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Dear Client:

When you analyze every single company in this year's *FORTUNE* 500, homegrown Dell, Inc. topped the entire list in ten-year total return to investors. Let's examine why Michael Dell says "what people have never understood is that we're not like other companies."

In an exclusive interview with *FORTUNE* magazine (4/19/04 edition), Chairman Dell and CEO **Kevin Rollins** said "the secret of why Dell will be able to continue to grow" is that Dell is not IBM, not Wal-Mart, not Intel – it approaches technology and sales differently and its **costs are lower, by almost every measure, than competitors Hewlett-Packard and IBM**. So what is in the future for Dell, the largest private employer in Central Texas?

The two of them were asked 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. **Rollins:** If you ask any CIO how much time he 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.

At \$41 billion in revenue, Rollins said "**we've set a goal to grow to \$60 billion**. But we'll come to work the day after we hit \$60 billion." Dell added "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 US is sort of the prototype for how the world could be massively productive using technology**. But the US is only 3.5% of the world's population. The opportunity is pretty huge as we see it."

By the way, how many Dallas-based corporations (with all of Dallas's financial weight, history and fiscal muscle) are **larger in terms of annual revenue than Dell**? Trick question. The answer is none. The biggest is TXU, at \$11 billion in revenue, followed by 7-Eleven, Texas Instruments, Centex, Southwest Airlines, etc. – all small, compared to Dell's \$41 billion.

The largest private employer in Central Texas has more employees overseas than in the United States. So, Dell, what about this off-shoring of employees?

“We believe in all-shoring, not off-shoring,” Dell CEO **Michael Rollins** told *FORTUNE* magazine in its 4/19/04 issue. “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 US, in India and in China.** If you think the Indian government is going to let us sell goods in India and have no employees there – no, it’s not.”

“As you lift the income of these people, what do they do?” Rollins added. “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 US.”

“The manufacturing jobs in the US have gone down, but manufacturing productivity has gone through the roof,” Rollins declared. Speaking from his Round Rock office, Rollins said “**I can take you to a factory of ours down the street where productivity increases 30% per year.**”

This is when **Michael Dell** weighed in: “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 US. 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.”

According to Dell’s annual report, **it employs about 16,000 workers in the Austin area** – out of about 22,000 workers in the US (remember Dell opened a plant in Tennessee several years ago). Dell reported it employed more than 23,000 workers in other countries.

One more item about Dell — in the “fun” category. Dell watchers have long been intrigued by **Dell’s brashness in taking on its competitors** – especially in the early days when it seemed as if the Compaq, Hewlett-Packard and IBM elephants were swatting at Dell gnats. Now (to mangle a metaphorical cliché even more!), Dell is becoming the proverbial 600-pound gorilla. H-P has merged with Compaq to better compete with Dell and IBM is losing market share.

This battle of tech titans is really evident in Dell’s latest effort to sell printers (see previous story). You’ll remember last year Dell announced a partnership with Lexmark to put the Dell brand on Lexmark’s printers and to use Dell’s vast sales resources to peddle the products. H-P would probably be struggling if it didn’t have huge profits from printing and imaging. It sells maybe a million printers per week. But as *The Dallas Morning News* reported, “Mr. Dell has dreams of turning Dell into a printing giant – ‘Dell Ink’ instead of ‘Dell, Inc.’ as he put it. **It would help the company grow and simultaneously put a dent in H-P’s position.**” Michael Dell then added: “We have the flexibility to be able to get both of them at the same time. Double your pleasure, double your fun!”

When the special legislative session on school finance convenes in Austin 4/20/04, taxes will be paramount. So, where does Texas stand relative to the tax picture in other states?

Texas has long held the reputation of a low-tax state. But it's a position that is relative to other states. A moving target, in other words. Different states have different taxes so **it is hard to get an apples/apples comparison**. Local jurisdictions have their own taxing authority as well. Then you have certain taxes that are really high, but another state may not even levy that type tax. For example, Texas has no personal income tax but a high property tax. California has a low property tax as well as a personal income tax.

