Elizabeth Allen sat in her cubicle at Round Rock One, Dell Computer Corporation’s headquarters building outside of Austin, Texas, in early April 2002, scrolling through the 35 emails that had arrived in her inbox since she left the office the previous evening. Allen, vice president for corporate communications at Dell, was preparing for the weekly staff meeting she chaired, scanning her messages for any last-minute agenda items from her team of senior communications directors around the globe.

A message from Noriko Iijima, Dell’s director of Japan communications, caught Allen’s eye. The brief email called Allen’s attention to an article published in a leading Japanese business weekly that criticized Dell’s lack of spending on research and development. Disturbingly, the comments came from the president & COO of Sony, with whom Dell historically had a strategic relationship. Iijima had contacted the PR team at Sony, but did Allen have any thoughts on what else Dell should do to remedy the situation? Allen needed to give this some thought before the meeting began. She also forwarded the email to Chairman and CEO Michael Dell.

**Dell Company Background**

Dell Computer Corporation (Dell) was founded in 1984 by Michael Dell, who began selling random-access memory (RAM) chips and disk drives for IBM personal computers (PCs) from his college dorm room at the University of Texas in the early 1980s. Soon thereafter, he began making IBM clones and selling them direct to consumers, saving his customers as much as 40 percent by eliminating the standard retail markup. In 1988 Dell started selling PCs to larger customers, including government agencies. The company went public that same year.²

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¹ This case was prepared by Thea Haley under the supervision of Professor Paul A. Argenti at the Tuck School of Business at Dartmouth. All information in this case came from public and company sources, including an interview with Elizabeth Allen in June 2002.
² Hoover’s Company Profile Database – American Public Companies, 2002.
Nearly two decades later, Dell had nearly 35,000 employees and its products included desktop and laptop computers, storage products, servers and server appliances, and workstations. The company also provided warranty services, product integration and installation, Internet access, and technology consulting. Dell offered these products and services to a customer base comprised of several segments: Large and Global Businesses, Education and Health Care, Government, Small Businesses, and Consumers.\(^3\)

The cornerstone of the company’s strategy remained the direct business model Michael Dell pioneered from his dorm room. “Cutting out the middleman” had enabled Dell to undercut competitors’ prices by a wide margin and gain 30 percent of the US market for PCs and 14.3 percent of the global PC market by 2002.\(^4\) The direct model also put Dell closer to its customers, helping the company anticipate trends that could shape future product offerings. It also allowed Dell to deal directly with any customer concerns or post-sale service issues, again giving the company direct access to valuable information that would help it build even better products.

To maintain its position as the low-cost provider, Dell focused heavily on controlling expenses. The company’s operating costs, including research and development (R&D), totaled about 10 percent of revenue in 2001, versus 20 percent at Compaq, 21 percent at Gateway, and 45 percent at Cisco.\(^5\)

Throughout the 1990s, Dell enjoyed average annual sales growth of nearly 60 percent.\(^6\) The company gained market share across a number of its businesses and forced rivals with more bloated cost structures to compete on price, ultimately cutting into their margins. The PC market was growing by more than 15 percent a year, and the decade culminated in an upswing on technology spending as companies prepared for the unknown of “Y2K.”\(^7\) Dell’s stock price hit an all-time high of $58 a share in March of 2000, but that same year would mark the beginning of a dramatic selloff in the Nasdaq and spell trouble for the entire technology sector.

\(^6\) Hoover’s Company Profile Database.
By 2001, the outlook for PCs had turned somber amid a soft economy and a slump in corporate spending on technology. As Dell continued to lower prices to attract demand in a stagnant market, its gross profit margins thinned from 21.3 percent in 2000 to 17.6 percent in 2001. While the company predicted that computer demand would rebound in 2002 as PCs purchased to prepare for Y2K reached their “usual retirement age” of three years, in fact, many companies were extending the lives of their systems and forgoing new purchases.

