

Dell Confronts Problems, Focuses on New Direction

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The news coming from Dell headquarters is clear: It's time to forget the past and start reinventing the company before its too late.

Since returning to the CEO's chair on Jan. 31, Michael Dell has made no secret of trying to push his struggling Round Rock, Texas, company in a new direction to help stop the bleeding that has claimed its once dominant share of the PC market and brought uncomfortable questions about its accounting practices.

On the technology front, Dell has begun to refocus its energy on the customer - whether an enterprise commercial client, small business or the person just looking for a home PC - in order to show that its can still be an innovator. In recent weeks, the PC vendor has offered some laptops with the latest in SSD (solid state drive) technology, told

customers that it will offer PCs with both Microsoft's Windows Vista and XP and decided that its time to offer a Linux desktop.

The most dramatic news came April 27, when Reuters and several other news organizations reported on a leaked memo from Michael Dell to employees. Part of that memo took aim at the company's direct sales model, noting that direct sales to the customer was a revolution, "but it is not a religion."

For some analysts, these developments, both on the technology side and on the marketing end, are a sign of more changes to come.

"It's all part of one umbrella idea that the company is no longer focused on efficiency, but is now focused on getting its customers back," said Richard Shim, an analyst at IDC who follows Dell's PC business.

Shim said that Dell is trying to take a stance early and show itself as an innovator and show that its PCs have value beyond just dollars and cents.

"A lot of this technology that they are pushing right now is new so they might get burned. With the solid state drives, for example, people are going to argue that the company is either desperate or that they are innovative and pushing the envelope. In reality, it's a little bit of both," Shim said.

Shim pointed out that Apple, which reported second-quarter net income of \$770 million and revenues of \$5.17 billion, is the ideal company for showing how to use innovative technology, such as what Apple has done with its notebook line, to keep and expand its customer base.

It should be noted that Apple, based in Cupertino, Calif., places a premium on the customer experience, something that Dell is struggling to regain.

All these various moves, both micro and macro, come at a time when Dell is continuing to rediscover its footing in the PC market. Separate reports by Gartner and IDC on April 18 showed that Hewlett-Packard continues to lead the worldwide market, while smaller companies, such as Taiwan's Acer, have started to pick up some of Dell's lost market share, especially in notebook sales.

While Dell remains in second place in terms of worldwide sales, Gartner found that the number of the PCs the company shipped fell from 9.4 million in the first quarter of 2006 to 8.7 million this year, a 7.8 percent drop. On the other hand, HP watched its shipments increase more than 28 percent, while Acer's shipments increased 46 percent.

While Acer has made some noise about taking market share away from Dell, the two companies sell to different customers. However, Shim does believe Dell could lose additional customers if it does not address some of its lingering concerns.

"Acer is among a number of companies, including HP and Apple, that is gaining rapidly in the consumer market segment, potentially taking customers away from Dell," Shim said.

Then there's Dell's finances and accounting practices, which have drawn the scrutiny of the Securities and Exchange Commission. In its last several quarterly financial statements, Dell has acknowledged problems and internal company committees are looking to fix these irregularities.

The first sign that the company was serious about changing its old ways happened late in January, when Michael Dell re-emerged to take over the company he founded, while his hand-picked successor, Kevin Rollins, was let go. Dell also brought on several executives to work on its customer relations, global marketing and the company's supply chain.

In the three months since his return to day-to-day operations, Michael Dell has made a trip to Asia to show the company's commitment to emerging markets in China.

Meanwhile, back in the United States, the company's Web site now offers its own "IdeaStorm" blog for customer feedback and suggestions.

Then on Friday, the leaked internal memo to employees showed that Michael Dell was even willing to discuss tinkering with the company's biggest sacred cow: direct sales.

"Michael is willing to try these things," said Roger Kay, the president of Endpoint Technologies Associates. "He's not acting like a financial guy. He's acting like a very hands-on operational manager and the whole Dell model seems to be on the table."

A Dell spokesperson said the company was not commenting on the memo.

It's also not a guarantee that Dell will throw away the direct sales model as it does remain a more efficient way connect to its commercial base, according to Kay's analysis.

"It still does have a lot of advantages and direct distribution is still a way to sell at a lower cost," Kay said.

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