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Strategies That
Revolutionized
an Industry

"When it comes to
exploiting the promise
of the Internet, Michael
Dell is taking the rest
of corporate America
to school."

—*BusinessWeek*

A photograph of Michael Dell, the founder of Dell Computer Corporation, sitting on a dark box. He is wearing a blue dress shirt, a patterned tie, and a watch on his left wrist. He is smiling slightly and looking towards the camera. The background is a solid blue color.

MICHAEL DELL

Chairman and CEO, Dell Computer Corporation

with Catherine Fredman

Fully Revised with a New Preface by the Author

Direct from



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with 



HarperBusiness

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"Dell's story is the stuff high-tech legends are made of."

—*Forbes* ASAP

"Computer maker Dell is showing the world how to run a business in the cyberage."

—*Business Week*

"There is tumult in the personal computer industry and it is due largely to one man: Michael Dell. Competitors would love to match its ability to quickly accept orders, build the PCs, then move them to buyers. But Dell is setting the standard."

—*USA Today*

"The thing that sets Dell apart is its ability to do exactly what the competition tends to believe cannot be done. . . . It's scary to think where [Michael Dell's] going to be in ten years—he's going to be a powerhouse in the computer industry after Lou Gerstner's successor's successor retires."

—*Fortune*

"In the past three years, Dell has been on a jihad to make its manufacturing and assembly process as fast and fine-tuned as a Mercedes. The result: Dell is now one of high-tech's best growth engines."

—*Business Week*

"Dell is to the computer industry what Dominos is to pizza delivery: fast, dependable, and ubiquitous."

—*Time*

"The do-it-the-customer's way mantra has created for Dell the tightest—and most envied—relationship with buyers in the PC business."

—*Business Week*

"Dell is famous in the business for its strict inventory controls, and is envied for its margins. . . . This is one smart operation."

—*San Jose Mercury News*

Direct from **DELL**

*This book is dedicated with love to my family:
Susan, Kira, Alexa, Zachary, and Juliette*

ACKNOWLEDGMENTS

FIRST, I AM GRATEFUL TO MY FRIENDS whose support and encouragement have been steadfast, through good times and bad. Without them, the rise of Dell, as described in this book, would have been impossible.

Our customers have been a constant source of inspiration and learning; they have provided us with the ideas and feedback that are the basis of our success.

My parents instilled a curiosity and drive that continues to serve me well. I thank them for understanding a son who followed an unusual path.

The men and women of Dell Computer Corporation continue to prove that the innovation and commitment of its people are what takes any good company and makes it great. I especially want to thank my colleagues on the executive team, who make the adventure of running our company fun on a daily basis, and who continue to shape my thinking.

Three women have offered close collaboration on this project:

Catherine Fredman, my creative partner, who through her research and probing questions brought this project to life and helped turn my ideas into something understandable on paper; my editor, Laureen “You have to do this Book!” Rowland, who provided invaluable help and mobilized the full resources of HarperCollins; and Michele Moore of Dell, who played an indispensable role on this project, and on so many others over the years.

Last but not least, I would like to thank my wonderful wife, Susan, for her never-ending support, encouragement, love, and tremendously positive attitude. I could not ask for better partner in life!

—*Michael Dell*
Round Rock, Texas
February 1999



TIMELINE

1980

In a harbinger of what would come, Michael Dell purchases his first computer—an Apple II—and promptly takes it apart to understand how it was designed and made.

1983

Declaring he ultimately wanted to beat IBM, the young Dell conducts a lucrative business out of his dormitory room at the University of Texas, selling upgraded PCs and add-on components.

1984

With \$1,000 in startup capital, Michael registers his business as Dell Computer Corporation, doing business as PC's Limited, and leaves school in May of that year. The company becomes the first in the industry to sell custom-built computers directly to end-users, bypassing the dominant system of using computer resellers to sell mass-produced computers.

1986

Dell unveils the industry's fastest-performing computer, a 12 MHz, 286-based system, at the Spring Comdex national computer tradeshow. The system quickly garners rave reviews from the technology press.

The company also pioneers the industry's first thirty-day money back guarantee, which becomes the cornerstone of Dell's commitment to expand its service offerings and offer superior customer satisfaction, and offers the industry's first onsite service program.

1987

In a bold move for the fledgling operation, Dell establishes its first international subsidiary in the United Kingdom. Eleven more international operations would open over the course of the next four years.

1988

Dell raises \$30 million in its initial public offering, bringing the market capitalization of the company, begun with \$1,000 in capital, to \$85 million.

1989

The fast-growing company experiences its first major stumble: It accumulates excess inventory of memory components, which results in write-downs, and cancels an overambitious product development program code-named "Olympic."

1990

Dell becomes the first computer company to jump into the burgeoning market for computers sold through consumer retail stores such as CompUSA and Best Buy. The company later

becomes the first company to exit this segment as well, after determining the retail-store model did not meet its financial objectives.

