

The **Vision** *of* **Michael Dell**

How does the future look to the man who redefined the way that PCs are sold? 'Vast and enormous,' says Michael Dell, CEO of Dell Computer Corporation, as he steers his company toward becoming a complete IT solutions provider.

by Cheryl D. Krivda

Photograph by Wyatt McSpadden

Michael Dell stood before his people, animatedly preaching a message of eBusiness commitment to a largely converted audience. The 35-year old multi-billionaire, known for his dorm room-to-boardroom success as CEO of Dell Computer Corp., was clearly enjoying connecting with his customers and partners at the company's annual DirectConnect event last fall at corporate headquarters in Round Rock, Texas.

"Your Internet capabilities are as critical as your financial performance, and the two are closely linked," he told the audience. Citing the results of a Dell-sponsored census of 1200 companies, he continued, "there is evidence that the further companies integrate the Internet into their business, the more financially successful they will be."

The boyish grin made famous by countless business magazine covers broke wide open, its owner plainly satisfied to be helping customers navigate the confusing waters of Internet-related business issues. Michael Dell was in his element, reveling in the technology innovation delivered by his company and his ability to teach businesses how to move toward what he views as the future: eBusiness.

The larger the company, he was saying, the bigger the potential for improvement when the Internet is incorporated into the capabilities of partners and suppliers as well. Then the lesson turned personal. "As a whole, I give businesses a C minus on Internet integration," Dell said. "Only the easy steps have been taken. And it's clear from the data that the more complex the Internet initiative, the less likely companies are to implement it. I can't emphasize enough what a large opportunity this offers."

The Dell model

Exploiting opportunities is Michael Dell's forte. Dell Computer has been a market leader in PC sales virtually since its namesake founded the company out of his University of Texas dorm room in 1984. Recognizing



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a need for better customer service and reliability than the larger players offered, Dell began ordering parts and custom-assembling PCs for buyers. The direct model took off, along with Dell Computer's fortunes. For fiscal 2000, gross revenues topped \$25.2 billion. In late 2000, Dell was selling \$50 million per day online in equipment and services.

The Dell Marketplace went live in November, linking Dell customers with each other, as well as to Ariba's ecosystem of more than 30,000 suppliers and value added service providers on the Ariba Commerce Services Network.

But Michael Dell cannot rest on these successes. The PC market, analysts agree, is a maturing one. Within a few years, the market for first-time buyers will be glutted and growth will tail off, with sales devoted predominantly to replacement machines. Dell Computer, the leading seller of PCs in the late 1990s, will need to broaden its horizons to continue growing. Michael Dell is confident he is up to the task.

Spotting opportunity

For the last year or more, Dell Computer has been making moves to evolve from a PC manufacturer to a complete IT solutions company. "Dell is an excellent box maker," confirms Roger Kay, an analyst for IDC. "They've turned that into a fine art. But that can be a strength as well as a weakness. The box market is maturing and the growth area in hardware is not on the client side."

This reality has not gone unnoticed at Dell. As the Internet assumes a more critical role delivering communications and transactions, Michael Dell is pushing his team to find new ways to use the technology to enhance efficiency and customer service.

The Dell Direct model went online and became Dell.com, and Dell suppliers were electronically linked to the company's production requirements. A new Dell Marketplace, powered by Ariba, was launched to support integration among Dell customers and partners.

Michael Dell acknowledges that things are changing. "As we have moved our business online, increasingly customers have come to us asking how they can do the same. There's a product opportunity there for us, but also an opportunity for us to help customers accelerate their own deployment of these kinds of solutions," he says.

It's that opportunity that Michael Dell understands – the opportunity to take advantage of the impact of the Internet, and to help customers and his own company succeed. Some industry observers credit the Dell Direct model with laying the groundwork for today's online sales. Michael Dell does not leap to claim that glory. He pauses, then cautiously admits to appreciating the compliment. "I can't really claim to be that smart," he says, deferring again, "but it sounds good to me."

