

Dell

Celebrate for a nanosecond. Then move on.

SOME PEOPLE BUILD THEIR FORTUNES ON GREAT IDEAS. OTHERS, like Michael Dell, do very nicely by taking existing ideas and executing them better. Dell, the eleventh-richest man in America (at last count), has come to dominate an industry that worships innovation without really inventing anything himself.

That's not to say Dell, whose company now makes around 70,000 computers a day, isn't a smart, innovative guy. He's just more interested in making money now than dreaming up products that may or may not make money later. "If you invent something that no one wants to buy, I don't care," he said in 2003.

Dell was just eighteen when he saw the opportunity that was to make him (at thirty-one) the youngest-ever CEO to enter the ranks of the *Fortune* 500; that was when he started assembling computers from components in his room at the University of Texas and selling them by mail order. By the age of twenty-four, Dell had 1,600 employees and was worth an estimated \$100 million.

Dell had actually been in business, after a fashion, since he took up stamp collecting as a twelve-year-old. As he observes in his autobiography, "Before long, my interest in stamps began to shift from the joy of collecting to the idea that there was something here that my mother, a stockbroker, would have termed 'a commercial opportunity.'" He set up his own mini-auction house, persuading collectors in his neighborhood to consign their stamps to him, which he then advertised in a journal under the name Dell's Stamps. He quickly made \$2,000—a fortune for a kid barely into his teens.

He did a little stock and currency trading (as you do). Then at sixteen, he took a summer job selling subscriptions to the *Houston Post*. He soon noticed that the people most likely to buy subscriptions when he cold-called them were those who had either just moved or had just married. So he tracked down lists of recently issued marriage licenses and addresses of new homebuyers and targeted them directly with personalized letters, working after school and on the weekend.

“One day,” he recalled, “my history and economics teacher assigned us a project for which we had to file our tax returns. Based on what I had made selling newspaper subscriptions, my income was about \$18,000 that year. At first, my teacher corrected me, assuming I had missed the decimal place. When she realized I hadn’t, she became even more dismayed. To her surprise, I had made more money that year than she had.”

Dell’s father wanted him to be a doctor, so Michael enrolled to study biology at the University of Texas as a precursor to medical school. But, once again, he sensed an opportunity that was too good to pass up. In 1980, fifteen-year-old Dell had bought an Apple II computer with money he made selling his stamps. He had taken it apart and discovered the components were made by companies other than Apple. He figured that if you knew where to buy the different bits, and how to put it together, you could make the computer yourself.

By 1983, IBM had launched its first personal computer and Dell could see a new market opening up. His first venture was based on simple supply and demand: he had heard local IBM dealers were overstocked, so with cash saved from earlier ventures he bought a batch of IBM PCs wholesale and sold them through the classifieds, undercutting the retail price by such a margin that he quickly made sales of \$80,000. Adding extra components such as disk drives, he could soup up each computer to suit each customer, a service previously unheard of.

At first, he downplayed his business to his parents, hiding boxes of parts in the bathroom when they dropped by his dorm, but by the end of the first year, and with profits in excess of \$50,000, he called an end to the bluff and dropped out of college altogether. “I just knew there was a huge business opportunity here, and I had to take it,” he said. “If it had gone wrong, I could have gone back to medical school.”

Dell’s company, PCs Limited, moved into a shopfront in Austin, Texas, in 1984. That year he sold \$6 million worth of hardware. The following year, Dell started building from scratch his own computer, which was custom-built for mail-order customers, and sales leapt to \$34 million. An IBM clone called the Turbo PC, it was half the price of a comparable machine from IBM. Supplying direct to customers allowed Dell to cut out the middlemen and charge lower prices, and building directly to order for customers meant the company didn’t have to carry much inventory, vital when the price of parts was falling constantly.

Dealing directly with customers also meant the company received instant updates on what was selling and what was slow: by 1987, it was receiving 2,500 calls a day in response to its advertisements in computer magazines.

Rapid growth meant Dell, still just twenty years old, had trouble meeting demand and the Texas Attorney General’s consumer protection division was prompted to investigate complaints from customers about slow delivery. “I didn’t know everything there was to know about running a large business like this,” Dell said. “But I knew how to hire the people who did.”

Perhaps prompted by these early glitches, he adopted what would become a Dell trademark: customer service that offered a thirty-day, money-back guarantee and unlimited telephone support. He also hired E. Lee Walker as president of the company in 1986. Walker, forty-five, had start-up experience and a no-nonsense style, firing or demoting most of Dell’s senior staff immediately. In

1988, Dell floated the business and by 1990 was the sixth-largest manufacturer of computers in the United States.

The company is still based in Austin and still does pretty much what it did in 1984: it builds its own versions of IBM-style computers to order for its customers; though today, of course, they buy them over the Internet—from individuals at home to company-loads ordered by an IT department. Dell, barely forty, is worth \$16 billion, and there's no great secret to his success: he was simply able to apply and continually refine his first principles as the business grew. Dell focused on areas of business most people find deathly boring: supply chains, operating margins, distribution, and customer feedback. Dell has over five hundred patents—but they are all for deeply unsexy business process ideas, such as a way to configure more efficient manufacturing stations.

The upshot is that Dell, which had sales of close to \$55 billion in 2005, now takes around three hours to build a computer to order, with a cost structure that Michael Dell claims is half that of his competition.

Dell has convinced many of its suppliers to build factories nearby so it does not have to carry parts itself.

As a leader, Michael Dell is an odd mix of extrovert—to open a sales drive he once ran into a stadium filled with Dell employees carrying an Olympic-style torch—and introvert who loathes hype and fears hubris. A well-known Dell motto is “Celebrate for a nanosecond. Then move on.” When in 2001 an internal review revealed employees found him impersonal and detached, he faced the criticism head-on, explaining in a videotape to the entire company that he was painfully shy but would work on becoming more approachable.

Michael Dell believes in a management style called “two-in-a-box,” where executives are partnered with somebody who challenges and complements them. Dell himself has such a relationship with Kevin B. Rollins, who works in an adjoining office separated

from Dell's by a sliding glass partition. Dell plays the visionary while Rollins, twelve years his senior, handles the day-to-day aspects of running the company. In March 2004, Dell announced Rollins would become CEO and that his own title would change from CEO to chairman.

Dell, who still owns around 10 percent of the company, is fond of Armani suits, sponsors a baseball stadium called the Dell Diamond, and is married to Susan, a fashion designer, with whom he has four children. In 1999, they established the Michael and Susan Dell Foundation, a children's charity, with an endowment of \$1 billion.

NOTES

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