Case 4

Compaq in crisis

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Eckhard Pfeiffer was named CEO of Compaq Computer Corporation in 1991. Since 1991, Compaq's annual revenues have increased almost ten times (see Exhibit 1) and its stock price has increased 1 072 per cent.[1] Compaq became the world's largest PC vendor in 1994 – two years ahead of schedule. In 1998, it was named Company of the Year by *Forbes* magazine. 'As long as Pfeiffer is at the wheel, Compaq will continue to execute with relentless efficiency,' said *Fortune* magazine in 1996.[2] In 1998, *The Economist* declaimed, 'Compaq's rivals now fall into two categories: those it is leaving behind and those whose corporate markets it threatens.'[3]

On 18 April 1999, Eckhard Pfeiffer was unceremoniously fired by Compaq's board of directors. How did the man who turned Compaq around in 1991 and built it into the premier PC vendor end up in such a position? What strategic decision during his tenure led to his downfall? What problems has he bequeathed to the CEO who follows him?

Company history

Compaq was founded in 1982 by three former Texas Instruments executives, Rod Canion, Jim Harris and Bill Murto. Their guiding idea was to build a 'portable' version of the IBM PC. They persuaded Benjamin Rosen of Sevin Rosen Management Company to fund a prototype, and later the company, and Compaq, was born. Rod Canion was its first president and Rosen became chairman of the board.

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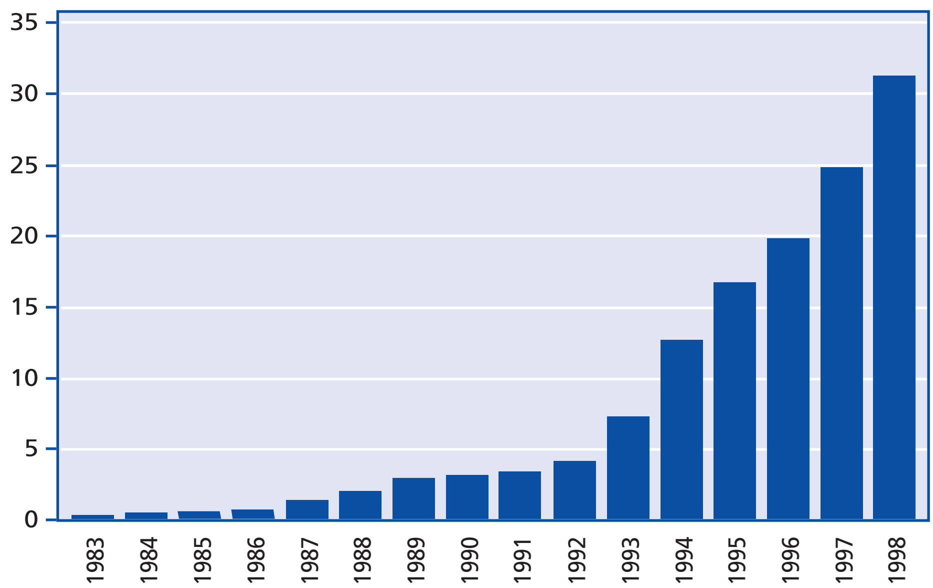
Compaq had two major advantages. First, it built an IBM-compatible machine that could run IBM software right out of the box. Demand for PCs was so great that IBM couldn't keep up, and dealers were happy to have Compaq fill the gaps.[4] Second, Compaq didn't develop its own sales force and so its dealers didn't have any direct competition from the company. This was in stark contrast to the other major computer makers of the time, IBM and Apple.[5]

Compaq began setting records in its first year of operation with sales of US$111 million. This was a record in first-year sales for a new business in any industry. In 1983, it began to sell in Europe and shipped its 100 000th PC. In 1985, the company began trading on the New York Stock Exchange and earned a place on the *Fortune* 500 list. No other company has grown so fast.

In 1986, Compaq became a serious threat to IBM by introducing a computer that used Intel's new 386 processor nine months before IBM did. Sales continued to increase, breaking US$1 billion in 1987. Compaq introduced the first battery-powered laptop in 1988, and revenues that year were US$2.1 billion, twice what they were the previous year. In 1990, international sales topped US sales for the first time, making Compaq a truly global corporation. Total sales were US$3.2 billion, second only to IBM. All this in less than a decade.

