Dell's Founder Strikes Deal to Turn it Around

BARBARA ORTUTAY, AP Technology Writer

NEW YORK (AP) — It's easy to forget now, but Michael Dell was the Mark Zuckerberg of his day.

Hailed as a young genius, he created the inexpensive, made-to-order personal computer in his University of Texas dorm room and sold it straight to the public. In the 1980s and '90s, his face appeared on magazine covers, and well before he turned 40, he was a college dropout-turned-billionaire CEO, ranked alongside Bill Gates and Steve Jobs.

But that was a long time ago in the fast-moving world of high technology. Now the PC is getting eclipsed by smartphones and tablet computers, and Dell is struggling to save his company — and his legacy.

Tuesday's announcement that Michael Dell and the investment firm Silver Lake have struck a $24.4 billion deal to buy publicly traded Dell Inc. and take it private may well be the founder's last chance to recapture his former glory. The agreement will allow the company to attempt a turnaround without having to worry about pleasing Wall Street with its earnings.

For Michael Dell, 47, the attempt to retool the company he built is personal, said technology analyst Patrick Moorhead, who runs Moor Insights & Strategy.

"His name is on the logo and all the buildings. So he takes all of this very personally," Moorhead said. "This is a way for him to solidify the way people will look at him and remember him."

Analysts said Dell Inc. will have to mine more profitable areas such as technology consulting and business software.

In a statement, Dell himself said little more than that the transformation will "take more time, investment and patience."

The company he founded some 29 years ago rose to the top of the world's PC market more than a decade ago. In its heyday, its turn-of-the-millennium ad slogan, "Dude, you're getting a Dell," became a pop-culture catchphrase. Dell took orders straight from customers, first by phone and then by Internet, cutting out stores and passing the savings along.

"What Michael Dell was all about was getting products to people faster and more directly and at a lower cost than anyone could," said Forrester Research analyst David Johnson.

While Dell PCs are still used in offices and homes around the world, the industry has proved unforgiving to those who don't evolve with it. With smartphones booming, PC sales falling 3.5 percent last year, and tablets expected to outsell laptop computers this year, Dell's old slogan is more likely to be phrased as a question, as in: "Dude, you're getting a Dell?"

Dell Inc. is now selling itself for a price that is about 80 percent below its peak market value of more than $150 billion in March 2000. The company is now the world's third-largest PC maker, having fallen behind Hewlett-Packard and Lenovo. Apple has a smaller share of the computer market but more than makes up for that with its sleek iPods, iPhones and iPads.

IBM managed to reinvent itself during the 1990s when its main business of selling mainframe computers began to suffer as desktop machines grew increasingly powerful. But it took nearly a decade.

Michael Dell stepped down as CEO in 2004, staying on as chairman. But the Round Rock, Texas, company faltered under CEO Kevin Rollins and saw its first-ever profit decline. Customers complained of poor service, and sales slowed as Dell faced a market glut of cheap PCs from other makers. The company lost its No. 1 position to HP 2006 and never regained its standing.

Michael Dell returned as CEO in 2007 and began carrying out a turnaround plan, dubbed "Dell 2.0," that included improving customer service, thinning the managerial ranks and expanding into new businesses.

Moorhead said it will probably take Michael Dell at least another three to five years to transform his company. That's a timeframe that probably would have caused Wall Street to grow even more frustrated with Dell Inc.

"If what you are trying to do is not being valued by your investors, you need to go somewhere else," Moorhead said. "They weren't getting any respect on Wall Street, so this is the best move they could make right now."

Under the leveraged buyout announced Tuesday, Dell stockholders will get $13.65 per share. That's well above the stock price of $10.88 before word of the talks emerged three weeks ago. But it's a steep markdown from $24 a share six years ago.

Michael Dell, the company's biggest shareholder, is contributing his 14 percent stake and an undisclosed piece of his $16 billion fortune to help finance the sale. The deal is expected to go through by the end of July, after which Dell will stop trading on the Nasdaq.

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AP Technology Writer Michael Liedtke contributed to this story from San Francisco.

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