



**Michael Dell**  
**Duke University**  
**Fuqua School of Business**

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**PARTICIPANT:** It is my distinct honor to introduce to you Mr. Michael Dell, Chairman of the Board and Chief Executive Officer of Dell.

Mr. Dell has built a legacy of achievement, innovation, entrepreneurship and philanthropy that defines leadership. Hailing from Austin, Texas, Mr. Dell founded the Dell Corporation in 1984 with \$1,000 and an unprecedented idea: to build relationships with customers.

In 1992, Mr. Dell became the youngest CEO ever to earn a ranking on the Fortune 500 at the age of 27. He has served as the company's Chairman of the Board since its founding, and as Chief Executive Officer from inception through 2004 and recently assumed the CEO role again in January 2007.

In addition to the great success in building the most profitable PC company in the world, in 1998, Mr. Dell formed MSD Capital, a private investment firm to make investments on Dell's behalf. In 1999, Mr. Dell and his wife founded the Michael & Susan Dell Foundation. The Foundation, with an endowment of over \$1 billion, focuses on a range of diverse issues, from the quality of public education to children's health. Mr. Dell serves on the foundation board of the World Economic Forum, the Executive Committee of International Business Council, and is a member of the U.S. Business Council. Mr. Dell also serves on the U.S. President's Council of Advisors on Science and Technology, and the governing board of the Indian School of Business in Hyderabad, India.

We are truly honored to have Mr. Dell join us today at Fuqua. Dean Bill Boulding will moderate your conversation with Mr. Dell. Please join me in extending a warm welcome. (Applause)

**WILLIAM BOULDING:** Okay, welcome everybody, and I extend my welcome to you. Thank you so much for joining us. The format of this conversation will be that I will ask some questions and then in the remaining time, we will turn it over to all of you, the students, for your questions.

So, let me jump right in and start with saying something that is obvious, which is when your name is mentioned in the words developed the business model that revolutionized an industry inevitably follow, and that Dell has one of the truly remarkable success stories in the world of business.

Having said that, there are presumably benefits to experience, and so if you could go back in time and talk to yourself, the younger Michael Dell -- (laughter) -- at the time when you were developing this business and your first business plan, what advice would you give to Michael Dell and what mistakes would you caution him to avoid?



**MICHAEL DELL:** There's plenty of advice I would have given him or given myself. Unfortunately, I'm not sure I would have listened. (Laughter)

When I started our company, it was very much an idea outside of the conventional wisdom, and if there were people telling me that it wasn't going to work, I wasn't really listening to them. But I think certainly I've learned a lot about leadership development and the importance of building a powerful team and investing in organizational capacity. So that's been a constant theme for our company as we've continued to grow. I mean, if you think about Dell in its first eight years, it grew about 80 percent per year compounded, and for the six years after that, it grew about 60 per year compounded. And if you do the math on that it ends up being several billion dollars pretty quickly, so we outgrew just about everything that we had many, many times. Systems, organizational strategies, capacity of various individuals, so those would have been, I think, certainly key lessons.

And at various times I think we got distracted along the way, but if I evaluate it and I say, hey, you know, I started with a thousand dollars and ended up here, well, it's just all right.

**WILLIAM BOULDING:** You'll take it. (Laughter)

**MICHAEL DELL:** It could have turned out a lot worse.

**WILLIAM BOULDING:** Let me flip this around, which is that in addition to the benefits of wisdom and experience that there are benefits to youthful exuberance, and so what do you think the younger Michael Dell would tell you today?

**MICHAEL DELL:** Well, I still hear those voices in the back of my head so they're not completely gone. I still think about our business in new ways, and I think one of the hallmarks of the company is we have always tried to approach problems from a different perspective. We're not afraid to question things and shake things up as they need to be. It would have been hard to imagine the rate and pace of technological change and the influence that the technology we were getting involved in would have on the world 23 years ago, way beyond anybody's thoughts or imagination, and I still believe we're still at the early stages of that.

I was in Asia last week, and when you see what's going on in our business in India and China and throughout southern Asia, it's just incredibly fascinating. I certainly didn't understand any of those things when I first started, although I did travel to Asia. My first trip to Asia, I was 20 years old. The company was about a year old, and I spent three weeks there. It made a pretty big impression on me just in terms of the scale and the numbers of people. But it was like a dream just to be able to sell our products in some of the end markets there, Japan being the most obvious market at the time. That's now a big market for us. China was just an unimaginable place to even sell product at the time, and now, we've never had a country grow as fast as China in Dell's history of entering countries. And the only one that seems to be keeping up a faster pace is India, which we've been in for even less time. It's on just an incredible, incredible pace.