In 1991, Compaq experienced its first hard times. There was a general industry downturn, and Compaq had the first layoffs in its history, releasing 12 per cent of its workforce. On 24 October, a day after reporting Compaq's first quarterly loss, Rod Canion was 'unexpectedly removed'[6] from his position as CEO, and Eckhard Pfeiffer succeeded him.

Exhibit 1 | Compaq's revenue growth, 1983–98 (US$mn)



Sources: *Compaq Home Page*, Financial Highlights: www.compaq.com/corporate/1998ar; P. Burrows, 1994, 'Compaq stretches for the crown', *Business Week*, 11 July, p. 140; 'Compaq reports record 1992 sales', 1993, *Business Wire*, 26 January; 'Compaq's history', 1991, *The Atlanta Journal and Constitution*, p. C3; 'Compaq Computer financial results', 1989, *Business Wire*, 1 February; 'Compaq Computer financial results', 1986, *Business Wire*, 1 February; 'Compaq Computer financial results', 1985, *Business Wire*, 11 February; *Christian Science Monitor*, 1984; 'Compaq wins by thinking big', *The San Diego Union-Tribune*, 19 April, p. D6.

Ben Rosen indicated that Canion's dismissal was not a knee-jerk reaction to bad quarterly results. He indicated that the board had been discussing creating an 'office of the president' to be shared by Canion and Pfeiffer, but Canion was not pleased by the idea. Forced to choose between them, the board opted in favour of Pfeiffer, mainly because of his international experience in a rapidly globalising industry.[7]

Michael Swavely, former president of Compaq's North American operations who retired in July 1991, commented, 'Change was overdue at Compaq.' Past success had generated a 'self-satisfied view of the world' that produced a reluctance to change, a fatal attribute in any industry, but especially in computer technology.[8] The reasons Rosen gave for Compaq's falling sales and declining market share were tardiness in lowering prices and not enough emphasis on its core market, desktop PCs.[9] Rod Canion had believed that Compaq could sell at a higher price based on its brand reputation for quality, and the company quickly found that was a fallacy.[10]

Compaq under Eckhard Pfeiffer

Eckhard Pfeiffer began his career at Compaq in 1983 when he left Texas Instruments to launch Compaq's European operation. He was very successful, opening 20 subsidiaries and increasing sales in Europe, accounting for 54 per cent of Compaq's revenues in 1990.[11] Rod Canion brought Pfeiffer to Houston in January 1991 to be chief operating officer, and he succeeded Canion as CEO in October of 1991.

The first thing Pfeiffer did as CEO was cut the gross margins from 35 to 27 per cent[12] by slashing prices and effectively declaring war on the companies who built clones, which at that time held 60 per cent of the market.[13] He also fired 25 per cent of the workforce and increased the number of resellers.[14] Even amid restructuring, Compaq still managed to finish the year with increased revenue of US$3.3 billion, slightly up from US$3.1 billion the year before. Pfeiffer, with vision and determination, set a goal: Compaq will be the world's biggest PC producer in 1997 – in only six years. Industry analysts didn't think he could do it in such a short time.[15]

The first Compaq computers were high in performance and high in price, and they sold well until competitors introduced lower-priced machines with fewer extras.[16] Compaq regrouped and in 1992 introduced a new low-cost PC called the ProLinea. There was 'a lot of doubt', Pfeiffer recalls. 'Would we ... bastardize the Compaq name?'[17] Instead, the ProLinea put Compaq back on track for continued growth, rapidly becoming the company's best-selling PC.[18] Compaq nearly doubled its US market share to 23 per cent, surpassing both IBM and Apple. It also emerged as the favoured PC supplier in Europe, holding 10.3 per cent market share.[19] Revenues continued to rise, reaching US$4.1 billion at the end of the year.[20]

In August 1993, Compaq took another giant stride forward and introduced the Presario, another PC directed towards individual consumers, especially those with little or no previous computing experience. The Presario broke all the records at Compaq, selling twice as fast as the ProLinea in the first 60 days.[21] The Presario quickly became, and has remained, Compaq's mainstay, and the company finished the year with US$7.2 billion in revenues.