Given its aggressive pricing to maintain sales in this environment, Dell engaged in equally aggressive cost-cutting in 2001, slashing $1 billion in operating and manufacturing costs that year and setting the same ambitious goal for 2002. To achieve these savings, Dell was forced to cut jobs for the first time in the company’s history in 2001, eliminating 1,700 positions (nearly 8 percent of its 22,000 jobs at its Round Rock, Texas headquarters and 4 percent of its total workforce). Shortly thereafter, it announced that another 3,000 to 4,000 would be cut as the company remained committed to ratcheting down expenses.

**A New Direction for Dell?**

Continuing to focus on costs would not be the only solution to keeping Dell competitive, however: the company recognized that it needed to continue to diversify beyond the PC and also penetrate new geographic markets for all of its products. Additionally, Dell sought to bolster its services business, providing ongoing support and consulting services to large business clients.

Accordingly, the company began to focus heavily on higher-margin “enterprise computing” products such as servers, storage devices, switches, and even mainframe-like computers. While 27 percent of Dell’s sales came from enterprise products in 2002 versus 73 percent from desktops and notebooks, Dell was gaining a foothold in servers. In 2001, Dell’s server unit’s sales grew 27 percent and

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8 Ibid.
10 Ibid.
revenues stayed flat while industrywide, shipments fell 2.3 percent and revenues dropped nearly 20 percent.\textsuperscript{11} Estimates showed that by 2002 Dell was the world’s No. 2 server manufacturer and No. 1 in the United States.\textsuperscript{12}

For storage products, Dell acquired storage area network equipment maker ConvergeNet in 1999, and in 2001, entered into an alliance with with EMC to resell EMC’s mid-priced Clarion storage systems.\textsuperscript{13} The alliance also included a co-branded line of enterprise storage systems.

As Dell made inroads into these new product areas, however, skeptics raised questions as to the company’s ability to compete in the arena of higher-end, more complex products and services. For one, enterprise computing businesses were research-intensive. In keeping with its lean cost structure, historically Dell had spent a fraction of what rivals did on R&D, instead forming cooperative R&D programs with other companies or licensing technology needed to develop or enhance its own products. Whether this model could persist in the realm of enterprise computing remained to be seen.

Additionally, Dell had proven itself as a successful low-cost producer of commoditized products (PCS), and while enterprise products were arguably headed in that direction, they remained comparatively less standardized, and the barriers to entry were high.

Analysts and industry observers who had witnessed Dell’s rise to dominate the PC business based on an innovative business model, however, were optimistic that these endeavors would provide the company with new sources of growth. While most acknowledged that the heady days of double-digit revenue growth were probably over for Dell, the fact that its price-earnings multiple in mid-2002 was 36 times expected earnings versus the overall market’s multiple of 22 was a testament to this optimism.\textsuperscript{14} Clearly, growth was expected to come from somewhere.

\textsuperscript{12} Tsao, “Can Dell Keep Beating the Odds?”
\textsuperscript{13} Hoover’s Company Database.
\textsuperscript{14} Fisher, “Pulled in a New Direction,” p. 103
Corporate Communication at Dell

Elizabeth Allen, 48, joined Dell in January of 2000 from global office supply retailer Staples, Inc., where she had been vice president of corporate communications. Allen’s career in corporate communications had also included senior roles at technology conglomerate Raytheon and defense contractor Loral Corp. Compared to these organizations, Dell was different for Allen in many ways.

Most surprising to her was that Dell’s corporate communication staff included 120 professionals. The largest team she had managed prior to joining Dell had totaled about 12, at Raytheon; at Loral and Staples, it had been three or four. And while Allen’s prior communication roles had reported either directly to the CEO or the CFO, at Dell she reported to Tom Green, who headed up four corporate functions at Dell: human resources, legal, administration, and corporate communication. Green reported to Chairman and CEO Michael Dell and President and COO Kevin Rollins. Allen initially was surprised to learn that Investor Relations did not come under Green’s umbrella, nor that of the CFO, but instead reported directly to Rollins.

