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Falling Short of A+

By [DAMON DARLIN](#)

ROUND ROCK, Tex., June 9 — Kevin B. Rollins, the chief executive of Dell, does not want to dwell on what has gone wrong for the last year at his company, the world's largest computer maker. He calls it "wallowing."

When pressed for an explanation of why revenue growth has slowed drastically and why profits have fallen, his explanation is short. "We got a little too far ahead on profit, and that allowed competitors to sneak in," he said in an interview at the company's headquarters here, referring to Dell's profit-margin goals. "Our competitors got better, and that allowed them to get strong."

How could this happen on the watch of a former Bain & Company consultant who prides himself on measuring everything and on meticulous execution? "We just don't know," said Mr. Rollins, who has held the top job since July 2004.

Though the company has faltered, for the first time growing more slowly than the rest of the PC industry, it is not a crisis, said Mr. Rollins. "It's not anywhere near that," he said. Nonetheless, Mr. Rollins is not being blasé about the very real problems facing Dell, which recorded revenue last year of \$55.9 billion. He is pushing the company to act quickly and aggressively to fix its problems lest they get bigger. There is truth in the law of big numbers, he said, which states that it is harder for a multibillion-dollar company to grow at the rate a multimillion-dollar company grows.

Dell will be growing more slowly, he said, but it will still grow faster than the rest of the industry, improve profitability and take market share from competitors.

Joseph A. Marengi, Dell's senior vice president for the Americas, said: "There is a feeling of 'let's get this back to where it should be.' It's basic business, but at the end of the day there is a sense of urgency."

One problem was of Dell's own making: the deterioration of its customer service. It has thrown a lot of money at that problem very quickly, more than \$100 million in the last few months, to answer consumers' questions quickly.

Its other major problem is more vexing. Dell does not have a major cost advantage in low-priced

notebook computers. "That's where our advantage has been a little lower, and that's where the growth has been," said James M. Schneider, Dell's chief financial officer. The company has to find a way to squeeze more costs out of a procurement and manufacturing system that is already world-renowned as the leanest in the industry.

Mr. Rollins insists that the company was not complacent. "We pushed some elements faster than we should have," he said, comparing the situation to that of an A-plus student who merely gets an A. It is still a great performance, but everyone is nonetheless disappointed. Mr. Schneider agreed, saying, "Once someone misses who never misses, there is concern."

The sense of urgency that Mr. Rollins is trying to instill comes at a time when Dell's share price has been in steady decline, hovering lately around \$25, a loss of about 40 percent since last July. It is a long way from the heights of almost \$60 achieved in 2000, before the stock fell to barely \$16 after the technology boom collapsed.

Wall Street is still wary. A. M. Sacconaghi, an analyst with Sanford C. Bernstein & Company, said that Mr. Rollins's "articulation of a series of steps and a plan is a plus." He also said, "The company has misestimated its fortunes before, so there is some healthy skepticism." Mr. Sacconaghi said he thought that the company would have been better off solving its problems with customer service and improving product design before it started cutting prices to increase sales.

To reverse its recent setbacks, Dell is now willing to question just about anything — even breaking longtime exclusive allegiances with a major supplier like [Intel](#).

Dell announced last month that it would begin using chips from Intel's rival, [Advanced Micro Devices](#), in one of its high-end servers. Asked if the company would switch to A.M.D. processors for some of its PC's, Mr. Rollins would answer only with a wink. Glen Yeung, an analyst with [Citigroup](#) Global Markets, has said Dell would do so by September.

Dell's exclusive use of Intel processors has lately appeared short-sighted. The fastest-growing segment of the notebook market, which is the fastest-growing segment of the PC market, has been for machines with Advanced Micro chips, Mr. Marengi said. Other companies, most notably [Hewlett-Packard](#), were able to offer lower-priced notebooks because they used Advanced Micro.

Meanwhile, the decline in computer prices took a toll on customer service, long a hallmark of the Dell model. The company found it harder to justify the kind of service it had provided for \$1,000 PC's when those systems were selling for \$350. So it decided to stop fixing certain kinds of problems, mostly related to software, spam and viruses. It decided to answer more of its customers' questions from call centers overseas, and long waits became common.