In January 1994, the business world was shocked when Compaq announced that it would no longer exclusively use Intel's microprocessor chips in its computers. In explaining the choice to buy from Advanced Micro Devices (AMD), Compaq told the press that AMD was more than just an Intel clone; it also had products that would potentially fill some holes where Intel did not compete.[22] Compaq also began to sell the Presario in Japan in 1995, traditionally a tough market for American companies.

Pfeiffer convened a company meeting in an arena in Houston in January 1995 where, in front of 16 000 employees and their families, he announced, 'We are No. 1! We made it in 1994! We've replaced IBM as the world's top PC vendor!'[23] Compaq had reached a six-year goal in only two years. Although Compaq products were not all that original, it had realised this accomplishment through exceptional execution. When Pfeiffer took over, he began by cutting prices and costs, not by looking for brilliant new engineering. He said, 'A ground rule is to set very aggressive cost goals to get very attractive entry-level products.'[24] Compaq finished 1994 with US$10.9 billion in sales.

Having conquered the PC market, Compaq shifted its strategic focus slightly in 1995. It began to add value to the computers it sold, emphasising built-in networking and system management features.[25] The company also launched a worldwide service and support system to assure information technology workers that Compaq systems could reliably run business-critical applications and that the company could deliver the service and support they required. This brought Compaq one step closer to becoming a computer company rather than just a PC company.[26] Deciding to operate in the service sector as well as the hardware sector put the company in more direct competition with industry giants Hewlett-Packard and IBM.

Compaq also decided to move into the networking business and signed a joint venture deal with Cisco Systems to build low-cost gear to connect servers to networks. Likewise, it signed a marketing agreement with Germany's ITK, which produces modems that link portable PCs to servers. It also closed a deal with Thomas-Conrad Co., a manufacturer of local-network cards for PCs. The final transaction in November 1995 was the acquisition of NetWorth, Inc., a company that makes high-speed network gear. All of this gave Compaq the technology to offer a complete networking package to its customers.[27] Revenues continued to rise, and the company finished the year with US$14.8 billion in sales.[28]

In 1996, Compaq landed two big contracts, one with Smith Barney and the other with General Motors. The contracts included purchase of both PCs and servers, a major step forward for enterprise-wide client-server computing.[29] Compaq's ProLiant server captured nearly 80 per cent of the Pentium server market, and Compaq shipped its 1 millionth server in November 1996, the first company in the industry to reach this milestone.[30]

However, things were beginning to strain. In March, Pfeiffer had to warn analysts that Compaq might not meet its first-quarter earnings estimates, and the stock plunged. He acted quickly, ordering incentives for dealers and price cuts to lift demand. Revenues for the quarter jumped 42 per cent, and the stock recovered. This should have been cause for celebration, but the cost to the company of hitting the growth target was a drop in profit margin to 20 per cent – the lowest it had ever been. A troubling fact emerged: Compaq had been running twice as fast just to stay in place. Sales and revenues had increased, but profits hadn't moved. Pfeiffer wanted the company to continue growing at the rapid rate of the past years and reach US$40 billion in revenues by the year 2000. Following a meeting with managers from around the world, a new strategy was forged: move aggressively into new product areas that will make Compaq a full-line information-technology company, capable of competing with IBM and Hewlett-Packard.[31] Also, a new strategic approach was needed because IBM had reversed the trend and begun to take PC market share from Compaq.[32]

In May 1997, Compaq announced another step into the networking business by acquiring Microcom, Inc., a company that makes networking gear. The line between the networking business and the computer business had become increasingly blurry, as computer companies rushed to increase sales in the lucrative industry. Also, in June, Compaq announced that it was expanding by purchasing Tandem Computers, another computer maker, which helped the company expand its line to include more powerful servers and parallel commercial systems.[33]

More symptoms of internal problems cropped up in 1997, as Pfeiffer had to make an extra effort to soothe its resellers after Compaq officials said they wanted a 'more direct relationship with customers'. Because of the inroads that Dell Computer had made into Compaq's sales, many resellers interpreted the remark to mean that Compaq was seriously considering turning to the direct on-line business model practised by Dell. Pfeiffer had to summon distributors to the company's Houston headquarters and reassert his commitment to Compaq's traditional distribution channels.[34]