But Allen would soon learn that the lines on the company’s organizational charts did not dictate how things worked in practice; the organization was more complex and more fluid than what could be depicted in a flat sheet of paper. For instance, she was pleased to find that her reporting relationship to Green did not hamper her ability to gain direct access to Dell and Rollins or to work closely with her IR counterpart. In fact, Lynn Tyson, Dell’s IR head, sat in the cubicle adjacent to Allen and had become one of her closest colleagues over her first two and a half years at the company.

The structure of Dell’s corporate communication function was more complex than anything Allen had seen before. “If you didn’t understand the Dell organization,” she explained, “you couldn’t figure out how corporate communication was structured.” While a small part of the staff sat within corporate management at Round Rock One with Allen, the vast majority of Dell’s corporate communication staff were dispersed through each of the company’s business units. Dell’s large corporate communication team was organized through a loose “matrix” based on customers, products, and geography. Additionally,
Allen described the structure of the function as “not consistent regionally. It was opportunistic.”

Depending on the client base and products sold in different regions, different specializations were needed among the staff, and thus the corporate communication function was tailored to best support the shape of the business within each region. For instance, public relations was more heavily staffed in the Americas region than in some of Dell’s overseas offices.

Five regional directors reported to Elizabeth, as well as directors for sub-functions including employee communications, corporate public relations, chairman’s communication, and a specialized group for Dell’s Enterprise Service Group. Regional corporate communication directors outside the United States had a solid reporting line to Allen and a dotted line to their respective regional business heads.

**Dell’s Agency Relationships**

Like most large, complex organizations, Dell had relationships with a number of public relations firms. These included: GCI Group, responsible for manufacturing and sales for various product and customer groups in the US, Canada, and Latin America and also for local country PR in 12 countries; Walt & Company, a small Silicon valley firm specializing in server and storage PR; Dittus Communications, a Washington based public affairs agency specializing in the tech industry; SS&K, a New York-based firm that specialized in strategic and creative communications (the firm was 40% owned by Michael Ovitz’s Creative Artists firm); Cone Communications, which did strategic philanthropy work for Dell; Matlock & Co., which handled diversity issues; Ogilvy PR, which dealt with regional communications in Europe; and a variety of smaller shops outside the U.S. that worked at the local level.

Unlike the crisis orientation and retainer-based relationships that characterize many firms’ links to agencies, Dell hired PR firms for specific projects within specific individual Dell businesses. Dell’s relationship with GCI was unique, however, as it became the primary agency working with Dell in the Americas region. When GCI won the Dell account, both Dell and GCI interviewed everyone they hired to
work on the account. Many of GCI’s staff assigned to the Dell account sat in Round Rock and worked closely on a day-to-day basis with their client, allowing for a unique working relationship that transcended the “us and them” mentality that sometimes characterizes agency relationships.

In addition, Dell and GCI continually evaluated the relationship, reviewing budget targets and results achieved on at least a quarterly basis. Because GCI management looked at all billings across all businesses each quarter, both Dell and GCI management could see whether time and resources were being deployed in accordance with the company’s strategic objectives, and, if they were not, shift them around as appropriate. Given the strong focus on costs at Dell, this discipline enabled Allen, along with Barry French and Dwayne Cox, co-heads of Americas corporate communication, to keep Dell and Rollins apprised of what concrete results were generated from GCI’s work and reassure them that their agency budget was being allocated in line with business needs.

