After Dell, Triad Needs to Shake it Off and Move On

By: Andrew Brod

Brod, Andrew (2009). After Dell, Triad Needs to Shake it Off and Move On. *The Business Journal*. Oct. 30 – Nov. 5 2009, 31

Article:

When Dell Computer Corp. abruptly closed its facility in southeastern Forsyth County earlier this month, there were those around here who claimed to have seen it coming. But I'll admit it — I was surprised.

After all, the plant provided an excellent geographic fit, enabling Dell to more efficiently ship customized desktop computers to the eastern U.S. And Dell was among the elite of the corporate world. In 2005, the year the Forsyth plant opened, Dell was the most admired company in America, according to Fortune magazine.

But two important things changed for Dell. The first involved consumer preferences for desktop vs. notebook computers. A combination of increasing wireless Internet access and improving notebook technology made being tied to a desk seem so... 2002. It was widely understood that notebook sales would eventually exceed that of desktops, but the crossover came sooner than expected.

The Great Recession accelerated the process. As with many products, sales of desktops and servers fell sharply during the recession. The technology consultancy iSuppli estimates that in the first half of this year, unit sales of desktops fell 21 percent as compared to the first half of 2008. But notebook sales rose 12 percent.

Unfortunately, Dell's Forsyth plant was designed specifically to make desktops and servers, whose components could be shipped to the Triad from overseas suppliers. In contrast, a notebook computer is a more integrated and compact product, and it's cost-efficient to ship the entire machine from overseas.

The other important change was of Dell's own doing. For the first time, the company began to sell a significant number of its computers through retail chains such as Best Buy and Wal-Mart. Even though consumers couldn't customize their machines as when buying directly from Dell, the move paid off. Dell regained some of the market share it had lost to Hewlett-Packard. But the move put another nail in the coffin of the company's mass-customization strategy.

Dell's announcement that it will move desktop production to Mexico led to speculation that the closing was about low wages elsewhere (see related story, page 1). But it's more likely that it was about the changing marketplace for computers. Given those changes, it appears that Dell couldn't justify running its Forsyth plant at less than full capacity. In the end, Dell found it cheaper to pay back nearly $30 million in incentives than to continue operating what it saw as a financial millstone around its neck.

The closing has been a boon for those who believe that fiscal incentives are always bad. To be sure, the Dell episode illustrates quite vividly the difficulty of predicting the future, whether by businesses or the government. But it hasn't really changed anything. Incentives are just as troubling and complicated as they were before Dell closed its plant, and the strategic motivation for governments to play the incentives game is just as strong. We need to continue to refine the way we grant incentives, but we must also understand that not all bets will pay off.

Having said that, the Dell bet doesn't look like a big loser. State and local governments will apparently get their money back, with the exception of some infrastructure spending that will eventually pay dividends anyway. In the meantime, the Triad got four years of decent-paying jobs, four years of an expanded tax base and a high-quality (if highly specialized) industrial facility.

So rather than gnash our teeth, perhaps the best reaction to the Dell closing is: Better luck next time!