This month, a conservative-leaning group in Washington, the Tax Foundation, released a study comparing the **tax burden each state puts on its residents**. The study analyzes, state-by-state, taxes on property, income, sales, etc. and issues a report ranking the states from 1 to 50, with #1 having the **highest local and state tax burden** per capita.

Number One on the list is – ta-dahhh! – **New York with a 12.9% tax burden**. This means that the local and state taxes in New York, as a percentage of income, amount to 12.9%. Number 50 – the state with the **lowest tax burden is Alaska**, where residents pay **only 6.3%** of their income in local and state taxes.

Texas ranks very low, relative to other states – Number 46, where residents pay only 8.7% of their income in local and state taxes. This is just a notch below Florida, at #45, where residents pay 8.8%. High tax states – 10% and above – include Ohio, Wisconsin, Connecticut, Minnesota, Michigan, Nebraska, New Jersey, Georgia and Arizona to name a few of the 20 in that category.

While this information is helpful, it must be used with caution. Take California. It ranks in the middle, at #26, with a 9.8% tax burden. But it would rank with the high tax states if it had raised taxes instead of borrowing heavily during this past year to plug a budget gap.

Lost in translation? Some of the objections raised to the announcement this week about one of the most significant, far-reaching transportation developments in recent Austin history were based on a misunderstanding.

Call it a knee-jerk reaction to paying money to drive on local roads. Call it sloppy reporting by some in the local news media. Call it not listening, or reading, carefully. Whatever you call it, many did not understand a basic fact about the proposed \$2.2 billion of tolled road improvements. Under the proposal **no existing roads will be converted to toll roads. Only “new capacity” added to existing roads will be tolled**. If you want to drive free on MoPac/Loop1, you can. If you want to move faster by paying a toll on new MoPac/Loop1 lanes, you can.

The proposed Texas Music Hall of Fame in Austin could boast about the fact that the advent of rock 'n' roll (an event that changed the music of the world) had its roots in Texas.

In fact, rock 'n' roll's rise can be traced back to fifty years ago *this week*. It was April 12, 1954, the song that started it all, "Rock Around the Clock," was recorded. This was a year before **Elvis Presley**, before the **Beatles**, the **Rolling Stones** and many other rock legends burst upon a pop music scene that had previously been noted for the melodious sounds of **Frank Sinatra** and Big Band sounds exemplified by **Benny Goodman**. The breakthrough rock recording got even more notoriety when it was used as the pulsing theme for a blockbuster movie, *Blackboard Jungle*, starring **Glenn Ford** and a young **Sidney Poitier**, playing a high school misfit.

Some nit-pickers will point out the song was actually recorded in New York. But the performing artist was a Texan – **Bill Haley**. His group, Bill Haley and the Comets, kept the body-gyrating rock classic on the nation's music charts for almost a half year. **Bill Haley, from tiny San Benito, Texas, in the Rio Grande Valley, was this nation's first rocker.**

Haley, however, did not fit the mold of today's larger-than-life rock stars. **John McDonough**, a music writer, wrote about Haley: "A shy man of 30, he had no menace, no cool, no charisma. He was blind in his left eye and his eyes were not straight" – so he created a little spit curl on the top of his forehead to detract from his bad eye. He died in 1981 at age 55.

And since we mentioned the Texas Music Hall of Fame, what's with San Benito anyway? The remarkably undistinguished town near the Mexican border also produced other great songwriting artists. Rhodes Scholar **Kris Kristofferson** and bad boy **Freddie Fender** – both music legends in their own genre – hail from San Benito. The backers of the proposed Austin music monument should consider the San Benito connection in its planning.

Dr. Louis Overholster, having made the 4/15/04 IRS filing deadline, told a patient today that "conscience is that still, small voice within us saying 'Maybe they'll audit!'"

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