Industry kudos

People who know Michael Dell speak highly of him. Unlike some other CEOs, business "personalities," and – truth be told, extremely rich men – Dell has retained a down-home approachability that many lose over time. The man who has been named Entrepreneur of the Year by *Inc.* magazine, Man of the Year by *PC Magazine*, and Top CEO in American Business by *Worth Magazine* always gives you the straight story, insiders say, whether you're a fellow CEO, an analyst or an employee. Moreover, Dell understands his business intimately and is willing to spend as much time as necessary helping others

to see the opportunities that lie ahead.

“He’s all substance,” says Keith Krach, chairman and CEO of Ariba. “He has very strong convictions in terms of the right way to do things, and he’s surrounded himself with a great team.”

IDC’s Kay confirms Krach’s assessment. “Michael Dell is one of the most enjoyable CEOs I know. He

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will go toe-to-toe with analysts at a briefing for hours, well beyond the scheduled close of a session. He knows his business inside and out. He is energetic and good-humored and courageous in a personal way. There aren’t many CEOs who put themselves on the line this publicly,” he says.

A view toward change

Until recently, technically solid products and the Dell Direct model of selling and servicing customers were enough to guarantee the company’s success. By 1998, Dell’s stock was up 29,600 percent for the decade, sales had risen from \$3.4 billion in 1995 to \$12.3 billion in 1998, and the stock was one of the market’s best in terms of return on stockholder investment. Analysts cyclically predicted a downturn in the PC market, but it never came.

Until last year. At press time, Dell was anticipating FY2001 returns of \$32 billion, an increase of 27 percent over the previous year, but three percent short of the projected annual revenues. Stock prices fell to a two-year low, and analysts sniffed that the PC market was dead.

Dell, meanwhile, had begun an evolution to a less PC-centric business model. Where only recently PC sales accounted for 75 percent of the company’s revenues, changes to the Dell product line are shifting the company’s balance sheet. With hardware such as storage and servers, services such as consulting and hosting, and training, Dell’s CEO is satisfied that the company is moving in the right direction.

“The primary device that people use to access the Internet is a PC, and that continues to grow at a rapid rate,” he says. “Over the last few years, our business has been shifting to mobile computers and also to servers and storage that power the center of the networks. Those businesses collectively – the mobile computers, the servers, the storage and also the services that go around them – now represent a little over half the business. There’s been a pretty meaningful shift away from desktops onto the other areas of the business.”

Dell also recently achieved another internal goal, to conduct 50 percent of its sales online by 2000. Michael Dell expects the percentage of online sales to grow. “The value continues to increase, certainly in absolute dollars, but also as percentage of our revenues,” Dell says. “In every country around the world, customers are increasingly buying online. The buyer side activity for Dell – whether it’s through the Premier Commerce infrastructure that we have in place for large customers or a variety of mechanisms that we have in place for small and medium size customers, such as the new Dell Marketplace, or through simply Dell.com for smaller users who want to click to order – is now well over half our business.”

Yet moving more of the sales activities online does not threaten Dell’s long-standing focus on

service and reliability, he says. “Some people think of the Internet as a sales and distribution channel, but I think of the Internet as another form of communication,” Dell explains. “While we might maintain our face-to-face and telephone relationships with customers, the transactions can now increasingly be processed over the Internet to drive cost and efficiency through the relationship. We’re less likely to deal with the mundane, the repeatable, the transactions that move data from one place to another [in person], and more likely to deal with creating real solutions.”

Seeing the way

Michael Dell believes that his company’s success can show other companies the way. First and foremost, companies must embrace and integrate the Internet into their business processes. Yet most businesses shy away from the technologically complex Internet-based integration projects.

A Dell-sponsored e-census of 1200 companies conducted by the University of Texas asked how companies were integrating the Internet into their business processes. Most have basic product information and customer capabilities online, but few can report quality or production-related information to suppliers. “Companies have a long way to go before fully embracing the Internet throughout their value chains,” Dell said at the Direct Connect conference.

Why are business executives so unwilling to dive in? “Many companies have only dealt with the surface-level opportunity, such as the creation of a website or going online, but they didn’t really take on any of the heavy lifting,” Dell posits. “Perhaps they didn’t get a very fulfilling response from the early activities they went through, or the results didn’t deliver much that was valuable.”

“Some companies thought that if they got a basic Internet presence, all the other things would happen by themselves,” he continues. “Remember, the Internet is not a business model. A website is not the answer. Only when you implement all the business

processes and the integration of those using the Internet can you possibly begin to see the benefits.”