In October 1997, Compaq paid its first dividend and finished the year with sales of US$24.5 billion.[35] However, its next move surprised the industry; in 1998, Compaq acquired Digital Equipment Company (DEC) for US$9.6 billion – the largest computer buyout in history.[36] Digital, which was founded in 1957, was one of IBM's original competitors. It helped to bring computers out of back offices and into the hands of the general public, giving birth to the minicomputer market. When Compaq was formed, Digital was second only to IBM. However, bad leadership and bad technology decisions had made Digital into a second-tier player.[37]

The acquisition of Digital considerably filled out Compaq's product line. Digital specialised in higher-end computers: workstations and Internet servers. More important, Digital brought to Compaq an excellent, large service and support organisation used to working with big companies and provided Compaq with the entrance into an upper-scale big business market that it had been trying to achieve for several years.[38] Additional assets were the Alta Vista Web search engine (which was later sold to KPMG) and the blazingly fast Alpha 64 bit processor chip. Analysts expected Compaq to bring its low-cost, no-holds-barred PC economics into the high-end computing markets that were dominated by IBM, Hewlett-Packard and Sun Microsystems. Such an approach could have potentially revolutionised the high-end computing business, and would make Compaq's regular PC business more competitive with Dell and Gateway 2000. Although some commentators raised concerns about the difference between the corporate cultures at Digital and Compaq, the merger moved forward and was finalised on 11 June 1998.

At the 1998 PC Expo trade show, Pfeiffer was invited to give the keynote address. In his speech, he discussed the five key areas that Compaq's strategy was focused on and what it was doing to accomplish each:

- *Industry standard computing*: 'Anywhere there is standards-based computing, Compaq wants to be the driver, whether it's in your home, your business or your car.'
- *Business critical computing*: Compaq will continue to invest in high-performance 64-bit computing with its Alpha chip.
- *Global service and support*: Compaq now has more than 25 000 service professionals around the world who can give customers support and availability services, systems integration and operations management. This gives customers a single point of accountability and lowers the cost and risk of ownership.
- *Cost-effective solutions for the enterprise*: 'We will focus on solutions that build on our leadership in enterprise platforms, expertise in key markets, service capabilities, and partnerships with industry-leading companies.'
- *Customers*: Compaq will leverage the account-based customer relationships nurtured by Digital and Tandem and combine them with Internet-based selling to provide customers with the most flexibility and choice. Compaq wants to be 'a strategic partner whose mission is to give you what you need, when you need it, and how you want it, at the lowest total cost'.[39]

At the end of 1998, Compaq had US$31.2 billion in sales revenues and, with the acquisition of Digital, was one of the largest computer companies in the world. It had a definite strategy, and although build-to-order companies were beginning to take away market share, it still had commanding market share.

The firing

On 9 April 1999, Pfeiffer announced to Wall Street that Compaq would probably not meet earnings expectations for the quarter; that they would in fact be about half of what analysts predicted. Compaq's stock plummeted on the news.[40]

Benjamin Rosen, chairman of Compaq's board of directors, called a board meeting without Pfeiffer, and the board voted him out. On 18 April, Pfeiffer handed in his resignation to Compaq's board of directors. Rosen and two other board members, Frank P. Doyle and Robert T. Enloe, formed the Office of the Chief

Executive to run the company while they searched for another CEO. This office was not intended to be a passive caretaker of the company. Rosen said, 'The board is committed to move quickly to select the right Chief Executive Officer to lead the next era of Compaq's growth and development. In the interim, we will move decisively to take those actions that are indicated.'[41]

So where did Pfeiffer go wrong? What grave mistakes did he make that merited his removal as CEO? When he announced the quarterly results (or lack thereof), he attempted to blame Compaq's poor performance on a generally weak demand in the PC industry, lower profit margins and competitive pricing.

