

THE

Real Spelce

AUSTIN LETTER

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Volume 26, Number 48

March 11, 2005

Dear Client:

Texas has two of the Top Five Most Admired Companies in America and Numero Uno is right here in Austin. Dell Inc. has risen to the top, performing well in a struggling industry.

FORTUNE magazine polled 15,000 executives, directors and veteran securities analysts around the world – 10,000 in the US and the rest in 21 other countries. Everyone was asked to name the companies they most respect in any industry. The highly-regarded publication has been ranking America's most "admired" companies for 23 years. And this year, **Dell topped out at #1 and Dallas's Southwest Airlines #5.**

General Electric was #2, Starbucks #3 and Wal-Mart Stores #4. Rounding out the Top Ten, in order: FedEx, Berkshire Hathaway, Microsoft, Johnson & Johnson and Procter & Gamble. Pretty heady company. But that's not all. Where does Dell stand among all the major companies in the *world*? **Dell is #3 on the list of The World's Most Admired Companies.**

Dell Inc. turns 21 years old in May – a short timeframe to reach the pinnacle of respect in the dog-eat-dog competitive corporate world. During that span, **Michael Dell** himself has gone from a UT Austin dropout kid-with-a-curious-idea to where his name is being mentioned alongside US captains of industry (who are decades older), just as he hits the big four-oh.

Here's how *FORTUNE* describes his impressive accomplishments. **"His company has run through the competition like some kind of sports team from Boston."** Let's quickly review the recent meta events of the Personal Computer industry: IBM, the company that practically invented the desktop computer, has exited the business by selling out to the Chinese firm Lenovo.

"Gateway has seen its business crash – its stock, which traded above \$80 five years ago, now fetches \$4 and change. Compaq wisely sold out to Hewlett-Packard, which unwisely doubled down in this market, giving Dell – as one wag put it – 'a bigger butt to kick.' And of course it was HP's bet on Compaq that ultimately cost (HP CEO) **Carly Fiorina** her job."

"Truly this is an industry under assault, and in every instance the guy at the other end of the gun is Michael Dell," reported the mag. More on Dell's dominance in the next item.

Today, by nearly every unit of measure, in the computer hardware business Dell is irrefutably the No. 1 company in the US. Be it in desktops, notebooks and servers; or in profits, growth, and margins, Dell is the leader. And it isn't slowing down.

This was the conclusion drawn by *FORTUNE* magazine as it named Dell Inc. America's 2005 Most Admired Company. **Does this mean the upstart company few took seriously in the beginning is no longer the scrappy underdog?** Is complacency just around the corner for the No. 1 computer company in the US? Is the chip-on-the-shoulder mentality that permeated Dell (because so many scoffed at the upstart early-on) now giving way to self congratulations?

Not according to Dell CEO **Kevin Rollins**, who explained why he thinks Dell is still an underdog, despite its lofty status: "We had been a PC company. We've been migrating the last three or four years out of being a PC company. We've moved into servers and storage, mobility products, services, software peripheral categories, and printers, and **become a diversified IT company.**

"If you look at those other categories, we're not the leader, we're not the biggest. So as we've built out a diversified IT portfolio, we're a small guy again, and it **keeps this notion of the underdog, gotta struggle, gotta change, gotta do things for the customer.**" Rollins is describing a fundamental shift at Dell.

Even though Dell has been criticized for not being a product innovator and for slapping the Dell name on other company's products (i.e. Lexmark printers sold under the Dell brand), Dell's growth and profitability throttles are open all the way. "Whether or not Dell is an innovator or will reign supreme in printers, what is unassailable is that **this company is a manufacturing marvel,**" declared *FORTUNE*.

"A fundamental difference between Dell and the competition is that **at Dell, every single machine is made for a specific order.** The others are producing machines to meet a sales forecast. The advantages that Dell derives from this model on the factory floor are tangible and enormous," reported the publication. "For instance, industry sources say Dell now carries only four days of inventory, while IBM has 20 days and HP has 28. **Obviously, low inventory frees up mountains of cash for Dell that is otherwise tied up at IBM and HP.**"

And Dell isn't letting up, with its **factories running full-tilt boogie right now.** As Michael Dell put it: "The plants here are running flat out, seven days a week." Because it needs more capacity, Dell is now building a new computer assembly plant in Winston-Salem, North Carolina to be closer to its customers.

