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DELL AND ROLLINS: THE \$41 BILLION BUDDY ACT

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[Headnote]

Chairman Michael Dell and his new CEO, Kevin Rollins, talk about guarding against wacky ideas, keeping their growth machine oiled, and why offs, ring isn't so bad.

BY DAVID KIRKPATRICK

IN MARCH, MICHAEL DELL FORMALLY RELINquished the reins of the company he founded in his college dorm room 20 years ago. That's what the press release said. But he and Kevin Rollins, the longtime lieutenant whom Dell chose to succeed him as CEO (Dell remains chairman), see the switch, which will take effect in July, as not much more than a title change. They stressed that point in their first-ever lengthy joint interview, in their shared office in Austin five days after the announcement.

The interview took place on Dell's side of the 40-foot-wide room. A sliding glass partition separates his space from Rollins's, but both insist that the glass has never been closed. It was one of many remarks they uttered simultaneously; each routinely finishes the other's sentences. Not that their personalities are alike. Dell, the 39-year-old entrepreneur, greets a visitor beaming. Rollins, 51, who came to Dell in 1993 as a Bain & Co. consultant, is more buttoned-up. In the office, the two say, they often overhear each other's conversations with investment advisors or wives and think nothing of it.

But then, they're not in the office together much. Hustling with customers is part of what has made Dell explode to \$41 billion in revenues. Unlike archrivals IBM and Hewlett-Packard, the company derives its sales overwhelmingly from the US market, but Dell and Rollins are often on the road working to fix that.

Though the company excised "computer" from its name last year, it still sells mostly PCs. Desktops account for about half of sales, and the more lucrative notebooks another quarter. Dell is also the U.S. market leader in servers, and has branched into selling data-storage gear, printers, PDAs, and even TVs.

Rollins and Dell were in a great mood on this Tuesday and, in their uptight way, having fun. Even some cockiness crept in, but with Dell's results, it's hard to fault them. In this year's FORTUNE 500, Dell topped the entire list in ten-year total return to investors.

Michael, why does a young, healthy guy like you want to give up such a great job?

Dell: I've still got the same great job. We run the business together, and we're going to continue. But I thought it was appropriate to publicly recognize Kevin's achievements and capabilities. So he is the CEO now.

Rollins: People don't realize that the way Michael and I have been running the company was irrespective of titles. We just worried about what needs to be done and who's available. When Michael talked to me about the CEO job, my first reaction was to ask, "You're not going to do anything different as part of the deal, right?" I wasn't interested in having a lot more to do. It's a big company, growing very rapidly, and it takes two of us to do it.

How does your partnership work?

Dell: It's divide and conquer. In two weeks I'm going to five countries in Asia for five days. A month or two later Kevin will do the same kind of trip.

Rollins: Different places, different suppliers, different customers. My training is in business and strategy. Michael loves technology-fundamental technology. And so, yeah, there are leanings there, but does that mean I don't know anything about technology? No. Does that mean he doesn't know anything about strategy? No. We don't spend a lot of time wondering who's in charge of what. It's just, "The job needs to be done, and can you go do it?" "No, I can't." "Okay, then, I'll go."

Dell: Or we pull out the strategic-management tool. That's a coin with my name on one side and Kevin's on the other.

Do you have a policy of checking with each other before you do something big?

Both: Yeah.

Dell: When Kevin makes a decision by himself or I make a decision by myself, it's never quite as good as if we make decisions together.

Rollins: We both sometimes have wacky ideas.

What's an example of a wacky idea that one of you talked the other out of?

Rollins: When you have a stupid idea, you don't want to tell everybody.

At least you were smart enough not to do it.

Dell: That's why we're smart enough not to tell you about it.

Dell has just come off another incredible quarter in which every single thing was at a peak—shipments, revenues, earnings per share, net income.

Rollins: Other than during the little dot-com dip around 2000, our quarters have always been records. It was actually quite a wake-up call for us in 2000 when we stopped setting records. So we rethought where we were going.

Dell: Back to the drawing board.