1991

Converting its entire product line to the highest-performing Intel 486 microprocessors, Dell demonstrates its commitment to rapidly delivering the latest technology to its customers.

1992

Dell achieves slightly more than \$2 billion in sales for the fiscal year ended January 1993, which represents a remarkable 127 percent increase.

1993

Suffering from the pains of extremely rapid growth, Dell cancels a secondary offering and posts its only quarterly loss resulting from a temporary withdrawal from the notebook market, its exit from retail stores, and a restructuring of European operations.

“Liquidity, profitability, and growth” become a company mantra, signifying its shift from a focus on growth alone to more balanced priorities. *Upside* magazine gives Michael Dell the dubious distinction of “Turnaround CEO of the Year.”

1994

Following a hiatus from major participation in the market for notebook computers, Dell launches its new Latitude notebook line with record-breaking battery life.

Following the earlier launch of Dell Japan, Dell opens its first operations in the Asia-Pacific region, which has become the fastest-growing international startup in the company's history.

1996

Dell challenges the traditional market for premium-priced servers based on proprietary technology with its introduction of its PowerEdge server line. In less than two years, PowerEdge vaults Dell from the tenth position in market share to the third largest server vendor in the world.

The company's quiet bid to sell custom-built computers over the Internet quickly becomes a public revolution when the company announces that sales over www.dell.com have exceeded \$1 million per day. During the same year, Dell introduces its first custom-made web links for customers. Called "Premier Pages," the links allow customers to tap directly into the company's own service and support databases.

1998

Dell solidifies its Internet leadership when it tops \$12 million per day over the Internet, expands its Premier Page program to more than nine thousand customers and establishes web-based connections with its suppliers to speed the flow of inventory and quality information.


Dell opens an integrated sales, manufacturing, and support center in China.

1999

Dell becomes the number one PC company in the United States, the largest worldwide market for personal computers. To accommodate its growth, Dell opens new manufacturing facilities in Nashville, Tennessee and Eldorado do Sul, Brazil.

Sales over www.dell.com top \$35 million per day.

FOREWORD



OUR COMPANY BEGAN THE DECADE OF THE 1990S as the 25th-ranked computer company in the world, behind brands that you've probably forgotten or never even heard of—companies like Mitac, Tandon, and Commodore. We operated in barely a handful of international locations. And because computers were then sold only through resellers, Dell's direct business model was viewed as an alternative and limited way of doing business.

Today, 17 out of the top 25 computer companies in 1990 no longer exist. But Dell is the number-one ranked company in the U.S. and the second-largest company, globally. We operate in 170 countries around the world. And "direct" is widely recognized as the preferred way of doing business. But the recognition of direct as the best way to do business is not limited to the computer industry. CEOs from industries as diverse as banking, automotive, and logistics pharmaceuticals have told me their most important strategic challenge is to make their company more direct. Why? The benefits are clear: customers order and receive products or services directly from the manufacturer, made to their exact specifications, and firms operate at maximum efficiency by not producing a product until they know it is sold.

It is true that our rise to prominence has been largely due to our dedicated focus on our direct-to-the-customer way of doing business, and to the management principles I've discussed in this book. But it is also true that our success—and the failure of many once-promising computer companies—reflects the incredibly rapid pace of change in the technology industry, and the danger that can come from not being quick enough to recognize, and respond to, new competitive forces.

The Internet has brought the pace of change that we've experienced in the technology industry to all industries, and with much greater intensity. Consider this simple example. Five years ago, if a group of 100 college-age students were asked whether they ever bought a book or CD online, the answer would likely be zero. Ask the same group that question today, and those who say yes would probably be close to 100. Now ask this sample group if they would consider buying a car online today.

Roughly 50 percent would say yes. How many will say yes in five years? I'm willing to bet the number will approach 95 percent.

The point is that the deployment of the Internet has just begun. The adoption of the Internet continues at a rapid pace and in this new connected environment, the continued success of our company—or yours—is by no means assured.

The Internet changes the fundamental nature of competition. As new ways of bundling products and services online emerge, your competition goes beyond established competitors to include companies you've not heard of yet, in addition to new innovations, ideas or ways of improving existing processes or products.

This is not a new phenomenon. Wal-Mart's fast rise in the late 1980s took the established retail industry by surprise, similar to how Nucor and other "mini-mills" shook the steel industry earlier in that decade. These companies created new business models outside the norm of traditional competition and in so doing, created new sources of customer value and profit.

The difference today is that the Internet dramatically increases the speed at which new businesses emerge and become established.

One reason is that the Internet changes the nature of capital formation, in that initial public stock offerings more closely resemble an invitation to invest in a venture capital fund, than an opportunity to invest in established company fundamentals. This gives emerging companies huge amounts of capital with which to experiment, whether it be through web-based business models or through acquisitions.

Another reason is that the Internet puts control firmly in the hands of the buyer, not the seller, as geography and physical location become largely irrelevant to price and product selection. Businesses that had an advantage because they sold things in a geographic area where people had limited information and couldn't travel to buy another brand are in real trouble.

