

Citation style: ProQuest Standard

# TIME

## **Dell Goes Retail ... And Why That's a Tough Sell**

*Ta-Nehisi Paul Coates*. **Time**. New York: Jul 31, 2006. Vol. 168, Iss. 5, p. 56

Author(s): Ta-Nehisi Paul Coates

Document types: General information

Section: *Business*

Publication title: Time. New York: Jul 31, 2006. Vol. 168, Iss. 5; pg. 56

Source type: Periodical

ProQuest document ID: 1081822311

Text Word Count 1098

Document URL: <http://ezp1.harvard.edu/login?url=http://proquest.umi.com/pqdweb?did=1081822311&Fmt=3&clientId=11201&F>

### **Full Text** (1098 words)

*Copyright (c) Time inc., 2006. All rights reserved. No part of this material may be duplicated or disseminated without permission.*

The company is opening mall locations to restore its lagging sales.

This week shoppers in a Dallas mall will bear witness to an oddity. For more than a decade, Dell has posted double-digit growth by selling computers directly to customers, most of them corporate clients. But two unfriendly trends have driven Dell to sell its wares at a place where chairman Michael Dell swore he would never be caught dead: a Dell retail store.

The first trend is the ever popular commingling of computing and entertainment in your living room. Yet Dell lives at the office. "We're seeing more and more of our technology intersecting with home entertainment," says Ro Parra, a senior vice president of Dell's home and small-business group. To entice gamers and movie watchers, Dell has unveiled new models in its multimedia XPS line. The units range from a \$3,500 desktop-notebook hybrid with a 20-in. screen and a remote, to a \$2,270 gaming desktop with a swanky scarlet-and-gray exterior and high-end specs. Its purchase of Alienware, a leading seller of game computers, will give Dell cachet in that segment. Parra says Dell's stores give consumers a chance to see its multimedia PCs and laptops in a home environment, paired with some of Dell's other consumer goods like its flat-screen TV sets. The company expects to open more stores in the fall.

The second reason for Dell to go retail is more prosaic. For years, Dell's direct-shipment model proved especially good for selling to businesses, which generate 80% of its sales. But the business market is becoming more commoditized, and prices are in a free fall. So everyday shoppers are powering the industry's growth. The consumer market grew at twice the pace of the enterprise market last year, according to technology-research firm IDC. Result: Dell's stock has plummeted 52% in the past year. The company's sales grew a lackluster (for Dell) 14%, to \$56 billion, in fiscal year 2006. Last Friday, Dell stunned Wall Street by warning that its second quarter would be a dog, sending the stock down 10% that day, to \$19.91, and taking the NASDAQ with it. A resurgent Hewlett-Packard, meanwhile, has outpaced the industry; it announced in May that profits had grown 51% over the prior year.

Many of the challenges facing Dell seem to spring from the very innovations that made it a juggernaut. By selling direct, Dell keeps a lid on overhead and offers customized computers at competitive prices, with relatively swift delivery. As the price of computing dropped, Dell was consistently able to shed costs and

maintain a price advantage over rivals. But this year Dell's competitors have attacked that price gap. HP slashed thousands of jobs and reduced the number of assembly plants, streamlining its supply chain and enabling it to go head to head with Dell on low-end machines. Retailers have also cut prices, even selling at cost and relying on upgrades and services for profits.

In opening stores, Dell is acknowledging that retailers are in a better position to address the increasing number of consumers who view computers as an entertainment purchase. Walk down the aisle of your local Best Buy, and you will see that desktop screens are as likely to display Sid Meier's Civilization as H&R Block's TaxCut. "It's not just a PC anymore. I'm connecting this box to the rest of my life," says Michael Vitelli, senior vice president of consumer electronics. "Dell made its money when the computer was a static box. People want to see the art of the possible, and we can give them that."

One possibility that doesn't exist is the ability to walk out of the store with a computer. The new stores won't carry inventory, so consumers will have to wait a few days for delivery. That lowers operating costs, but Vitelli says the impatience of the gotta-have-it-now mall shopper is not on Dell's side: "Are you going to go to the restaurant, look at the menu and say, 'That's great. Send me the meal in 10 days'?"

Even as the company ramps up its retail operation, Dell CEO Kevin Rollins still downplays the significance of the home market, saying "It's a secondary priority compared to our corporate customers." And he argues that the move is really an expansion of the small kiosks that Dell has set up in malls to allow customers to place orders. Says Parra: "We have 160 kiosks that have been very successful, and all we are doing is expanding on that success."

The stores are part of a bigger program to make the company more user-friendly. Dell is retraining its customer-support staff and offering a new service called Dell Direct, which allows a technician to connect to a customer's computer to root out problems. That's partly in response to harsh criticism after the company didn't initially beef up customer support as business grew, leading to 30-min. waits to talk to a phone rep. Last year Dell also announced it would hire 1,500 more call-center workers. "What I am most excited about is the investment in customer support," says Rollins. "It allows consumers who are not on a network directly, to connect with us the same way a big corporate client would."

Dell is confident that the direct model still affords consumers as much advantage as it does business. But last week's results signal that the days of exceeding growth predictions are probably over. Dell may be forced to grind it out like everyone else. "When you're that big, how do you keep growing like that?" asks Roger Kay, president of research firm Endpoint Technologies. "Dell has to reset Wall Street's expectations, but the computer industry is still seen as young. It's hard for a tech company to face Wall Street and say, 'Look, guys, this is who we are.'" It may be even harder when you've been No. 1 forever.

#### **[Author Affiliation]**

Ta-Nehisi Paul Coates

#### **[Illustration]**

[WYATT MCSPADDEN FOR TIME]; THEN - "Physical stores have been tried by a number of our competitors, and generally--actually, I would say universally--that strategy hasn't panned out." --Michael Dell, on CNBC in 2001 ; PHOTO

[ NOW - Dell wants to sell in retail stores but without the inventory. Are mall shoppers willing to wait for delivery?]; PHOTO

[BEN BAKER--REDUX]; STAYING IN TOUCH: Kevin Rollins, Dell's CEO, says the company is increasing service levels and reaffirming its commitment to consumers; PHOTO

[ REBOOT: Dell is adding more powerful machines, such as the XPS line, to appeal to the home-entertainment set \*-52%

Dell's stock tumbled in the past year as its growth slowed ]; PHOTO