The risks of changing the business processes to accommodate the Internet are unquestionably worth taking, he argues. “All of the gains we have had have been because we did some deeper level of integration with our core systems or our suppliers and implemented deeper ways of using the data, rather than [just] a basic online presence. As you get deeper levels of integration, the benefits rise tremendously,” Dell says.

Despite the company’s success, Michael Dell does not view himself as an eBusiness visionary charged with helping businesses make this transition. “I’m certainly one of many people out there talking about this and promoting the idea [for the benefit of our customers],” he acknowledges. “But there are others that have also made a lot of progress.”

New priorities

Dell began shifting business processes online in 1991, when technical notices were posted on an FTP site. For that, Dell says, “We should probably take a little bit of credit. When the Internet first came into light in our company, it was pretty clear that if we let it go on its own, we might find ourselves without a relationship with our customers. We felt it very important to establish a direct relationship with our customers through the Internet. So we made that a huge priority in our business,” Dell says.

Krach of Ariba disagrees, seeing Michael Dell as an industry leader. “Calling him an eBusiness ‘visionary’ sounds about right,” he says. “He earned that by thinking outside the box, by challenging the process. When you look at the history of Dell, there was a strong vision there, which comes from putting the customer first.”

Driving innovation

One factor in Dell’s success is the company’s willingness to embrace and apply new technology innovations to pressing business issues. In an effort to enable their customers to conduct online business

quickly and easily, Dell recently launched the Dell Marketplace (www.dellmarketplace.com). Powered by Ariba Marketplace, Network Edition, and running exclusively on Dell servers, the Dell Marketplace went live in November, linking Dell customers with each other, as well as to Ariba's ecosystem of more than 30,000 suppliers and value-added service providers on the Ariba Commerce Services Network.

"Many companies struggle to get started in a marketplace," says Dell. "This marketplace is a very easy way for companies to get connected without spending a year getting going or investing in a massive project to make it

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happen. As we get more suppliers involved, there's an opportunity to consolidate purchasing and reporting, which we've heard from our small and medium business customers will be quite valuable."

Dell values its partnership with Ariba not only for its technology innovation but also its leadership. "Ariba has been an early and fast leader in commerce platforms," Michael Dell says. With its "comprehensive suite of tools and applications, we've seen Ariba solutions embraced by a significant portion of our customer base. Ariba has been a great partner." Dell is also using Ariba Buyer to streamline its indirect procurement processes and is discussing how other Ariba technology could be beneficial for Dell Computer and its customers.

The relationship between Dell Computer and Ariba is built upon the shared trust and common vision of B2B eCommerce, confirms Krach. "Both companies have an obsession with customers and customer satisfaction. And both companies were built on innovation, and thinking outside the box, and creating strategic advantage in terms of doing things differently," he says.


Flexible thinking

Roger Kay of IDC says that Michael Dell's flexible thinking style has become a critical part of Dell Computer corporate culture. "One of the hallmarks of Dell is that it always learns from its errors," he says. Mistakes with notebook computers in 1993 and a failed foray into retailing met with quick re-evaluation. "Dell is always extremely adroit about backing out of errors and moving onto the next thing. They are willing to reassess the situation when necessary and act quickly. That's a sign that there's not a lot of ego there. I've seen a number of those maneuvers over the years. And it's a good trait. It means they're adaptable."

In the effort to broaden Dell Computer's horizons, Michael Dell recently acknowledged that the company is considering major acquisitions, an unprecedented move. Kay expects to see acquisition of a portfolio of companies in the short-term future.

When asked if hindsight provides him with the vision to avoid future mistakes, Michael Dell pauses and then laughs. "That's a much longer conversation," he says jovially. "It's easy to look back and find plenty of areas where you might have made a mistake."

Execute, execute

Yet it would seem that looking back is not a focus of Dell Computer, not when looking forward offers so many possibilities. "The challenge is not coming up with the ideas. We've always had an excess of opportunity," Michael Dell says. "It's executing on them. We've really got to be careful in picking where we're going to target our strategy next. The opportunity in our industry is so vast and so enormous. You've got to do the best you can to identify the opportunities and execute on them," a talent that Michael Dell seems to have the vision for. 

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