The economies made sense on paper because individual consumers account for only 15 percent of Dell's business. But as complaints mounted, Mr. Rollins ordered a reversal. "We will do whatever is necessary

to get it fixed," he said. He moved the company's manufacturing wizard, Richard Hunter, to customer service and asked him to apply the methods of employee empowerment to call centers, calling out for help from specialists the moment there is an unmanageable problem. Dell quickly provided staff members for new call centers in North America.

Mr. Rollins sees a new service, DellConnect, as a technology that could solve customer woes and save the company money at the same time. A call center employee asks a customer with a troubled PC whether a Dell technician can take over the machine remotely via a high-speed Internet connection. The technician then diagnoses and fixes as much of the problem as possible.

Mr. Rollins said that DellConnect, which was in testing until early this month, had been used 450,000 times and that 80 percent of problems were resolved. Here is the part Mr. Rollins really liked: 95 percent of customers were left satisfied.

It is hard to argue that Dell ever got complacent about costs. "We've been at this a long time," said Glenn E. Neland, Dell's senior vice president and chief procurement officer. Two years ago, Dell eked out \$1.8 billion in cost savings. Last year, it squeezed out 22 percent more, or \$2.2 billion. This year, Mr. Rollins wants Mr. Neland to find an additional \$3 billion, or 36 percent more than last year. Mr. Rollins does not want it done the easy way, with layoffs. "It gets harder and harder to find it," Mr. Neland said.

Instead, the market's shift to notebooks, which Dell makes in China just as its competitors do, erased much of its cost advantage. "We'd have our thumb on all of the supply and all of the cost," Mr. Neland said.

Five years ago, the cost of assembling the PC's motherboard, which contains the processor and other main electronics, was \$20. With a supply base in China, a better knowledge of component costs and of how overseas assemblers operate, and by increasing competition among them, Dell got the cost down to \$5. The company might be able to squeeze more out of that area, but the gains will be small. It has to look elsewhere.

The savings are not necessarily in the hardware. For instance, Dell shipped computers to customers in three boxes, one each for the computer, the monitor and the peripherals. That was great for the individual customers, but made little sense for its business customers, who were getting up to 500 computers at a time. So Dell began packing 16 chassis or eight [flat-panel](#) monitors in a single box. Customers liked it better, too, because they had fewer empty boxes to dispose of.

Mr. Rollins is presiding over meetings on how to find several more major sources of savings. "Kevin leads a discussion," Mr. Neland said. "He is not a table-pounder. But once we have a level set, he can be very intense." Mr. Neland said sometimes the consultations are daily, "sometimes by the minute."

As focused as Dell is on its core business, a number of challenges remain. It is still relatively small in

Asia, where the world's greatest demand for computers has shifted. But it is growing fast in China and India.

Dell needs to catch up with Hewlett in supplying corporate data centers. Though Dell has a bigger share of the American market than its archrival, Hewlett dominates worldwide. Dell has just announced a new line of servers, known as the Power Edge series, that are easier to install and manage.

It has even made the servers more stylish by masking exterior buttons and switches and color-coding interior components to give data center managers a sense of order.

Dell is emphasizing style in its desktops, notebooks and printers as well, in an effort to keep those products from being mere commodities. On the door providing access to the interior of the XPS desktops, for instance, Dell installs a gasket and deadens the ping sound of the spring so it closes with the thud of a car door.

A new all-in-one printer uses a liquid-crystal display instead of many buttons to control functions. Dell designers are convinced that other makers go button-crazy so that the shopper in a store will quickly see how full-featured the product is. Dell, selling online or by phone, does not need that visual sales pitch.

The company has not made a splash selling flat-panel televisions the way it did when it entered the market for servers and printers. That is because prices across the board have fallen sharply, making it difficult for Dell to offer consumers a significant price difference.

But Mr. Rollins said that did not mean the Dell model of selling direct would not work there, too. It is opening stores in malls to display its products, though they must still be purchased directly by phone or over the Internet. The company sees major opportunities selling TV's to corporate customers. [Target](#) is buying digital TV's for in-store displays, Dell executives said.

"The opportunity to continue to grow in the highest-growth categories is ahead of us," Mr. Rollins said.

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