Rollins: We set new strategic goals, financial goals, organizational goals, and started our change-of-culture activities. We set up a whole range of initiatives. Michael and I have changed in terms of our maturity about how to run a company this big and sustain growth—how you become not just a great financial institution but also an organization where people develop. That's necessary to have a great company at \$60 billion or \$70 billion.

Dell: Your people want to build careers. We're starting to manage our cultural elements much the way we manage operational excellence.

Did you have to change how you behaved personally?

Dell: We put a priority on it. We made examples of ourselves.

Rollins: We now have a 360-degree evaluation process. Michael and I share the 360 feedback, good and bad, with all our direct reports. They have a free shot at telling us what they don't like about us and what they think we could do better. They wanted more feedback. They wanted an opportunity to participate more in the decision-making. They wanted us to be more open. We were maybe not as friendly as we could have been in making them want to stay here socially.

Those changes have rippled through the company. How does that tie to Dell's strategy?

Rollins: Our strategy is the direct business model: bringing great value to customers through a unique and world-class supply chain, customer intimacy, and great support. It's also the bedrock for our relationships-direct communications. It's how Michael and I deal with each other. It's how we deal with our teams. It's how we expect our teams to deal with each other. It's how we expect them to deal with customers.

Dell: It's free flow of information, no intermediaries, no boundaries, fast reaction times.

How big do you think Dell could become?

Dell: Information technology globally is an \$800-billion-a-year market. We have 5% of that market. Rollins: We've set a goal already to grow to \$60 billion. But we'll come to work the day after we hit \$60 billion.

Dell: We may have a nice little party.

Rollins: Sort of high-five ...

Dell: Yeah, get the Rolling Stones, have a great party.

Is that a promise?

Rollins: We haven't booked them yet. Maybe their price will have come down by then. They'll be older.

Dell: We'll be looking at much larger markets five to ten years from now than people can imagine today. Think about what's going on in Asia in the consumption and demand of technology. The U.S. is sort of the prototype for how the world could be massively productive using technology. But the U.S. is only 3.5% of the world's population. The opportunity is pretty huge, as we see it.

Rollins: People usually gauge opportunity based on the static idea of what the world sells and buys today. But a few years ago people didn't think that little desktop computers would lead to the explosive use of digitization in all of entertainment. The same thing is true in the corporate world.

Dell: Small biotech startups with 15 to 20 employees call us on the phone and buy 64 servers, and all of a sudden they've got a high-performance computing cluster, and that's their production engine for research.

On the other hand, IBM has struggled to grow beyond the range of \$80 billion to \$90 billion in annual revenue.

Rollins: We're a little different from IBM. We have the R&D to put together the technology, which is similar, but we also have our sales engine, which is more like a distributed retailer. So people say, "Dell is IBM." Well, not really. "Dell is Wal-Mart." No, not really. "Dell is an Intel." No, not really. Combine all those and you end up with a new animal, which has potential people don't realize yet.

Dell: What people have never understood is that we're not like other companies.

It is really astonishing how much lower your costs are than HP's or IBM's, by almost every measure.

Dell: And right there might be the secret of why Dell will be able to continue to grow. Customers have a pretty good sense for value in our industry. And having a high gross margin [like IBM] is not much of a margin of safety, given the macro trends.

Wouldn't IBM argue that, yes, we have higher costs, but we deliver higher value to the customer?

Dell: Stop right there. If they have high costs, why are companies outsourcing to them? I don't think they're saving money.

So in general you think companies are making a mistake to outsource their IT?

Both: Absolutely.

Rollins: And they'll end up paying for it in the long run.

What should they do instead?

Rollins: They should fix their own IT departments.

Dell: It's an abdication of responsibility [not to].

Rollins: If you give it to somebody else, you outsource your profits.

While we're on the subject of lowering cost, what about something highly controversial that Dell does--offshoring?

Rollins: We believe in all-shoring, not offshoring. That means you hire where you are and you stay close to the customer. In this past year we've added thousands of people in the U.S., in India, and in China. If you think that the Indian government is going to let us sell goods in India and have no employees there--no, it's not. And as you lift the income level of those people, what do they do? They buy technology. Who created that technology? The good ol' U.S. of A. So increasing the standard of living for China and India is going to benefit the U.S.

