CEO's Corner: Michael Dell

Building a Superpower

Dean **Roger Martin** interviews **Michael Dell**, founder and chairman of the world's leading computer systems company and the youngest CEO ever to lead a Fortune 500 company.

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Roger Martin: Talk a bit about Dell's early years, and some of the challenges you faced.

Michael Dell: One pivotal point for us goes back to 1986. We'd grown very rapidly, to US$70 million in sales (which, by the way, would be a bad day for us today), and the question was, "what now?" We concluded that we had to go after the business market, because that's who was spending 70 per cent of IT dollars at the time. We also realized that we had to expand beyond the U.S. And third, we felt we had to become a leader in service – to create a differentiated service offering. So we set ourselves on this course, expanding into the UK, then Canada and Germany. We had great success in the 1990s by not being a price-based competitor. Our service orientation is what distinguished us from the competition.

RM: What were your competitors missing that you caught on to?

MD: The biggest insight came to us early on: that our business model is a great way to create relationships, which would serve as a structural competitive advantage. This was a foundational idea for us. As a customer myself, going to computer stores and seeing the markups they applied, the excessive inventory – the inefficiency of it all – it frustrated me. Products cost more than they should, and took way too long to get to the end user. And the salespeople didn't know much about them. Our competitors really underestimated the potential of our business system. I think they believed that what we were doing would never work, and even if it did, that we would become a niche player. When that didn't happen, and things progressed, making the transition to what we were doing would have been too difficult for them. They had too many related product lines – they got caught up in their own structures, and they didn't have the courage to make the leap.

RM: ...which sealed their fate.

MD: Yes, but at the time we were scared to death that they would try to replicate what we were doing. **IBM** tried at one point, but their attempt to 'put the toothpaste back in the tube' didn't work.

RM: In 1993, Dell faced some rough spots. What did you do to bring things around?

MD: In the early 1990s, we grew too fast, and expanded into too many areas. One was a new form of retail computer store, and the economics of it were a losing proposition for us. We realized we were better off focusing on the 'direct to customer' philosophy, so we pulled the plug on our stores. The thinking in the industry was that we'd become a niche player. But a year later, we entered the server business. This was met with a cold reception from analysts – they thought it was a waste of time. But we disagreed. We saw servers beginning to standardize, and we believed this was a huge market. True, our major competitor in the server market (**Compaq**) was losing money, but they were overcharging and using their enormous profit pool to compete with us. We looked at acquiring a company to build the servers, but decided we could do it ourselves. Once again, the analysts said, "bad idea". So sure, we've made some missteps along the way, but we always forged ahead. We now have the largest market share in servers in the U.S., Canada, Japan, China.

RM: It seems people questioned your choices on many occasions. What gave you the confidence to press on, despite what the competition was doing and what the analysts said?

MD: It's not some special herb or anything – it's been a data-driven process. Through our relationships with customers, we've always captured an enormous amount of data about what customers like and don't like, which goes directly into company strategy – as opposed to R&D dictating strategy. A lot of computer companies are still using an old business model where 'white lab coats rule'. But if you're organized around product lines, you often don't really understand what the customer is thinking. If you wander around some of the tech tradeshows these days, you'll see lots of this – great technologies that offer complex solutions where there are no problems! At Dell, we don't try to solve the hardest problems – we go for the simple ones, but we go big.

RM: You seem to be dedicated to understanding your customers, and to removing costs for them.

MD: There is an enormous rate of product changeover in our industry, and the customer data we collect helps us create a pull system, rather than a push system. Ours is an anticipatory structure – we don't just make products and send them out to be sold. And the rapid decline in pricing gave us an enormous structural cost advantage. At Dell, you're only a hero if you save your customer money.

RM: Are you concerned about the globalization of business?

MD: I haven't heard any good alternatives to it yet. The truth is, Canada and the U.S. make up a very small percentage of the world's population, but we control a disproportionate amount of the wealth, because we produce things the world needs – pharmaceuticals, computing – in short, value. But you can't say to China (Dell's fourth largest market), "we want to sell you our products, but you can't sell us yours!" Closing down trade, and being insular – that's not the way to go.

RM: Dell is a prime example of the demise of the vertically-integrated company.

MD: We would never have grown as fast if we'd tried to do everything ourselves. Finding the best partners for our 'ecosystem' has been key to our success. But this, too, continues to evolve. For instance, we're currently consuming 20 per cent of the world's supply of LCD screens, so we'll have to build new manufacturing plants to handle the demand – and soon!

RM: What's your take on Apple's woes?

MD: It's not that Apple's products aren't great, because they are. But they are inventing lots of things that people aren't willing to pay for. Their focus seems to be too much on the products themselves, which is only part of the puzzle.

RM: When you go against the advice of analysts and others, are you following your intuition?

MD: That's definitely part of it. If you wait for all the data to come in, you're usually too late, so you have to go with your intuition and make adjustments along the way. It's quite different from guessing though – because we always have a good amount of data on hand. For example, with our colour printers, the sales trajectory over the first two weeks told us "these are winners!" – so if that trend doesn't continue, we know something in the system has to change – price, shipping, etc.– and it has to change fast.

RM: What's next for Dell?

MD: It's a very exciting time for us. We've got a $50-billion business – but that is only six per cent of the market share in an $800-billion market. There are enormous opportunities to grow; our focus these days is on picking the right ones, and making sure that we have the talent and leadership to support it. As we grow our product lines, we see a faster ability to gain share in new markets. For instance, this year we'll sell about five million printers. Printers are five or six times more profitable than computers, and the market for them is growing. We just introduced Dell colour laser printers, at under US$500 – that's a huge area of opportunity for us. We project a billion dollars in revenue this year.

Michael Dell spoke at the Rotman School as part of the *Rotman Integrative Thinking Seminar Series* in September.