

Dell case study essay



Case: Keeping Prices as Low as Dell By: Student Name Date: January 17, 2012 1a. Which pricing objectives is Dell Inc. pursuing? Dell's pricing strategy is to ensure profit maximization. In the case, we see that Dell is seeking to sell as many products as they can in order to achieve high revenues. Their main objective is to maximize long term profitability through the increase in market share and lowering costs as much as possible.

Dell was aware of IBM's dominance of the market, and therefore Dell came up with the idea to lower costs by dealing directly with customers and getting rid of middlemen, therefore passing on their savings to their customers. This catapulted Dell's market share. In addition to market share, Dell was able to offer their clients benefits by ensuring fast delivery of their products that were purchased online, and also make their products tailored to the wants and needs of their customers. b.

What type of long-term impact will Dell's pricing strategy have on the computer industry? With Dell's strategy of lowering prices, competitors will have to react to this. This will mean that different computer manufactures will also aim to reduce their costs and lower the prices of their products, thereby leading to generally lower prices for consumers. Manufacturers will have to maintain and surpass the quality of their products at cheaper prices, which is very positive for consumers.

Pricing wars can begin due to the nature of the industry in which Dell operates in, as manufacturers try to gain a competitive advantage through a mixture of both quality and price. When this happens, industry profits could decrease and this could have a negative impact on Dell in the long run as

their competitive advantage may be copied and even bettered by their rivals. Dell must plan ahead and anticipate such a reaction from their competitors and the industry as a whole. 2.

How are Dell's prices influenced by the other elements in its marketing mix? At Dell, the marketing mix elements that influence the price of Dell's products are: distribution and promotion. In terms of distribution, Dell was the first company to bypass market intermediaries and sell directly to the consumer. This decision greatly influenced the costs, and therefore the prices of Dell's products. Dell has also adopted the concept of supply chain management, where keeping the level of inventory at small levels also saves costs.

Furthermore, building and maintaining relationships with their suppliers was a positive move in order to support their supply chain functions. In terms of promotion, Dell saved costs by promoting their products through their websites, and using the internet to save money which resulted in reduced pricing for their products. 3. When entering new markets, what type of pricing strategy does Dell Inc. employ? When entering a new market, Dell uses "Penetration pricing" which aims at selling as many products as possible at the lowest possible price.

This is the right choice for Dell for the following reasons. Demand is highly elastic, which means that customers are sensitive to price changes and the number of buyers significantly increases when prices drop. Also, lower prices can lead to mass purchases which can effectively restore profits very quickly. Lastly, this is Dell's core competency. This means that the ability that Dell

has to keep its products low ensures that it has a competitive advantage over its rivals and can compete effectively in almost every market in which it chooses to operate in.