

# Dell promises more cuts are on the way

## Central Texas to remain core, but more outsourcing planned.

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Dell Inc. kicked off the week with news of a multibillion-dollar cost-cutting initiative and the closure of its North Austin desktop computer factory, once the jewel of its manufacturing network.

On Thursday, CEO Michael Dell closed the company's meeting with Wall Street analysts with a clear message: More is coming.

**"We're kind of outraged the company didn't achieve all that it could" in recent years, he said in an interview after the meeting in Round Rock. "We're determined to fix it, and that's what we're going to do."**

As Dell's single biggest employment center, Central Texas will feel the pain, even beyond the 900 jobs that are disappearing with the closure of the Topfer Manufacturing Center and a nearby logistics center. Dell already has made smaller cuts that add up to more than 1,000 local jobs, including some positions in human resources and customer support.

**Dell said Thursday that the company would go beyond the 10 percent worldwide work force reduction it launched last year. But that doesn't mean that mass job cuts are bound to hit Round Rock and Austin, where Dell has its headquarters, key engineering operations and about 17,500 employees.**

**Central Texas operations are at the core of his company's U.S. operations, Dell said.**

And although the company plans to outsource more work to contractors, he said, the high productivity of its 29,000 U.S. employees will keep many of Dell's high-value engineering and product design jobs in this country.

"We want to make sure that we have the highest value-add activities where the best talent is," he said. "And certainly the U.S. is going to be the epicenter of that for the Dell world."

Beyond the job cuts, Dell and his executives have put in motion some fundamental changes, including a move away from relying solely on the direct-sales model. That model took Dell's revenue to more than \$60 billion last year, but its sales growth slowed as competitors adapted and the computer market changed.

Dell plans to outsource more manufacturing, product development and sales work, executives said. If partners design and build more mass-produced models destined for retail stores, for example, Dell's teams will have more time to come up with new, more innovative machines.

The company will expand beyond the 10,000 stores worldwide that already carry its products. And it will roll out more products designed for customers in specific countries, especially in fast-growing Asia.

"Dell's new message ... is one size no longer fits all," John Spooner, senior analyst at Technology Business Research Inc., wrote in his summary of the meeting.

But executives left little doubt that everyone in the company shares one job — to get a handle on rising costs and cut them down to size. The company will go beyond the 8,800 layoffs announced in May, Dell said, although he declined to give specific numbers or a new timetable.

"We're not satisfied with the current state of affairs," he said, "and we're on a mission to address this."

That's not all slash and burn. The company continues to have a large customer-support operation in several North American cities. And although it has cut thousands of Central Texas jobs, Dell also has hired 500 engineers in the past 18 months. And it is shifting more employees into positions that directly interact with customers, keeping many of what Michael Dell called "close-to-the-customer activities" near its U.S. customers.

Even with added jobs and acquisitions, Dell's workforce has shrunk by 3,200 people in the past year, Chief Financial Officer Don Carty said. Another 1,000 jobs will be cut during the current quarter, he said.

A shift had to occur. Dell's consumer business is bleeding money. Hewlett-Packard Co. is extending its lead as world's largest computer maker. And growth is slowing in the North American and British markets — long Dell's strength.

Nothing is sacred in the middle of that transformation, not even desktop manufacturing in the city where Michael Dell launched the company. Dell and his executive team said they will do whatever's necessary to get their costs under control and restore the company's reputation for streamlined operations and industry-leading profit.

"There's a lot of opportunity," said Toni Sacconaghi, research analyst at Sanford Bernstein. "But clearly, it's a show-me stock."

**Courtesy of JB Goodwin**