As with Rod Canion, he was not removed for simply having a bad quarter. The bad quarterly results were merely symptomatic of larger internal problems. Pfeiffer's complaints about weak demand, lower profit margins and competitive pricing were valid, but the other major PC makers (IBM, Dell, Hewlett-Packard and Gateway) were not struggling in the same way as Compaq. Even Rosen had said as much when he commented that Compaq itself was largely at fault for its disappointing financial performance.[42] He also added that problems at Compaq were more severe than at first glance, and he wished they'd replaced Pfeiffer a year earlier.[43]

To arrive at this point, Pfeiffer had begun to isolate himself from employees, even some of his own vice presidents and higher executives. He oversaw the construction of an executive parking garage at a company where parking places had never been reserved, visibly separating himself from the other employees. Security on the executive floor was repeatedly increased and access increasingly restricted. Pfeiffer and his inner circle worked out the acquisition of Digital, and the rest of the senior executives only found out about it the night before it was announced to the press. Apparently, Pfeiffer had become too insular, not open to feedback and new ideas from those below.[44]

When he replaced Canion as CEO in 1991, Pfeiffer's aggressive initiatives changed Compaq's fortunes and turned the company around. But he seemed to have become less definite about making decisions. 'He was paralyzed by the speed with which the market was changing, and he couldn't make the difficult decisions,' says one former executive.[45]

As a result of his indecision, there was a failure to execute as effectively as Compaq had in the past. 'Pfeiffer is not supposed to be the guy who fails on implementation,' says Jonathon Eunice, an analyst at Illuminata Inc. 'Everyone talks about keeping the CEO accountable; almost no one does it. But [Rosen's] not afraid to fire his main guy and move on.' Eunice continues, 'The operations have been so sloppy for the second year in a row that it's almost staggering how off those numbers have been.'[46] The reason the office is called 'Chief Executive Officer' is because the CEO should execute strategy. Pfeiffer was no longer following through, getting things done, delivering on commitments. Benjamin Rosen told the press, 'The change [will not be in] our fundamental strategy – we think that strategy is sound – but in execution. Our plans are to speed up decision-making and make the company more efficient.'[47]

Over time, Pfeiffer began to focus on being number one and forgot about understanding the customer. Long-time chief strategist Robert Stearns, who left Compaq in June 1998, says, 'In his quest for bigness, he lost an understanding of the customer and built what I call empty market share – large but not profitable.'[48] The acquisitions of Tandem Computers and especially of Digital Equipment were indicative of this flaw. Against the advice of some of the senior executives, Pfeiffer and his tiny inner circle negotiated for Digital and presented it to the rest of the company after it was already completed. 'Buying Digital played into Eckhard's fantasy, but it's turning out to be a beast that's consuming the company,' said one former executive.[49] Digital had proved to be tougher to integrate than predicted: the corporate cultures were more incompatible than first thought, and Compaq seemed to have lost its way, although it was likely to reach Pfeiffer's ambitious goal of US$40 billion in earnings by 2000.

While Pfeiffer bears extensive blame for the company's poor performance, he should also be given a great deal of credit. Since becoming CEO in 1991, he turned Compaq around more than once and helped it grow into a tremendous power in the PC industry. 'Eckhard Pfeiffer oversaw a period of stunning growth in Compaq's history,' said Rosen. 'All those who benefited from that growth owe him a debt of gratitude.'[50] (See Exhibit 2 for Compaq's financial performance from 1994 to 1998.)

Wanted: CEO for a large *Fortune* 500 company

The board's search for a new CEO went on for three months. Rumours were rampant as many different people were considered for the job. Finally, on 22 July

Exhibit 2 | Compaq consolidated income statement, 1994–8 (year ended 31 December)

	1998	1997	1996	1995	1994
Revenue					
• Products	$27 372	24 122	19 611	16 308	12 274
• Services	3 797	462	398	367	331
Total:	31 169	24 684	20 009	16 675	12 605
Cost of sales					
• Products	$21 383	17 500	14 565	12 026	8 671
• Services	2 597	333	290	265	214
Total:	$23 980	17 833	14 855	12 291	8 885
Other total costs	9 851	3 993	3 271	3 058	2 367
Income (loss) before taxes	(2 662)	2 758	1 883	1 326	1 353
Income taxes	81	903	565	43	365
Net income (loss)	(2 743)	1 855	1 318	893	988

All amounts are in US$mn.

Source: Compaq Home Page, 1998 Annual Report: www.compaq.com/corporate/1998ar/financials/5yr_summary_nf.html.