The *FORTUNE* designation is not simply one magazine's rankings. As we said earlier, it is a compilation of 15,000 opinions from the business world. Corporate titan **Jack Welch**, former GE CEO, said of Michael Dell: "**You have to say he has done a hell of a job.** No one has pulled the levers of cost, quality, and service better than Dell."

A number of different commentaries and observations about our area has come to our attention and we thought we would share what others are saying and thinking.

It wasn't all that long ago that when the city name "Austin" was printed, it *always* had "Texas" after it, to help those who had never heard of Austin. Only well-known cities – such as Chicago, New York City, Los Angeles, Las Vegas, San Francisco, Dallas, Houston, etc. – could get away *without* having the state appended to the city name. Austin reached the plateau in recent years, where most (not quite all) **mentions in the national media now simply reference "Austin," minus the "Texas" identifier**, assuming the reader already knows about us. This is because we're becoming quite well-known nationwide. So, to reinforce that observation, here are some random comments about our area, from assorted, eclectic publications.

Corporate & Incentive Travel, January 2005: "Besides an abundance of music, Austin has made significant investments in their own convention center, a new airport and other facilities to **enhance their service to meetings and conventions**. The Austin City Convention Center doubled in size, and Austin added 1,000 new downtown hotel rooms including the Hilton Austin 800-room convention hotel."

The Washington Post (in its "Single In The City" section), 2/13/05: "For those looking for Mr. or Miss Right, we've scoped out four cities – Austin, Colorado Springs, San Diego and Raleigh-Durham, NC – with some of the **country's largest populations of young professional singles**. For bars/restaurants swarming with singles, cruise SoCo along Congress Avenue. Other hot spots: Oslo, for metrosexuals and the women who primp like them; Iron Cactus for tequila shooters; and Cuba Libre for manicures and martinis, followed by men."

Estates West, Spring 2005: "The cheese stands alone, and so does Austin among all the towns in Texas. The Live Music Capital of the World and hippest, most nuanced haunt in the Southwest, **this city looks and feels different from other Lone Star destinations** – much to pride, prejudice and pleasure to those who call it home. It's true: Austinites are as varied as buttons in a jar, ranging from left wingers to conservative cowboys to technology gurus (**Michael Dell**) to movie stars (**Sandra Bullock**) to pro athletes (**Lance Armstrong**). Celebrities and unknowns relish the casual atmosphere, fantastic food (especially barbeque at County Line or Salt Lick) and internationally renowned music and film scenes."

Country Home, March 2005: "Host to some of the best live music in the country, **great architecture and interior design**, and a population of youthful free spirits, Austin, Texas is a favorite stomping grounds for our editors."

Seldom does a month go by that Austin isn't mentioned in the national media. We try to keep you posted on the newsworthy references, such as the first two items on the remarkable Dell story. But these here are of a different variety and we thought you'd find them interesting.

For a couple of years now, we have gone against the doom-and-gloom grain when economists (usually fanned by political considerations) have talked about the “jobless” recovery. Austin’s recovery is built on a vigorous job market.

Time and time again, we have pointed out how **Austin is outperforming every major metro in the state in job creation and unemployment.** It’s been happening month after month. And there is no end in sight. In fact, Austin’s economic future appears even brighter.

Look at the figures just released Thursday for January. **Austin’s unemployment rate is impressive at 5.1% because it compares to 5.7% a year ago.** Translate percentages into numbers and you find that January a year ago, there were 715,500 people employed in our five-county Austin-Round Rock metro area and this year the tally is 739,900, according to the Texas Workforce Commission (TWC).

More people are working and, importantly, the labor force is increasing – from 758,900 a year ago to 779,900 this year. Put it another way. **Our metro area is experiencing the biggest job gains since 2000.** This is the fastest growth rate in five years – since the out-of-sight dot-com growth boom that went bust.

Compare the Austin area’s 5.1% January unemployment to the statewide average of 6.2%, 6.1% for Dallas-Ft,Worth-Arlington, 8.5% for El Paso, 6.1% for Houston-Baytown-Sugar Land, and 5.8% for the San Antonio metro area and you see how **we still lead the pack.** (Sure the unemployment rate was better in December with the holiday retail hiring, but the truest comparison that takes into account seasonality is to look at the same month the previous year.)

“The number of jobs is increasing, the number of employed is increasing, the number of unemployed is decreasing, and claims are dropping, all positive signs for Texas,” said TWC Commissioner Representing Labor, **Ronny Congleton.**

Dr. Louis Overholster believes that hard work pays off in the future, but laziness pays off now!

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 1407 Wild Cat Hollow, Austin, TX 78746. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



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