

dell, inc. case study essay sample

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Over the years, Dell has devised very successful strategies to increase customer loyalty and reduce costs. However with the passage of time, the company has failed to have a proactive approach to capitalize the opportunities provided by the environment and sustained its competitive advantage. 1. Use of the direct selling approach:

This approach has been the main competitive advantage of Dell over the years, which enabled the company to create strong relationships with its customers without the need for any intermediary. But this trend is starting to lose its advantage because: The increased use of the internet across the world is increasing, and the competitor are taking steps to utilized this trend by following the Dell model of eliminating the traditional distribution system and focus on e-business. Such as : Gateway. Customers' desire to see and touch products before purchase made Dell's direct marketing channel less attractive to them Dell's absence in retail stores had hurt the company attempts to expand beyond PCs into consumer electronics such as TVs.

2. Depending on Suppliers of component parts:

Traditionally the company outsourced its various components parts from suppliers in order to provide competitive prices to the customer. The strategy was once a very successful, but keeping in view the present market conditions, this eliminates the company differentiation, because the outsourced firm provides the same component part to other competitors and may not offer the quality parts Dell is expecting.

3. Low Cost Strategy:

Dell had been the lowest cost provider in the PC industry because it held no

inventory (relies on JIT approach) which reduces its inventory costs other than competitors. Also it has no distributors or retail stores, which gives it a better command on its supply chain. This core advantage of Dell is now threatened because competitors are now able to cut their costs and price their products more aggressively by taking advantage of being in many retail stores.

Second: Industry Analysis: porter's five competitive forces Model: 1st: Threat of new entrants (Low)

Any new entrant in this market faces heavy restraints. Capital requirements and technological know-how are high barriers to entry as skilled labor and sophisticated support industries are needed. Product differentiation also constitutes a high entry barrier because of the established brand names in the industry. despite these constraints, switching costs may be considered low because some may view PCs as commodity. 2nd: Rivalry among existing firms (high)

The PC industry is a consolidated industry in which is dominated by few firms who are striving to differentiate their products from competitors. Main competitors in the industry are: Dell, HP (HP-Compaq), Acer, Gateway and IBM. Also the rate of industry growth had been declined by 5% setting off price wars between competitors whose trying to cut their costs to be more competitive. 3rd: threat of substitutes (low)

Computer has a strong presence in today's society. No other product can substitute a PC except Apple computers and notebooks but due to their high cost and sophisticated software customers can't easily switch to them.

4th: Bargaining Power of Buyers (high)

Buyers in the PC industry are powerful because of low brand loyalty as most of the competitors produce similar products and the switching costs between them is low. Buyers' power has forced companies to reduce prices and increase customer service and support. 5th: Bargaining power of suppliers (high)

Although there is high number of suppliers for hardware components (like keyboards), the software components are almost monopolized by Microsoft and the microprocessor parts are monopolized by Intel and AMD. 6th: Relative Power of other stakeholders (Moderate)

Complementors play a critical role here. A complementor is a company whose product works well with a firm's product and without which the product will lose much of its value. For example: Dell's computers can't work without Microsoft's software. Industry Matrix for Dell:

Competitive Forces (Key Success Factors)

Weight

Dell's Rating

Weighted scores

Threat of new entrants

0.15

4

0.6

Rivalry among existing firms

0.30

5

1. 5

Threat of substitutes

0. 10

3

0. 30

Bargaining power of buyers

0. 20

4

0. 8

Bargaining power of suppliers

0. 15

2

0. 3

Relative power of other stakeholders

0. 10

2

0. 20

Total

1. 00

3. 7

The total weighted score of 3. 7 for dell indicates that the company is responding well (above average) to the current industry's environment,

which is reflected in the company's current market share (second in the PC industry) and profitability (high profit margins but decreasing).

Third: SWOT Analysis for Dell:

External Factor Analysis (EFAS) :

External Factors

Weight

Rating

Weighted Score

Comments

Opportunities:

New emerging markets in Asia

Increase in use of internet and on line shopping

Sales growth in consumer market is increasing relative to corporate market

Diversifying in new product categories other than PCs

Threats:

High competition and threat of new entrants

PC sales through direct selling decreased, while through retail stores

increased Change in customers' needs and preferences

Price differences among competitors are becoming smaller

Competitors use multiple sales methods versus direct model by Dell

Decrease in Dell's profits and stock price

Sales in Asia-Pacific area is only 12%

Increase in sales through online stores

85% of Dell's sales are in corporate market

Such as TVs and security systems

Competition from HP, IBM, Acer, Apple

PC sales decreased 5 %

People need to see and touch the product before purchase

Pricing their products more aggressively

Sell products through retailers, corporate resellers and direct marketing High competition

The total weighted score for Dell in responding to the external factors is 3.7 which means that the company is operating above industry average. Internal

Factor Analysis (IFAS):

