

Dell case essay sample

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



In 2001, Dell Computer became the world's largest personal computer vendor, continuing to gain market share and post profits in an industry struggling with slumping sales and billions of dollars in losses. Dell sells 90% of its PCs directly to the final customer, largely bypassing there seller channel that accounts for most of the world's PC sales. This direct customer relationship is the key to Dell's business model, and provides distinct advantages over the indirect sales model. Dell's direct relationship with the customer allows it to tailor its offerings to customer needs, offer add-on products and services, and use the Internet to offer a variety of customer services. Dell's direct sales and build-to-order model has achieved superior performance in the PC industry in terms of inventory turnover, reduced overhead, cash conversion, and return on investment.

Dell's business model is simple in concept, but very complex in execution. Building PCs to order means that Dell must have parts and components on hand to build a wide array of possible configurations with little advance notice. In order to fill orders quickly, Dell must have excellent manufacturing and logistics capabilities supported by information systems that enable it to substitute information for inventory. Dell's corporate philosophy and contribute to its early success Dell's corporate strategy is to provide products directly to customers. To provide high technology quality products and services through customization. Eliminating middlemen in distribution resulted in the following savings: * No buyback or price protection since Dell was not dealing with resellers and distributors 2. 5 cents on every dollar of revenue, savings of \$0. 5bn * Total addition to gross margin in 1994 is 12%. When Dell tried to sell through retailers, price in the retail channel was 88%

of the price in the Direct Model. * No advertising to resellers and distributors, funding the market development activities of channel players. Dell employed a cost based focus strategic positioning, Dell's competitive advantage through lower costs manifested in all of the value chain activities. Based on this concept, the strategies are:

* Build-to-order manufacturing, mass customization, and partnerships with suppliers: Dell customers could order custom-built servers and workstations based on the needs of their applications. Michael Dell believed it made much better sense for Dell Computer to partner with reputable suppliers of PC parts and components rather than to integrate backward and get into parts and components manufacturing on its own. * Just-in-time components inventories: Dell's just-in-time inventory emphasis yielded major cost advantages and shortened the time it took for Dell to get new generations of its computer models into the marketplace. * Direct sales: Selling direct to customers gave Dell firsthand intelligence about customer preferences and needs, as well as immediate feedback on design problems and quality glitches. * Customer service: Service became a feature of Dell's strategy in 1986 when the company began providing a guarantee of free on-site service for a year with most of its PCs after users complained about having to ship their PCs back to Austin for repairs.

Dell contracted with local service providers to handle customer requests for repairs; on-site service was provided on a next-day basis. Dell also provided its customers with technical support via a toll-free number, fax, and e-mail. If a customer preferred to work with his or her own service provider, Dell gave

that provide the training and spare parts needed to service the customer's equipment. * Extensive data and information sharing with both supply partners and customers: Dell's blur the traditional arm's-length boundaries in the supplier- manufacturer-customer value chain that characterized Dell's earlier business model and other direct-sell competitors using the strategy. Michael Dell referred to this feature of Dell's strategy as " virtual integration." 16 On-line communications technology made it easy for Dell to communicate inventory levels and replenishment needs to vendors daily or even hourly.

Dell's key operating strengths

Dell's Operating strength is a set of synchronized decisions and activities utilized to efficiently integrate suppliers, manufacturers, warehouses, transporters, retailers, and customers so that the right product or service is distributed at the right quantities, to the right locations, and at the right time, in order to minimize system-wide costs while satisfying customer service level requirements.

The supply chain begins with a need for a computer. In this example, a customer places an order for a Dell computer through the Internet. Since Dell does not have distribution centers or distributors, this order triggers the production at Dell's manufacturing center, which is the next stage in the supply chain. Dell receives Computer parts and components from the suppliers, who belong to the up-stream stage in the supply chain. After completing the order according to the customer's specification, Dell then

sends the computer directly to the users through UPS, a third party logistics provider.

The flow of goods of Dell Inc. is as follow, which is different from SCM of other computers company. Dell follows online selling of goods.

Dell's days of inventory:

In the above graph we can see that day's of supply in inventory of Dell inc. decreases per year (Ex. 7). The graph slope always down. This yield significant results for Dell's own manufacturing operation in terms of cost reductions, low total cost of ownership, and a reliable, stable operating environment. This systematic approach of supply chain management of Dell's increases its Net revenue and net Income.

