non -Dell solution to (PC) providers," King said. "If they have the ability  
to brand it with their name, that's fine with us."

Dana Blankenhorn, an analyst with Progressive Strategies, in Atlanta, said the big PC players concentrate much  
of their white box efforts in China and other parts of Asia because the opportunities are too good to resist.

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"Without their brand name, they reduce their costs significantly," Blankenhorn said. "They can make bulk sales on low profit-margin items and they leave the support to the local guys over there."

In Shornick's view, such moves are a validation of the white box market.

Said Shornick: "White boxes have always been strong. Now we have some big competitors, which shows just how strong they think it is."

Rex Crum is a reporter for CBS.MarketWatch.com in San Francisco.

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