I'm often asked to speak about Dell's early adoption of the Internet, and the lessons we have learned that can be applied to other businesses.

Most of our learning has been experiential, through trial and error. And as I've described in this book, that is one of the greatest beauties of

the Internet: the immediacy of customer reaction online makes experimenting relatively easy and lower cost.

Our direct business model also gives us a natural advantage as business moves online: because we have always had a direct relationship with our customers, we don't have to grapple with issues that arise from alienating resellers or distributors in order to establish direct Internet connections.

Even so, the lessons we have learned—what I call the “rules for Internet revolutionaries”—are, I believe, applicable in any company, in any industry.

First, velocity, or the compression of time and distance backward into the supply chain and forward to the customer, will be the ultimate source of competitive advantage. Use the Internet to lower the cost of developing links between manufacturers and suppliers, and manufacturers and customers. This will make it possible to get products and services faster to market than ever before.

Second, efficiency and execution will be at least as important as products and services. Turn over to outsiders operations that aren't central to your business advantage; this will free capital to invest in activities with higher value to your customers. How easy you make it for customers to buy and receive your products or services, and the economies you are able to provide to them by effectively harnessing the Internet, are just as important to online brand differentiation as what it is you have to sell.

This leads to the third and most important lesson we have learned: the web experience must be better than any experience in the physical world to create truly sustainable customer relationships and loyalty. Those companies for which the quality of experience has never been a part of the customer attraction—companies like discount drugstores and auto parts stores—will be particularly vulnerable to the onslaught of Internet ventures where shopping not only offers a rich and low-cost selection, but also convenience and personalized service as well. Experiment with Internet businesses; develop trials to see what customers value when they can access information in ways they never could before.

For Dell, each of these tenets has had their foundation in the lessons of direct. These are the lessons I've described in this book, and they continue to serve us well.



PREFACE

“I’ve Always Been Fascinated with Eliminating Unnecessary Steps”

WHEN I WAS IN THIRD GRADE, I SENT
away for a high school diploma.

I had seen the advertisement in the back of a magazine: “Earn your high school diploma by passing one simple test,” it said. It’s not like I had anything against school; I liked third grade. And getting a good education had always been really important in my family.

But at that age, I was both impatient and curious. If there was a way to get something done more quickly and easily, I wanted to try it. And trading nine years of school for “one simple test” seemed like a pretty good idea to me.

Early one evening, a woman from the testing company appeared

at the door of my family's home in Houston. My mother answered, and the woman politely asked for Mr. Michael Dell. At first, my mother was puzzled. But after asking a few questions, she figured out what was going on.

"He's taking a bath right now, but I'll call him," she said. Much to the woman's surprise, out I came, an eight-year-old, in a red terry-cloth bathrobe.

Both my parents and the woman from the testing company thought I had applied to take the test as a joke. But I was quite serious.

Since an early age, I've been fascinated with the idea of eliminating unnecessary steps. So I guess it's not surprising that I started a company based on eliminating the middleman. Dell sells computers directly to our customers, deals directly with our suppliers, and communicates directly with our people, all without the unnecessary and inefficient presence of intermediaries. We call this "the direct model," and it has taken us, to use a common phrase at Dell Computer Corporation, "direct to the top."

In 1998, we became the number two manufacturer and marketer of personal computers in the world. We grew five times faster than the industry rate. Our stock rose more than 200 percent—the largest share-price gain in the S&P 500 and the NASDAQ 100.

People have often told us that what we wanted to do couldn't be done.

Our success is due, in part, to not just an ability but a willingness to look at things differently. I believe opportunity is part instinct and part immersion—in an industry, a subject, or an area of expertise. Dell is proof that people can learn to recognize and take advantage of opportunities that others are convinced don't exist. You don't have to be a genius, or a visionary, or even a college graduate to think unconventionally. You just need a framework and a dream.

This book is neither my memoir nor a complete history of Dell Computer Corporation. Rather I hope it will be a guide to developing

and honing your competitive edge, no matter what industry you're in or what your role is. We happen to have succeeded in the computer industry, but seeing and seizing opportunities are skills that can be applied universally, if you have the curiosity and commitment. And because of the unique way in which Dell was started in my dorm room at the University of Texas, the trajectory of my own development as an entrepreneur and then CEO is inextricably bound to the development of the company.

In these pages, we'll explore what we have come to term our "competitive strategies"—speed to market; superior customer service; a fierce commitment to producing consistently high quality, custom-made computer systems that provide the highest performance and the latest relevant technology to our customers; and an early exploitation of the Internet. In Part One, I describe how these strategies took hold, born of good times and bad, as the company grew and changed and grew some more. In Part Two, you'll see how we've enhanced these strategies. And how, by finding innovative ways to combine technology with the information we glean from our direct relationships with employees, customers, and suppliers, Dell has developed its most critical competitive advantage: becoming a virtually integrated organization.