External Factors

Weight

Rating

Weighted Score

Comments

Strength

High market share

Direct Sales model

Costs are lower than any other company

High emphasize on customer service and support

High bargaining power over suppliers

Many product lines

Weaknesses

No appearance in retail stores

Low R&D expenditures

Low revenues from Asian pacific area

Don't target consumer market

First in the U. S

Create cost savings and close contact with customers

They hold no inventory (uses JIT approach)

Offer customized products and after sale services

Buy large quantities from all over the world

Servers, printers, software

XPS M2010

Only direct selling

Only 12%

85% of its sales to corporate market

The total weighted scored of Dell is 3. 6 which means that it responds to its internal factors above industry average Strategic Factor Analysis Summery

(SFAS) :

Strategic Factors

Weight

Rating

Weighted Scores

Comments

Market leadership and high market share (S)

Direct Model approach(S)

High customer service and support(S)

No appearance in retail stores (W)

Low sales in consumer markets (W)

Diversification in new product categories (O)

Untapped Markets (O)

High competition among is rivals (T)

Technological innovation (T)

Growth in PCs market is slowing down (T)

Used to be the first until 2006

Low inventory and operating costs results in lower costs (JIT) Customized PCs according to customers needs'

Depends only on Direct selling model

85% of sales in corporate markets

Such as tablets and TVs

New niche markets

Are now able to reduce their prices

Need for up to date new technologies

Need to diversify

Total Scores

1. 00

3. 55

The total scores for Dell is 3. 55 which means that the company is operating above industry average Fourth: TOWS Matrix:

Internal Factors

(IFAS)

External Factors

(EFAS)

Strengths (S)

High market share and good reputation

Direct Model approach

High customer service and support

Weaknesses (W)

No appearance in retail stores

Low sales in consumer markets

Opportunities (O)

Growing use of the internet

Diversification in new product categories

Untapped markets

International expansion

“ Diversification”: Dell should diversify in product lines other than PCs and its related products such as : TVs and security systems Should take advantage of its customers support and loyal customers to expand in new niche markets such as markets for college students and video gamers “ Expand in E-commerce”: because it depends solely on direct selling, updating its online stores is a must to encourage customers to buy online. Dell should invest more in consumer markets by assessing their unique needs and responding to it to be able to increase its market share and profitability in those markets

Threats (T)

High competition among its rivals

Decrease in sales through direct selling

Growth in PCs market is slowing down

Changing customers’ needs

“ Differentiation”: as competitors being able to cut their costs dell must consider differentiation of its products. Create relationships with retailers and

create new distribution channels to overcome disadvantages of direct selling.

Dell should consider more physical presence in the market through retail stores to be more accessible to household sector and students. Increase R&D investment: Dell should produce innovative products than just imitating others

Fifth: Strategies Used by Dell:

Generic Strategy:

Apparently Dell is using a “ Lower cost Strategy” because it is able to design, produce and market its products more efficiently than its competitors this is due to a combination of reasons: Dell uses JIT approach, which enable it to order and assemble its products within days from receiving the order keeping both inventory and operating costs low. It has no retail stores, depending on direct sales reduces the cost of intermediary. Cash flows are not a problem for Dell because customers pay for their products long before Dell pays for its suppliers.

Corporate Strategy:

Dell uses “ Growth Strategy”:

“ Horizontal Growth” Dell’s acquisition of Alienware Corporation in order to expand in a new niche market previously ignored which is the “ video gamers market” by introducing the new XPS 700 desktop. “ Concentric Diversification” Dell has broadened its product line to include not only desktops and laptops, but also servers, storage systems, software and infrastructure services.

Functional Strategies:

Marketing strategy:

Dell uses “ Pull strategy” where the company is building brand awareness so that customers ask for the product i. e they pull the product through the distribution channel. “ Penetration Pricing” they gain market share through low prices.

Research & Development Strategy:

Dell is a “ technological follower” it uses the late mover timing tactic, it imitates the technological advances of others keeping its R&D costs low relative to its competitors and this enable it to keep its risks down by waiting until a new technological standard is established

Operations Strategy:

Dell uses “ mass customization” in which customers use the internet to design their own computers. It uses “ continuous improvement system” dell focus all of its spending on improving the manufacturing process and perfecting I it to cut down costs.

Purchasing strategy:

Dell used to depend on sole sourcing from Intel, but in 2006 management has decided to no longer single-source its microprocessors from Intel and to include AMD in its purchases They use the JIT approach: they have the purchased parts arrive at the plant just when they are needed, rather than keeping inventory

Sixth: Recommendations:

Dell now is losing its market share because of the problems facing it (discussed earlier) so it must: should now focus on another area that should

be unique in the industry that will provide competitive advantage in form of differentiation this can be done by focusing on new niche markets and offer new product features Invest in R&D and get patents by doing so competitors will not be able to copy Dell's strategy The company should reduce reliance on outsourcing and manufacture some of its parts in-house Should consider physical appearance in retail stores to capture a segment in the market that can't reach Dell's products such as : household sector.