The manufacturing jobs in the US. have gone down, but manufacturing productivity has gone through the roof. I can take you to a factory of ours down the street where productivity increases 30% per year.

Dell: It's like \$14 billion worth of revenue coming out of this one plant. Why is that? It's technology. Only 3.5% of the people in the world live in the U.S. So we'd better be really productive, or else there's no way we're going to protect the 53% of the world's wealth that we control today.

Which new markets are you most excited about?

Rollins: Printers. We're beating our forecasts on units, revenue, and profit.

Dell: This year printing could be \$1 billion or more. You know, printers aren't that complicated.

Rollins: If you ask any CIO how much time he or she spends thinking about printing, it's like zero. So going in with a better value proposition, which is what Dell always represents, and starting to penetrate the printer market will actually be easier, we believe, than it was in the server business.

Dell: The whole history of Dell is basically [overcoming other people's] skepticism about our ability to enter new markets. I mean, this has been going on forever. "Will it work in this country? Is it complicated?" Blah, blah, blah.

Rollins: We sell \$100,000 storage systems online. So printers? Come on.

How big is the open-source Linux operating system going to be? How important is it in the industry?

Dell: Linux is the new Unix. Just about every customer we talk to is moving from Unix to Linux. Also, it's lower cost, because customers can run it on \$5,000 servers, as opposed to \$50,000 or \$100,000 servers.

Rollins: Linux is here to stay, alongside Microsoft, although Microsoft will remain a lot bigger. There's value to customers in having both.

You make only computers using Intel microprocessor chips. Some criticize you by saying Dell is just a distributor for Intel. Do you have a special relationship with Intel that it would be hard for anyone to make you break?

Rollins: Absolutely not. We're not a division of Intel. And we're not "just a distributor." You couldn't find a distributor in the world that has our margins.

Dell: Or our patent portfolio either.

Rollins: Yeah, or our engineering staff. So that's just being silly. Our desire is to bring greater opportunities and value to our customers through whatever means--whether it's Microsoft or Linux, Intel or AMD.

Unlike IBM's or HP's, your revenues remain overwhelmingly in the U.S.

Rollins: That's a good thing.

Dell: That's because we keep growing so fast in the US. Rollins: But the upside for us is having the same share elsewhere. We have 7% of the PC market in China and about 30% in the U.S. So, say, what's the potential of China? Well, 7% going to 30%. That is a lot of sales.

Dell: If we took you into our call center down the hall here and then teleported ourselves to Xiamen, China, and looked at the call center ...

Rollins: ... you wouldn't know where you were.

Dell: It's exactly the same except everything is in Chinese.

The orders come in by phone the same way?

Dell: Yeah, and on the Internet.

Rollins: But we also think the U.S. is still an untapped opportunity We have new products and new categories where we have lower share than we should -printers, storage, servers.

Will there be two parallel Dells, the business Dell and the consumer Dell?

Dell: The consumer opportunity, roughly speaking, is about 15%, maybe 20%, of that total \$800 billion opportunity. You can present all kinds of new things to the consumer, but businesses will spend more on productivity than people at home will spend on entertainment and productivity.

There's been some controversy over this question: Can companies still gain strategic advantage by using IT?

Dell: Absolutely. Take Dell as an example. Last quarter we had three days of inventory. Our inventories are turning well over 100 times per year, and we do use information a bit in that process.

Rollins: A little bit.

Dell: If you assumed that IT was a commodity and all companies were the same, then every company would have three days of inventory. Well, they don't. Some companies have three turns of inventory a year. All companies do not get the same results from their investments in IT. The world is still very much in the early stages of people figuring out how to use IT.

[Sidebar]

The book on Kevin Rollins

[Sidebar]

- * A tech-industry strategy expert, he consulted for Bain & Co. for 12 years.
- * Joined Dell in 1996; named president and COO in 2001.
- * Total gains from stock option exercises at Dell: \$200 million.
- * Like Dell, a staunch Republican.
- * A classically trained violinist, he recently took family to performances by Yo-Yo Ma and Itzhak Perlman.
- * Reading: Richard Brookhiser's Founding Father: Rediscovering George Washington.

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