**WILLIAM BOULDING:** Let me follow up on this international growth. As you think about your fundamental business model, what aspects of the Dell business model have been emphasized and maintained throughout your expansion to international markets?

**MICHAEL DELL:** I think the concept of relationship is one that is universally valued. There's also a concept of just value -- creating value, providing value for customers that seems to work everywhere, translates into every language.

When we look at the time that we've been in in each market and the share that we have of those particular countries -- if you look over 20 or 30 countries -- almost every country in the world is on a faster growth path than the United States. There's some network effects there that certainly help us, but when I look at all of our expansion throughout Western and Central Europe, Asia, Japan, Australia, South America, et cetera, what we heard initially was, oh, that won't work here because that's an American concept or that's an English concept or that's an Anglo-Saxon concept. We have number one share in the server market in China, so we keep growing in these countries. I think the relationship concept works everywhere.

There are new challenges for us, though, as the price points come down, as you have enormous numbers of new users coming in to the market, as you have different systems of organizing the sale of products. For example, in India, there isn't really a retail infrastructure that's very well established. I mean, most of our business is to businesses, governments, institutions; less to consumer, although most people don't realize that. They think Dell's a consumer company. We have a great consumer business that can grow even bigger, but that's about 15 percent of our revenues.

**WILLIAM BOULDING:** Some of the experts in the business press have openly questioned the ongoing viability of the Dell business model, so how would you respond in terms of do you think are limits to the Dell model, and how do these limits impact Dell's growth opportunities?

**MICHAEL DELL:** Before I give you the answer, I think it's interesting to do a little bit of historical perspective, to go back to 1987 when Dell was first in the market to raise capital. We were about a \$150 million company, and there was a full page story in a noted business magazine that asked the same question when we had \$150 million in sales. That would be a really bad sales day for us today. (Laughter)

If you go back to 1993 -- same question. In 2000, same question. So here we are in 2007, almost \$60 billion in revenue, same question. So I think one also has to step back and say, before we just give in to conventional wisdom, is something different? What is different, and what's changed? And then what is it that is valuable, unique about Dell's business system?

I think first of all we have to state that our direct business model is not a religion. It's a strategy, a strategy that works pretty well, has worked well in a number of countries, a number of customers. But that's not to say that we can't have other strategies as well to sell our products, so we have a great



distributor business throughout the Middle East and in a number of countries in Africa that's thriving. We have partnerships with VARs and integrators in a numbers of countries that are thriving and doing well, and certainly, we'll look to expand our distribution.

But if you look at our fourth quarter this last quarter, we had almost \$1.2 billion in operating cash flow. It's pretty good. You know, if you say, well, how many companies in the United States had operating cash flow of more than a billion dollars, it's a pretty small list.

However, another way to look at it is to say, it's actually not a very good quarter for Dell. Dell historically could do quite a bit better than that, so we think we understand why that happened and what we can do about it. But my belief, in terms of the limits of the direct model, is that we can do more than direct. We can do channels, we can have partners, et cetera. But I also believe that in five years' time or 10 years' time, even more people will go online to buy computers than do today. I think this whole Internet thing is going to work out. (Laughter)

So I'm going to keep betting on that as a way to communicate with customers and to build communities that are powerful. It's not to say that people aren't going to buy computers in other ways too, but I think -- you know, we get 400, sometimes 450 million visits in a quarter to Dell.com, and if I think about the amount of physical infrastructure we'd have to have to create an equivalent set of customer interactions, it would be pretty enormous. It's not to say we won't have ways to interact with customers face to face and physically. We do have some of those and we'll build more of them, but I think online is going to continue to grow.

**WILLIAM BOULDING:** We can have the students come back to strategy questions, but I want to ask you one leadership question before we turn it over to the audience. You're back in as CEO, and as you think about the leadership challenges that you face, what are the things that are going to be your key challenges over the next two to four years?

**MICHAEL DELL:** We've divided it up into about three major categories of activities. The first category is a set of things to improve the performance of the existing business. Those are things like shortening product development cycle times; focusing on the efficiency of the organization and the clarity of what it is we're doing inside the company. Our organization got a bit unwieldy and so we're really crisping up who's responsible for what and who's accountable for what and creating a much clearer sense of those things inside the company. So that's the first set of activities.

