expand into higher-margin computing services. Nevertheless, Dell's stock fell 42% following January 2007, during a period when Hewlett-Packard's stock gained 11% and IBM gained 31%.

The industry's focus shifted from desktop PCs to mobile computing, software, and technology services—areas of relative weakness at Dell. Due to a changing industry, the company's original business model based on direct sales and value chain efficiencies had been abandoned. It was now using the same distribution channels, component providers, and assembly contractors as its competitors. Unfortunately, Dell's emphasis on cost reduction and competitive pricing meant that it was no longer perceived as providing high-quality personal computers or the quality service to go with them. Previously a strength of the company, its customer service rating in 2005 fell to a score of 74 (average for the industry) in a survey by the University of Michigan. Complaints about Dell's service more than doubled in 2005 to 1,533. Although the company successfully worked to improve customer satisfaction by adding more service people, more people meant increased costs and smaller margins.

In order to improve the company's competitive position, Dell's management initiated a three-pronged strategy:

- *Improve the core business* by profitably growing the desktop and mobile computer business and enhancing the online experience for customers. This involved cost-savings initiatives and simplifying product offerings.
- *Shift the portfolio to higher-margin and recurring revenue offerings* by expanding the customer solutions business in servers, storage, services, and software. This involved growing organically as well as through acquisitions.
- *Balance liquidity, profitability, and growth* by maintaining a strong balance sheet with sufficient liquidity to respond to the changing industry. This provided the capability to develop and acquire more capabilities in enterprise products and solutions.

Future Prospects

A number of industry analysts felt that Dell was not well positioned either for a future of low-priced, commodity-like personal computers or one of highly featured innovative digital products like the iPad and iPod. To continue as a major player in the industry, they argued that Dell needed an acquisition similar to HP's US$13.2 billion purchase of EDS in order to compete in business information services. Overall, analysts were ambivalent about the firm's prospects in a changing industry. Should Dell continue with its current strategy of following the consumer market down in price and adjusting its costs accordingly or, like IBM, should it change its focus to more profitable business services, or, like HP, should it try to do both?