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LanServe Corporation (A)

LanServe Corporation builds low-range to mid-range servers. These are computers that manage electronic network operations, including file sharing, print sharing and internal communications. The LanServe servers use the same sort of central processors found in personal computers, which are less costly than special processors used for high-end servers managing very large or complex networks. The most important application for LanServe servers is to manage local area networks (LANs) in individual companies. That is, a company sets up a LAN to connect the personal computers on employees' desks, which allows individuals to print, e-mail, and access server-distributed software. A LanServe server can manage this internal network if it is not too large or complex. This lower end of the server market is strong and growing rapidly.

Servers have historically commanded much fatter margins than personal computers, which are on their way to becoming commodities. However, those same high margins attract competition, and while the market is growing, so are the number of firms competing in the market. At the low end of the market, the line between a personal computer and a server is blurred by the fact that both can now share the same central processor technology. No one at LanServe expects that the company will be able to maintain high margins in the face of these developments and they recognize the need to decrease costs.

Despite the increasing pressure on prices, customers are not reducing their need for semi-customized products to meet the needs of their firm. There is a wide range of configurations available, which LanServe assembles by mixing and matching several different types of chassis, power supplies, hard drives, cables, CDs, memory cards and software bundles.

Several things are imperative to remain competitive in this industry. First, the server must work reliably. Server failure can immobilize the communications of an entire company. Second, the server must incorporate the latest reliable technology, which is changing rapidly. LanServe continually incorporates new processors and peripherals into server designs so servers will not be obsolete before they are manufactured. Because it would be impossible to pretest all potential software bundles with all potential hardware configurations, LanServe completely tests every system before it is shipped.

LanServe makes none of the constituent parts in its servers since it is only a design and assembly operation. There are two significant costs in server production—purchased parts and labor. Capital equipment is a minimal cost and consists of some roller conveyers and simple tools. There are two leverage points for keeping costs down--purchasing/logistics and assembly labor.

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