

# Can Dell *Save* Dell?

Slowing sales, design glitches,  
a rocky start at retail.

Founder **Michael Dell** faces  
problems he never had to  
address during his first  
stint running the company

by **Russ Mitchell**

*photograph by* **Andrew Rowat**



It's safe to say that Michael Dell probably isn't having as much fun now as he did the first time he served as C.E.O. Dell spent 20 years turning his company, which he famously launched from his dorm room, into the world's top computer seller. Along the way, he implemented superfast manufacturing techniques and perfected a strategy of sell-

ing directly to consumers. After he stepped down in 2004, the company went off the tracks, losing its reputation for quality and solid customer service. The stock, which had traded in the mid \$30s, lost about a third of its value.

Since returning 18 months ago, Michael Dell has taken huge steps to turn the company around—

**TENACIOUS D**  
*Michael Dell,  
photographed on May  
14 at the Four Seasons  
hotel in Shanghai.*



some more successful than others. Recognizing that laptops now outsell desktops in the U.S. and that customers prefer to handle portable devices in person before buying, he updated the company's sales strategy, striking deals to sell computers through chains such as Wal-Mart and Best Buy. At the same time, he shut down the Dell-branded kiosks that had opened in malls.

The company has also tried to spruce up its laptop designs, with mixed

for 20 years. Last year, we reprioritized, made all sorts of investments, wrote off a bunch of things, and we still managed to grow our earnings 15 percent and make \$2.9 billion in profit.

#### **What brings you to Shanghai?**

China is the second-largest country in the world for Dell sales, and it's growing fast. We can see forward to where it's going to be the largest. Last quarter, our unit sales here—meaning the number of

the world. But you're not going to get another billion users in the United States.

**This morning, I went into a Gome electronics store, a big chain in China, and counted 59 laptops on a bland display table. Seven of them were yours, but it was hard to tell which seven. In a market this competitive, how is Dell going to stand out?**

It's a good question. Seven or eight

**“The U.S. is still the biggest computer market, but you're not going to find another billion users there.”**

results: Customers in Europe recently got laptops with mutant keyboards (one key was in the wrong position)—and with the U.S. market maturing, Dell is making a big push to increase its market share overseas, where it gets about half of its sales already. (Though one unscientific indicator suggests that he still has work to do: At a Shanghai electronics store, a salesman enthusiastically recommended a Lenovo laptop and a Hewlett-Packard before finally suggesting a Dell.)

The company plans to introduce a new line of subnotebook computers (a cross between laptops and palmtops), some of which would be preinstalled with Linux, a competitor to Microsoft's Vista operating system. This would be a thumb in the eye of Microsoft, one of Dell's major partners.

Dell talked with *Condé Nast Portfolio* senior writer Russ Mitchell in Shanghai.

#### **What's the real reason you came back as C.E.O.?**

Revenge! I started the company, so it's my child. I feel responsible for it.

#### **Whom would you be vengeful toward?**

I'm half joking. But this is a company that in 12 years grew from \$5 billion to \$61 billion. That doesn't happen very often. But it's fair to say that it wasn't working as well at the end of that time as it had at the beginning. I was watching that happen as chairman, and it wasn't particularly satisfying. So I was happy to come back into the job I'd had



*GAME ON A Dell subsidiary called Alienware makes videogame PCs, like this tricked-out console model.*

machines rather than a dollar amount—grew 51 percent. The rest of the industry grew 18.5 percent here. So that's a pretty tempting reason to come.

#### **You're also making major efforts in Israel and the Middle East.**

All through the Middle East, the former Soviet republics, even all of Africa, there's enormous growth in I.T. We're focused on the next billion computer users, and they're not in the developed countries. All you have to do to find them is figure out where there are people with cell phones. Because once they get a cell phone, about a year or two later they want a computer.

#### **Does that mean you're giving up on the United States?**

No. The U.S. market is still the biggest in

months ago, we weren't even there. Today, you actually see us in the store. But you're absolutely right. We have to find ways to stand out more. We've got a lot of new products in development that we think are tailored to specific needs here.

#### **The company recently confirmed rumors that it had subnotebooks in the works. Can you talk more about those?**

I'm not going to preannounce anything.

#### **Okay, but can you talk about the concept of selling smaller, cheaper, more portable computers?**

There's a shift everywhere to mobile computing, so you'll see an increasing array of products from us that have smaller and smaller screen sizes. These tend to be more of a fashion type of device that you carry with you, more of an accessory.