1999, Rosen called a press conference and announced that Michael A. Cappellas, the chief operating officer at Compaq, had been offered the job and accepted.

Cappellas joined Compaq in August 1998 as the chief information officer and became the acting chief operating officer in June 1999. Before coming to Compaq, he had worked at Schlumberger, an oil service company, for 15 years as an executive which included the company's first corporate director for information systems. In 1996, he moved to SAP America as the director of supply chain management, and in 1997 he joined Oracle Corporation as senior vice president before moving to Compaq.[51]

One of the first problems Cappellas faced as CEO was convincing shareholders and customers that he was capable of filling the job. Industry analysts were concerned by the appointment of an 'insider' who had been at the company for less than a year and who did not have any CEO experience. Many shared concerns about his ability to lead a large company like Compaq.[52] This issue didn't bother Cappellas, who told the press, 'Strategy is about solving business problems. I've been in IT for many years, [so] I'm confident that I can do that.'[53]

On the other hand, others were glad to see someone with a great deal of information technology experience appointed CEO. 'The companies that put marketing and sales people in as CEO never had to run a full enterprise infrastructure, and they have no idea what our [IT] problems are,' says Mike May, vice president of IT at Teknion Furniture Systems, a Compaq customer.[54] And an analyst at J.P. Morgan & Co. comments, 'He is not well-known, but in terms of his qualifications, he's as credible as any of the other candidates we were hearing about.'[55] Cappellas's experience in information technology could prove to be an asset for Compaq. However, he faces a set of strong rivals.

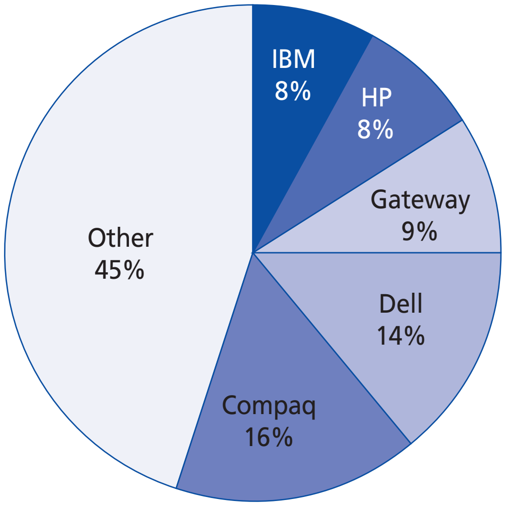
Competition

Compaq competes with four other major competitors: Dell, IBM, Hewlett-Packard and Gateway. These companies will challenge Cappellas's capabilities in strategic leadership. (See Exhibit 3 for the PC market shares of Compaq and its dominant competition.)

Dell Computer

Dell was founded in 1985 by Michael Dell in Round Rock, Texas, with a unique premise: selling directly to the customer and bypassing resellers. Because it sells direct, Dell has greatly reduced inventory cost and turnover time. (Currently, turnover is every six days.) In 1996, Dell began to sell directly over the Internet, which now accounts for approximately 50 per cent of orders. Dell has used the Internet to offer specially catered customer service to its large corporate customers by constructing a personal web page for each. Dell has been increasing its high-profit product line for big business. Corporate sales account for most of Dell's revenue. In October 1999, Dell outsold Compaq for the first time in the PC market, increasing its market share to 18.1 per cent while Compaq's fell to 15.9 per cent.[56]

Exhibit 3 | PC market share (first quarter 1999)



Source: PC Week Online, Archives: www.zdnet.com/pcweek/stories/jumps/0.4270,2263744,00.html.

IBM (International Business Machines)

IBM was incorporated in 1911. It was the first and biggest computer company, and pioneered the introduction of the PC in 1981. IBM faltered in the mid-1980s when confronted with Compaq and other rivals. In 1996, IBM began to regain market share in the PC market and came back to be second in the United States, after Compaq.[57] In 1999, it had US$81.7 billion in revenues.

