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Can Dell recover from its mainland stumble?
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PC maker is threatened with a class action lawsuit as consumers congregate online to fight the brand. By Arun Sudhaman

It may not be as sexy as exploding batteries, but Dell's consumer crisis in China is proving every bit as serious as the global one that has attracted so much attention.

In this case, the issue is not batteries but -- rather -- false advertising. The company is facing a class action lawsuit in China, after marketing laptops containing a T2300 processor, and then shipping models built with the T2300E chip. Despite a Dell apology and offer of a full refund, 19 Chinese consumers are going ahead with the lawsuit.

Significantly, the chain of events offers an ideal view of what one industry commentator calls 'Crisis 2.0': where events such as these are set in motion by consumers who find each other online, before being picked up by the mainstream media (MSM). In this case Dell's woes began on one of China's hugely popular BBS forums, where upwards of 800,000 users meet.

CIC Data founder and CEO Sam Flemming, who coined 'Crisis 2.0' on his blog, believes that Dell's 'Processorgate' marks one of the first instances of this phenomenon in China. In comparison, he notes, last year's well-publicised scandals involving such names as SK-II, KFC and Heinz began in the MSM before being amplified online.

"It's a network effect," Flemming says. "Consumers can talk to each other online and start a crisis."

The net effect, he notes, is an increasingly empowered consumer base. "Not just being empowered to fight brands, but it's also empowerment in terms of information."

For Dell, the incident has rapidly snowballed into a PR imbroglio for the PC maker, which is also dealing with customer service criticism from blogs and offline media around the world.

Dell retains Proway for its Mainland PR duties and confirmed with Media that it is looking to broaden its communications with both mainstream and online media.

"Dell made a mistake -- they probably didn't communicate as rapidly and effectively as they should have," says Edelman regional president Alan VanderMolen.

Dell waited five days before making its response via posts on its corporate blog and on selected influential blogs. The Dell response blamed an error in its marketing materials and also tried to downplay the difference between the two processors - a critical misstep, in Flemming's opinion.

"It may not be important to most consumers, but it is important to these very knowledgeable and very vocal 'super' consumers," noted Flemming on his blog. "These are the kind of consumers who are the ones that friends, families, and procurement managers go to when seeking advice about what computer to buy."

According to Edelman's proprietary stakeholder research, furthermore, Dell's efforts were hamstrung by a poor understanding of Chinese stakeholder perception drivers. For example, Chinese consumers trust corporate country heads, government sources and NGO sources most when it comes credible information. So far, Dell's response has been led by a local marketing manager.

"You need to be aware of channels that are most credible and sources of information that are most credible," explains VanderMolen. "The number one driver of good responsible behaviour in China is high-quality products and services, so number two is responding and taking appropriate action when something goes on."

The news comes as Dell China chief David Miller departs to take over as Asia-Pacific president of key rival Lenovo. Taken together with Processorgate and the exploding batteries, the company is facing a perfect PR storm of sorts.

"Do they have a hold of the wheel or are they just sitting back for the ride?" asks VanderMolen.