The second are a set of things to reignite the growth of the company. Of course, with an improved structure and cost position, better products, that's a lot easier to do. There's some investment in key emerging markets that I mentioned earlier. In addition, in Poland, former Soviet republics, there's lots of opportunity in Eastern Europe in addition to Asia and South America. We formed a new global consumer business which we think is a big opportunity because we're under-represented in consumer, even though people know the Dell brand. But in many countries, we're not even really present in the consumer markets, so we're building a new consumer business that's full integrated.



Then there's a set of new things where we are growing or investing in new activities which are pretty different from what we had historically done. So, we have a services business now that's at about a \$6 billion run rate where we're doing managed services for large customers, taking on effectively managing their IT environment in some portion. And there's a lot of demand from our customers to know more about their environment, to take on more responsibility, and really transform from a product to a service. So, more emphasis on software, on services, and really knowing more about our customers, investing in those things. Some of them will be completely new areas for us. We'll do those either organically, some with partners like we have our Dell|EMC partnership. We think there are some other key industry players we could build partnerships around, and some will be acquisitions where we're building new capability into the business that we need to scale pretty quickly.

**WILLIAM BOULDING:** Have you, over time, distilled a leadership philosophy that will allow you and the organization to get those things done?

**MICHAEL DELL:** It's probably adjusted over time as the scale of the company has changed, but I certainly believe in customer centricity and keeping things pretty simple and focused inside the organization. We have to go fast. We have to focus on a few key things and really execute to them. One thing that has to really cut across all three of those areas is engaging the workforce and having them really excited about what they're doing and how they can really make and impact on the success of the company, so that's critically important to the transformation of a business. Because what we're doing is not just the normal stuff we've been doing before. It's pretty big change maneuvers. Fortunately, the company is relatively young. You know, you've got a lot of people who have only been the company for a couple of years and so they're pretty open to change. They have either experienced a lot of change or they see the need to change and so we don't have a lot of people that are resistant to changes.

**QUESTION:** What would you tell students they should expect if you were to open your door and walk them into the company? What would you tell them they should expect about their experience in working for Dell?

**MICHAEL DELL:** Fun. We're going to have a lot of fun. The company is going through a lot of exciting changes. It's a big business but we're moving quickly. We're driving a lot of change, and we want new ideas. We really thrive on fresh ideas. One of the things you might have seen if you've been paying attention to Dell in the last couple of weeks is we created this site called IdeaStorm. Anybody been to IdeaStorm? Not too many, okay. Well, go check it out when you've got some spare time, [IdeaStorm.com](http://IdeaStorm.com). The way it works essentially is a customer can submit an idea. A customer can say, hey, you should put webcams on all your notebooks. And then other customers can vote to promote or demote that idea, and so it's a real-time way to engage our community of hundreds of millions of customers. We're also creating an internal version of this, so if somebody has an idea inside the company, we can have the same great discussion and dialog.



We also created a blog, as many companies have, that I think has helped shorten the reaction time to understand new issues and new opportunities. But there's a lot of focus on the emerging markets, a lot of focus on services, and we're really taking a fresh look at the whole business and saying, okay, a lot of things are going right here, but this a chance to reinvent many aspects of the business and make them fundamentally better, so it's a lot of fun.

**QUESTION:** Do you think Dell and other multinationals have role to play in preventing violent conflicts in and between countries that are integrated into your supply chain?

**MICHAEL DELL:** I think we do play a role in that in the sense that when we make investments or our suppliers make investments in those countries, it brings economic prosperity and some measure of security because of that.

I think you certainly see that in Asia where you just have enormous changes going on in the countries and tensions are generally going down quite a bit. We're very interested in the whole question of security and harmony among nations because it's certainly good for our business, and we definitely make considerations when we're going to invest in a Malaysia or China or India or Philippines or wherever to say, okay, what's the risk here of something really bad happening? And if we think there's a high risk, well, we don't want to go there. So we like to sit down with the governments and say, what are you doing to make sure these risks don't materialize? Yeah, I mean, if we see risks that are forming, we'll certainly engage with governments to try to cause those not to occur because they're not good for anyone.

I think the whole ecosystem plays a role. We as investors play a role. The governments play a role in terms of the environment that they create that's conducive for success.

**QUESTION:** As Dell becomes more global, do you have an idea or a vision as to how Dell should be organized? I know you guys have a lot of products, but you talk about going to emerging markets, where are you going to push the level of decision making? To individual countries or regions or product-specific, is it a matrix? What is the ideal organizational structure to make Dell a truly global company and most effective company in the global environment?

