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THE REAL COST OF THE PERSONAL SYSTEM/2



The rumor mill has been whispering that IBM has enough leeway to reduce PS/2 prices enough to undercut the clones. This time the rumors are wrong.

By now we should be sick and tired of the fuss over the PS/2. The announcement and its aftermath resulted in more misinformation and dubious observations than any announcement since the rollout of the original TI personal computer (the one that was going to dominate the market). The most dubious of the information concerns the money IBM has to spend to make one of the beasts.

The story begins with the pre-rollout gossip. The first solid rumors about the machine began to surface about 3 weeks before the announcement. A Texas PR man, Marty Winston, of Winston & Winston in Fort Worth, sent an MCI message to all his friends outlining about 80 percent the details of the machines, including the name. This memo got around so much that a friend of mine at Unisys later called me and read me the memo, saying it was sent to Unisys from a source in Japan at Mitsubishi!

PARTS AND LABOR FOR \$150? Winston said in the memo that the machines cost IBM \$150 to build. Somehow that got interpreted by more than a few people as total cost. Soon a few columnists were talking about how cheap the machine really is, as if the total price were \$150, parts and all. Since the memory chips in the Model 50 cost more than \$150, we can assume that these writers were dazed. This was all used as a rationale to say that IBM had tons of price leeway it could toy with if it wanted to kill the clones. Some people still think IBM has this leeway.

The fact is that the machine (let's talk

about the Model 50) probably costs more than \$150 to build, anyway. Overhead, interest, and labor at IBM aren't cheap no matter how many robots it put in. Then there's the cost of parts. The entire machine is composed of expensive surface-mount chips. These aren't cheap, by any means. Add to this the custom VLSI at a conservative 40 bucks or more a pop, a 3½-inch drive, a new power supply, a ton of expensive connectors, and a hard disk, and you spend \$600 or more for the bag of parts.

THE MANUFACTURING COST Now I'd figure at least \$200 to piece it together, test it, and pack it. It's a known fact that IBM's robotic factory isn't reducing costs as much as was hoped for. Total cost, so far: \$800. With a monitor at, say, \$250 and a keyboard at \$50, we've reached a total expense of \$1,100.

The typical manufacturing cost to retail

is 3 to 1 or 4 to 1. This depends on how many middlemen and salesmen need to line their pockets. It also depends on the marketing and advertising expenses. Whatever is left shows up as a profit. I figure the profit to be in the neighborhood of \$600 per machine. This means the Model 50 has to sell for between \$3,300 and \$4,400 with monitor. In fact, a Model 50 with the 8513 monitor lists for \$4,280. Close enough for rock and roll.

This indicates some leeway, but not enough to undercut the cheapest clones. And let's not forget the upgrade possibilities. I've seen three 80386 motherboards that sell for \$1,495 and fit neatly into your old XT.

I hear that IBM has a lowball price sheet it shows around when trying to land big accounts. I assume that the numbers approach the \$3,300 mark for special customers. This is still not cheap when clones can sell a faster machine for around \$2,500.

So I think it can be safely said that: (a) the PS/2 will not come down in price soon; (b) IBM doesn't have the great leeway some would like to believe; (c) better deals are to be had.

As is the nature of this business, though, things get cheaper. The cost of VLSI, hard disks, and support chips is forever falling. Someday, surface-mount chips may be cheaper than the pin-mount variety. So surely the price will come down one day a few years from now. For the moment, what you see is what you get. There is no hidden agenda. That is, unless you think IBM gets parts for free!