**Team Communications**

In 2001, Dell’s corporate communication team was pared down to approximately 80 full-time professionals through a careful process of reviewing each individual and each position as part of a larger cost-cutting program. Of the remaining staff, approximately 50 were based in the United States and the remainder in Dell’s regional offices abroad. It was the first time Allen had direct reports outside the country, and when she joined Dell, Allen herself had wondered how best to communicate with such a large, globally dispersed team. She soon discovered that one of the features of the Dell culture would be a great help in this regard: email. “There’s a joke that the phone never rings at Dell,” Allen said, adding that Dell’s email-based culture was part of the work environment that Michael Dell himself fostered at the company. Coupled with a flat corporate hierarchy, this environment made it relatively easy to communicate and to get the “ear” of senior management. “When I need to talk to Michael [Dell] or Kevin [Rollins] about something,” Allen said, “I don’t need to get a meeting with them. I email them, and they email me back.”
In terms of communicating with her staff, email was an efficient means given the dispersion of the team across time zones. When Allen came to Dell, she followed in the footsteps of an individual who had managed Dell’s corporate communication function for ten years. As those ten years passed and the staff grew in numbers, Allen’s predecessor, Michele Moore, began to employ a more formal and structured approach to communications among the team, including standing meetings and conference calls.

Allen had the unusual experience of overlapping with Moore for a full year before Moore retired, and was grateful that her predecessor let her step in and try her own approach to managing the team during that time. “If Michele [Moore] had been a different person, that could have been a really tough year,” Allen commented. As her own management style took shape at Dell even as Moore remained in the picture, Allen acknowledged that it was a bit different from her predecessor’s. “I’m more of a management-by-walking around type of person,” Allen explained, “and I find that between our weekly two-hour meeting and my checking in with people informally as issues arise, there is enough cohesion for the group to really work well.”

When PR agency representatives who sat inside Dell were added to Allen’s staff total, that number approached 100. And still dozens more worked within the various agencies mentioned previously, adding to the complexity of communications at the company. Just as it turned to email technology to communicate within the firm, Dell looked to the Internet as a means of staying connected to these agencies, using its own extranet for file sharing and on-line dialogue about specific issues. It seemed that Dell’s “direct” model applied not only to its product distribution strategy, but its communications as well.

**Corporate Communication and Corporate Strategy**

At Dell, company strategy typically came from senior management rather than from a formal strategy process. The reputation of the firm, in fact, was still very much connected to its founder, Michael
Dell: the scrappy new kid who found a better way. For many years, as Dell powered past many of its closest competitors in PC sales, it was the power of the Dell story that “sold the company.”

As Dell moved up the chain into higher-end systems and services, however, it was doubtful this story would be as powerful. As Barry French explained, “We want big companies to feel as comfortable using our products as consumers now do. But they do not yet see us as network designers, which is part of our challenge. We are moving from a manufacturing company to a fancy network designer. This is an especially tough job in such a lean, mean environment.”

In 2001, Elizabeth Allen was appointed to Dell’s Global Executive Committee, giving her even more direct access to information about Dell’s strategic direction. Allen did not, however, describe herself as “formulating strategy,” but rather as raising concerns and questions along the way that constituencies both within and outside the organization were likely to have about a given strategic decision and ensuring that management understood how it should be communicated. She was also extensively involved with the many communication issues around implementation, explaining, “While strategy is always viewed as the ‘cool’ part of the process to be involved with, execution is where you can really make a difference.”

**Conclusion**

Nearly two hours after it began, Allen’s weekly corporate communication staff meeting had wrapped up and she made her way back to her desk, thinking about the most pressing follow-up items she would want to get to that day. She had another meeting about Dell’s proxy statement in fifteen minutes, but figured she had time to check email before that began. Scanning the senders and subject lines of the 25 new messages that had arrived since she left for her meeting, Allen quickly found a message from Michael Dell in response to the email she’d forwarded from Noriko Iijima earlier that morning and opened it up.
Case Questions

1. Given how the case describes Dell’s overall business structure, what are the strengths and weaknesses of the structure of its corporate communication function as described in this case?

2. What challenges do you foresee for Elizabeth Allen and her team going forward and what advice would you give her?

3. What role could Corporate Communication play at Dell to help the company advance its strategic goals?