**MICHAEL DELL:** I don't think the way to do this is to focus on the organizational structure first. I think the way to do it is to focus on the strategy and then have a structure that supports the strategy. So in our case, we have three big global product groups. We have one for consumer; we have one for the commercial client products, the desktops and notebooks; and then we have one for the enterprise, the servers and storage and networking type of products. What we're finding is that you need a strategy for each of the big, major countries. So, you need a strategy in China. You need a strategy in India. You need a strategy in Japan. You need a strategy in North America. It's a pretty good chance that your North America strategy will translate into Western Europe. There's a pretty good chance that a lot of things you're doing in China and India may translate into South America from a product standpoint. From a marketing standpoint, you may have to do unique things in each country. But we're starting to



build more and more products that are unique for those given markets. So, for example, I was in China and introduced a new \$335 desktop for Chinese customers. Not available in North America, not available in Europe, only available in China right now. We might have something like that in India fairly soon.

We're developing right now a new product for Japan, a particular design that's very popular in Japan and we think appeals to the needs that we're seeing and hearing from the Japanese consumer market. So yeah, I think for the larger markets you want to be increasingly tailored to those markets, but we also have to think about how we leverage our global investments so we get some scale so we're not recreating everything unnecessarily. Because you could take that to an extreme and that would not be a good thing, because there are a lot of things that you can share across the world.

**QUESTION:** From my experience and from my perception, Dell has always had a product follow a strategy where it kind goes into the market, gets out great products, does it really well, does it efficiently, does it cost effectively, and does volume business and does great. But as the market's shifting and the cost advantage gets reduced to some extent and the market's getting commoditized, it becomes that much tougher. I've seen signs of this coming, like your tablet PC coming out, but do you see Dell moving more toward a product leadership strategy where you see more innovative products coming out, moving from just a follow strategy in the future?

**MICHAEL DELL:** Definitely one of the things we're investing much more in right now is product design innovation because it's an opportunity for us. There is opportunity to differentiate in industrial design, in software, in features, in time to market, and we're absolutely doing that. You see pieces of it around the periphery of the product line with XPS in the consumer line. You see it in servers today, we introduced a whole new offering called Cloud Computing, which is really aimed at the data center of the future. And we're targeting our developing teams around things that we think are differentiable and unique and really valuable for customers.

**QUESTION:** (Off mike)

**MICHAEL DELL:** Your contrast is not exactly accurate though, because we weren't growing at 80 percent when we were named Fortune's most admired company. I think we were growing at more like 18 percent or something like that. But we're in the midst of a transformation of our company, and so there's a sense of urgency that's very high and we're incredibly focused on those things that are going to enhance value for our shareholders and are going to fundamentally change the business, position the business for much greater long-term success.

Dell is a company that in some ways got wrapped around an intense focus on the short-term, which really undermined its ability to think about longer-range things that it should have been focused on. So I've really changed the focus of the company to be much more on the things that are going to drive value over a longer period of time, and I think narrowed and simplified the agenda of what we're doing. And at the end of the day, it's all about executing. We've got to execute for our customers, execute



every day in our activities, so we're spending a lot of time as a leadership team talking about how are we doing for our customers? What are our results? What are the big change initiatives that we have inside the company? How do we help each other succeed with all the things that we're trying to accomplish? And tracking results and execution day by day.

And I've changed the top leadership team of the company in a pretty big way. We had about three new executives that were promoted into key positions from inside the company. Four executives that are in key positions whose positions didn't change. And then five completely new executives that came from the outside, many of whom were CEOs themselves, to run big parts of Dell around this new strategic focus we have. So, a new services leader, a new leader for our global consumer business, a new leader for global operations, which is an organization that really didn't exist before. It was parsed up into different parts of the company. So, lots of fun things going on.

**QUESTION:** It would seem that over the last few years, Dell had at least some part in changing the competitive dynamic between AMD and Intel. Do you foresee any such changes like that in the operating system space and if so, do you think Dell would have a role in changing that competitive landscape?

**MICHAEL DELL:** Would we like to see them and will we see them are two different things. I think customers have a bigger role to play in this than necessarily Dell, so in other words, if we decided tomorrow to start shipping all our PCs with some unheard of operating system, I'm not sure that that would be the answer. Linux is in a multi-year gestation period where it's gaining support of various kinds. It has some challenge in that it is, in many ways, fractured with all sorts of different flavors. We like Linux, our customers like Linux, but it's a pretty small community and we continue to cater to that community.

I also remember a long, long time ago, probably before most of you were born, when our customers were telling us that they actually wanted one operating system, because there used to be a bazillion operating systems for microprocessor-based computers, and so we got one. But I think there's a better chance you'll have three microprocessor suppliers in volume, but we're certainly open to seeing Linux grow more, or other alternatives.

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