

# Matching dell essay sample

[Business](#), [Customers](#)



We will first try to analyze the pc industry by the help of Porter's Five Forces Model and then continue with explaining Dell's business model, its positioning, and its competitive advantages, which heavily depend on extremely successful direct sales model and supply chain management. We will wrap up the case with some recommendations.

The PC industry has started to develop fast in the 80's when IBM, the leader of the industry thanks to the first mover advantage, launched its first PC series and later on when numerous small companies entered the market. PC is a new product and companies had to create the demand to it from the scratch. We will apply the Porter's 5 Forces model to examine the PC market and see how forces of competition influence the profitability of the market players starting with;

Potential Entrants;

- \* Initial investment is relatively low,
- \* Brand loyalty, on average, is very low (except Apple),
- \* Switching cost of the market players seem to average,
- \* Wintel standard limits the opportunity of differentiation,
- \* Maintaining cost advantage is very difficult,

As a result, the threat of new entry is high and it lowers the profitability of the industry.

Suppliers;

\* Proprietary standards and customer desire for compatible pcs strengthens Microsoft and Intel's hand, they use this power to suck up the profits from the industry,

\* Other inputs (large but not profitable segment, see appendix 1) are like commodities,

Suppliers are very influential and strong in pc industry and they lower the profits of manufacturers.

Buyers (Customers);

\* Low switching cost-wintel,

\* Growing end user knowledge-low brand loyalty,

\* Resellers and retailers increasingly control customer interface,

\* Threat of backward integration by resellers as channel consolidates,

Buyers' are powerful and their power continues to increase as a result of competition among manufacturers.

Substitutes;

\* PDA's and workstations, we believe, may be a substitute for pc.

It seems that substitutes are not threat for industry now, however, they will probably be.

Industry competitors;

\* Companies stuck with intel standard, hence, differentiation is very difficult and the only differentiation point becomes price,

\* As can be seen on the appendix 1, Microsoft and Intel have the power to encourage competition,

So the rivalry among manufacturers is very high.

We can say that the overall profitability of industry is not sufficient for all the player and potential entrants.

### Analysis of Dell's Business Model

We can classify the Dell's customers in two broad segments B2B and B2C. 77% of Dell's sales came from B2B operations including business and government institutions. Furthermore, as stated in the case, the majority of Dell's sales went to large customers purchased over a million \$. Since both segments have different needs and wants Dell differentiates between classes.

We believe that the initial success of Dell was due to its early use of the internet. Dell's direct sales strategy had attracted the customers and paid off in a short term. In addition, the use of internet created a significant competitive advantage for Dell while its competitors didn't believe that the online operations are very difficult to conduct in B2B market.

Dell's business model, being a demand pull company, helped to control its inventory and costs, whereas its competitors are strictly supply-push companies and operate in a more traditional manner. IBM and other

competitors of Dell have to be good at forecasting, while Dell makes the computers to order. Dell is more efficient and therefore more profitable because it can buy its component parts based on the customer's demand and not have to worry about building up its supply of inventory that may or may not be used. The result was that the company wound up with essentially no carrying costs for inventory while maintaining excellent turnaround on orders, because it sold what it had on hand, collected from customers in an average of a few days, and didn't have to pay suppliers for several weeks (Henricks, 2003).

Dell's success not only depends on its personnel but also depends on its strategies, organizational techniques, and the teaming up with outside suppliers that produce mutually beneficial results. Dell is able to sustain a competitive advantage over competitors in the computer industry because of an extremely efficient supply chain/distribution system and its JIT inventory system. Since inventory and labor are the highest liabilities of a firm and Dell operates with a few days of inventory, they are able to cut costs on warehousing, hiring people to track and maintain inventory, and avoid holding on to obsolete technology.

Dell uses a JIT inventory system because Dell's customers can only order computers directly through Dell itself. Dell uses their website [www. Dell. com](http://www.Dell.com) to take customer's orders. Dell focuses on direct sales, cutting out other distribution channels entirely. This allows for a deeper relationship with the customers whereby Dell can offer their customer's better service, savings, convenience, and efficiency.

## Dell's Positioning and Activities

(see appendix 2 and 3 for Dell's and its competitors' positioning)

Having the low cost advantage Dell is able to expand the gap between cost and customer's willingness to pay. Therefore, they are able to satisfy their end-consumers, who are educated want product stability, high-end performance and low lifetime costs. They have served the US market and started to expand their market worldwide; in addition, they have provided stable product lines and avoided low end performance.