Despite its turnaround in the PC sector, IBM has shifted its focus to its more profitable services division and is marketing itself as an 'e-business', emphasising how it can help other companies get their companies on-line to take advantage of the Internet. This allows it to emphasise services such as high-end servers which also drives its hardware sales into a higher profit margin than PCs.[58] Currently, it holds 7.5 per cent of the PC market share in the United States.[59]

Hewlett-Packard

Hewlett-Packard (HP) was founded by two engineers, Bill Hewlett and Dave Packard, in 1938 in a garage in Palo Alto, California. HP was incorporated the following year and has never stopped growing. Hewlett and Packard developed a remarkable corporate culture that encouraged communication and innovation, and their company has performed accordingly. HP began by building oscillators and evolved with the technology, building the scientific calculator that made slide rules obsolete, and eventually computers and other hardware.[60]

HP gradually diversified into many areas, including communications and medical technology. In 1999, HP launched a new company, Agilent, consisting of its industry-leading test-and-measurement products, semiconductor products and chemical-analysis medical businesses. HP could now focus on its core business of computers and hardware, including printers. HP had computer-related revenue of US$39.5 billion in its 1998 fiscal year[61] and had 8 per cent of the PC market.[62]

Gateway Computers

Gateway Computers was founded in 1985 by Ted Waitt. Like Dell, Gateway's business model is based on direct customised selling. In 1996, it began to sell computers on the Internet. Gateway has begun experimenting with various ways to earn more revenues from its customers. It opened 'Gateway Country Stores', bricks-and-mortar stores that are owned by the company; the stores carry no inventory but provide customer service and facilitate shopping for first-time customers by giving them the opportunity to test machines before buying. Gateway has also started up its own Internet service provider, which has taken off this past year, with half a million subscribers. At 9 per cent,[63] Gateway has more US PC market share than either IBM or HP.

Future challenges

Michael Cappellas has quite a formidable task in front of him. Although Compaq has many problems, it has just as many opportunities. The merger with Digital must be completed and assimilated into Compaq.[64]

Buying Digital was to help Compaq grow into a full-line computer company offering a large range of products that would be driven by service solutions. Cappellas said, 'We underestimated the cultural issues and just the hard work it takes to integrate two companies like Compaq and Digital. And that drains a lot of energy in the field .... The core PC business was coming under attack, and the market was shifting just as the integration was draining management attention. So the timing was really bad.'[65]

Completing Digital's integration will allow Compaq to expand into the profitable services business by leveraging Digital's admirable services arm. This will put it into direct competition with Hewlett-Packard and IBM. Business users are buying all-in-one packages of products and services. However, the solutions business at Compaq is not functioning well, while at the same time, margins in the PC business are falling.[66]

To compete with Dell, Compaq must develop a better on-line strategy.[67] PCs depreciate approximately 1 per cent per week, and a company mustn't continually be caught with back inventory on its hands. To reduce the costs of back inventory, it needs to move to a more direct sales model.[68] When IBM tried selling direct, its dealers complained and IBM backed off; the company currently doesn't sell on-line. Compaq may need to find a happy medium between on-line and retail selling.

In May, a month after Pfeiffer's departure, Compaq announced a restructuring of the sales channel, reducing the number of places that it ships to from 29 to four. This new 'Distributor Alliance Program' will reduce shipping and transaction costs.[69] It will also reduce inventories and thus cut the associated costs. All this will boost the bottom line, as well as open up many more opportunities and make Compaq a more viable competitor with Dell.

Cappellas stated, 'We did not do a good job of telling our story. We had fragmented marketing messages. Compaq had stood for the world's most powerful personal computing brand. Then we added the very high-end Tandem side, and then we brought in Digital. The customer lost track of who we were.'[70] Compaq has the opportunity to reinvent itself once more as a comprehensive computer company that can offer an enormous services benefit to its customers, instead of just being the 'world's top PC vendor'.[71] This is a chance to realign the company's focus and become a computing behemoth like IBM.

In an interview, Cappellas was asked, 'Who do you worry about more, Dell or IBM?' He responded, 'I worry about IBM. They have done a very good job of positioning themselves around e-business. They sell the entire suite. They have a great solutions mindset. I have a great respect for them as a competitor.'[72] At first glance, an observer would think that surely Dell should be Cappellas's big worry. However, as the quote indicates, Cappellas may seek to pursue a strategy similar to IBM's. Whatever strategic approach is taken, he has a significant challenge.

Endnotes

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