#### **Fashion? That's not something Dell's known for. You've also been quoted talking about creating lust for your products and making cool devices. How did you manage that? Did a memo go out?**

We don't do memos. We do emails. But we hired a new chief designer from Nike, Ed Boyd, who has great experience in designing cool, consumer-friendly products. He did watches and glasses and bags and integration with some of the music-player companies. We've got a whole new generation of stuff coming out that we think is pretty stunning.

**How important will Linux be to growth for products like that?**

My observation is that when you show the customer a product and say, "Okay, here's what the product does," they don't care if it's Linux or this or that, and in many cases they don't even know. They want to get onto the internet and do things. So it's sort of inside baseball.

**You came back as C.E.O. right around the time of the Vista rollout, and so far that's been a bust for the PC industry. What's your prognosis for how it will sell in the coming months?**

This is an oversimplification, but you've got three types of customers. Consumers have gone to Vista pretty aggressively. Then you've got small and medium business; some have gone, some haven't. Then you've got large business. They've been pretty slow to go to Vista. Of the large guys, probably 30 percent or so will switch this year, and next year another 50 percent.

**But that's nothing like what happened in 2001, when Microsoft's XP operating system galvanized PC sales. Do you think Vista is having the reverse effect?**

I don't think so. Let's say you work at a big company and you have Windows XP on your desktop. You go home and buy a new machine from Dell. You get a quad-core processor, a 27-inch screen, Vista, Dolby surround sound. And then you go back to the office, where you have this really old thing. After a while, you start to complain. "Six months, I can deal with that, but two or three years? Wait a second. How come we have old stuff at the office?" Also, a lot of new hardware features are coming out—broadband, wireless, fast graphics—and those aren't supported by XP.

**At the same time, Mac sales started taking off a couple of months after Microsoft's Vista release. You used to be able to shrug Apple off. Can you do that anymore?**

Well, Apple has about 3.3 percent of the market.

**When H.P. recently announced that it would buy E.D.S., which supplies I.T. services, the buzz on some blogs was that Dell missed an opportunity. I got the sense**

**that you made a conscious decision to pass on that deal.**

We certainly had the opportunity. A lot of people had the opportunity to buy E.D.S. So there's no great surprise or mystery there.

**You already partner with E.D.S. on a lot of big deals. Now it's owned by your biggest competitor. Will its sale to H.P. change how you do business?**

The global services industry is incredibly fragmented. H.P. acquired roughly 6 or 7 percent share of the I.T. services industry; the other 93 percent is not H.P. So we'll have even stronger friendships with all those other guys. E.D.S. has some fine capabilities in legacy I.T., but we're focused on cloud computing, on software as a service, and we think that's the new way forward. It's a Web 2.0 type of services strategy rather than a perpetuation of proprietary things that have been around for a long time.

**That approach fits into what's called leapfrog technology, which could boost Dell both in services and in sales to developing nations. How does it work?**

There's a lot of legacy infrastructure. Building systems 10 or 20 years ago, you had to do it a certain way. But if you could do it with a clean sheet of paper today, you wouldn't actually go do that. You would use industry-standard ingredients—no old Unix or mainframe type of things. And when you jump ahead like that, you end up with a more modern infrastructure here in China than you have back in the developed countries.

**Is there some specific goal you want to reach before you'll be satisfied that the turnaround is a success?**

I don't tend to be a guy who's satisfied. There will be people outside the industry who'll say, okay, when this, this, and this have happened, then it's a turnaround. I don't really care. I'm focused on where we're going next.

**Last question: Do you think Dell is a stock to buy right now?**

In the past five or six months, Dell itself has repurchased about 10 percent of its own shares. So draw your own conclusions. ©

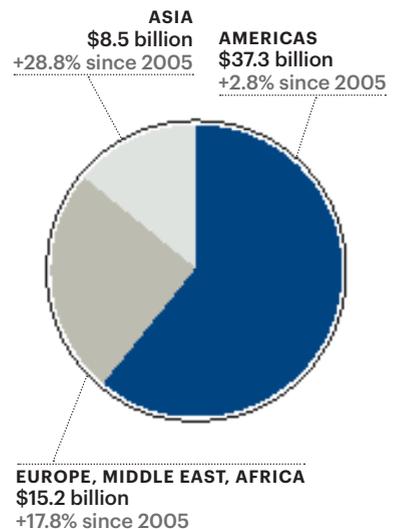
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# Global Agenda

With about \$61 billion in revenue last year, Dell is working to increase its presence in developing countries

## 2007 SALES

Asia is Dell's third-biggest region for sales, but it's growing faster than the others.



## HISTORIC SALES

The company's once-surging revenue growth has slowed in recent years.