The activities that Dell performs can be listed as follows;

- \* Marketing and sales

- Direct sales, no reseller

- Online order

- \* Operations,

- Order received ; pc manufactured

- In line installation of programs

- \* Outbound logistic;

- PCs delivered directly to customer

- After sale services

- Technical support

\* Procurement,

-Close integration with suppliers, JIT delivery, co-location

Note: See appendix 4 for Dell's value chain and appendix 5 for Dell's activity system & position diagram.

We have mentioned some of the competitive advantages of Dell over its rivals above; now, we should calculate the dollar equivalent of these advantages (for business market). To quantify these advantages, we assumed 4 distinct low cost points:

1. Later purchase ability→→ since component costs are swiftly declining and Dell's rivals' have to bare inventory for more time than Dell, Dell has cost advantage of \$83,
2. Lower inventory carrying→→ Cost of inventory of rivals' is 65 days while Dell's is calculated as 15. Dell has cost advantage of \$39
3. No support for channel player→→ Dell doesn't have to spend money for channel advertising since they don't use it, and it generates \$60 cost advantage
4. No channel mark-up→→ unlike its rivals, Dell doesn't pay 5-7% mark-up which generates \$132 for Dell.

(See appendix 6 detailed calculations)

Dell is able to produce a PC for business customer with \$314 lower costs than its rivals. Besides, if we include willingness to pay of customer the cost

advantage may go up for Dell, however, we didn't see significant differences among these companies and didn't use it.

Due to the following reasons Dell's business model haven't been matched by its rivals;

Trade offs→→ channel conflicts

Complexity/fit→→ inter-related choices along value chain = activity system(see appendix 3 for Dell's activity system)

o Andrew Nordenflycht, assistant professor at Simon Fraser University, defines external fit as “ the relevance of position to customer needs and uniqueness of position relative to competitors”, and argues that changes in customer preferences increased external fit for Dell, decreased fit for IBM, Compaq, and HP. He also defines internal fit as “ complementarity and consistency between internal choices”, and argues that attempt by Dell's rivals to increase external fit leads to decreasing internal fit.

\* Organizational resistance

We want to sum up with the following recommendations;

1. Try to increase co-operation with Intel and Microsoft to reduce suppliers power toward the company,
2. Get as much strategic alliances as possible, for instance Xerox; sell these products online, and involve more the buying process of customers. Being involved in the decision making process is key to Dell's success because



they see directly what the customers want and determine their production schedule from that information. So continue with that.

3. Reduce the number of suppliers to create stronger relation.

4. Invest on internet site to decrease the number of wrong orders. Even though Dell target educated high-end customers they still make mistakes, and these mistakes can sum up huge number,

5. Provide further services including hosting, since the business consumer is the big portion of sales they deserve additional services. And hosting and back-up system for these customers would be attractive.

Dollar value of competitive advantage

Average price in 97 = 2405\$ (Dell) (exhibit 10b)

Gross margin in 97 = 21. 5% (Dell) (exhibit 6)

Decline rate of component price = 0. 6% weekly (25-30% yearly) (page 5)

Cost of capital = 15% (assumption)

Dell's days of inventory in 97 =  $\text{inventory}/\text{cogs} \times 365$

=  $251/(7759-1666) \times 365 = 15$  days (exhibit 6)

Rivals' days of inventory = 65 days (page 11)

Channel mark-up = 7% (page 5)

Dells' COGS for a PC sold =  $2405 \times (1 - 0. 215) = 1887\$$

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Competitors' COGS for a PC sold = Dell's COGS/(1-weekly decline rate of components

(Slower inventory turnover) price)^(days of inventory difference/weekdays)

$$= 1887 / 0.994^{((65-15)/7)}$$

$$= \$1970$$

$$\text{Inventory carrying cost} = (1887 * (65-15) / 365 * 0.15$$

$$= \$39$$

$$\text{No support for channel player} = 2405 * 0.025$$

$$= \$60$$

$$\text{No channel mark-up} = 1887 * 0.07$$

$$= \$132$$

$$\text{Total cost advantage} = (1970-1887) - 37 + 60 + 132$$

$$= \$314$$