We can see from graph of revenue and net profit for same year 1997 to 2001. The revenue and net income increase tremendously after 1997. Dell's sales at its Web site ([www. dell. com](http://www.dell.com)) surpassed \$35 million a day in early 2000, up from \$5 million daily in early 1998 and \$15 million daily in early 1999. In its fiscal year ending January 31, 2000, Dell Computer posted revenues of \$25. 3 billion, up from \$7. 7 billion in the year ending January 29, 1997—a compound average growth rate of 49. 4 percent.

Dell Computer's Market Position

Going into 2000(Ex. 2), Dell Computer was the U. S. leader in PC sales, with nearly a 20. 1 percent market share, ahead of second-place Compaq.

Hewlett-Packard was fourth with 10. 7 percent, followed by Gateway with 8. 4 percent and IBM with 6. 2 percent. Worldwide, Dell Computer ranked

second in market share (11.4 percent) behind Compaq (13.2 percent). IBM ranked third worldwide, with a 7.4 percent share, but this share was eroding. Since 1996, Dell had been gaining market share quickly in all of the world's markets, growing at a rate more than triple the 18 percent average annual increase in global PC sales. Dell had become the number one PC seller in the United States, and was number two worldwide. This success has taken place against the backdrop of falling PC prices, brutal competition, and enormous losses by other PC makers.

Dell has not only survived, but thrived in this environment thanks to the fundamental advantages of the direct model, and to its continued efforts to improve its execution of that model. It also has taken advantage of its direct model to build strong, stable relationships with the large corporations and other organizations who are its core customers. Unlike indirect vendors, Dell knows who its customers are and has a great deal of information that it uses to provide a high level of service and support, to target customers for retention and expanded sales, and to sell additional third party hardware and software.

Call Centers for corporate clients

Dell makes extensive use of call centers, both for sales and for technical support. Dell generally organizes its call centers around its major customer segments with different call centers for relationship and transaction customers. It tends to locate call centers regionally to optimize telecommunications and language considerations, but customers may at

different times be routed to call centers in different locations. Initiatives|
Payoffs|

Ship to target| * Reduction of cost of transit * Improved customer service |
First-time Resolvers| * Improved number of issues solved in the first go *
Thus improved customer perception of the product and hence reduced
number of technical visits thus reducing after sales cost. * Reduction of
technical visits to 75%| Frequently asked questions| * Reduced the technical
visits required further * Help improve after sales service turnover time * Also
leveraged the technical knowhow of the technical team for its advantage * It
helped in gaining customer satisfaction without employing extra resources
for the same| Feedback for the product| * Helped in improving Frequently
asked questions * Helped as gold mine for product development team and
support team to handle queries more effectively hence reduction of cost. |

Marketing, Sales and Support

Dell's marketing function is directed from global and regional headquarters with special messages targeted for the different country markets. However, the sales, service and support functions are located in the individual countries because these activities must be close to end customers. To compete for large contracts from corporate and public sector customers, Dell's direct sales force must be on the ground in each country in order to be aware of sales opportunities, interact with procurement personnel and negotiate through the competitive bidding process. Moreover, since many Dell contracts are large and Dell hopes to expand its business with every customer, the account executives assigned to each large customer must be

within easy reach. Similarly, although telephone technical support is centralized in regional call centers, field service and support require location close to the customer. .

Dell's Service Partners

Rather than do everything itself, Dell has made extensive use of business partners to help serve its customers, especially as it has moved into producing servers and targeting the small and medium business market. Three functions - systems integration, service and repair, and consulting - all have to be located very close to the customer, as they involve direct contact with the customer. Dell partners with companies that can deliver these services globally - or at least regionally. * System integration: Dell partners for procurements with integrators like Electronic Data Systems (EDS) who will install Dell servers and link them up with end user devices. * Service and repair: Dell also partners with firms like IBM, Unisys, Wang and BancTec for field service and repair. While 90% of service incidents are handled by telephone in Dell's call centers, about 10% involve field calls, which Dell has outsourced to these partners. Their field service units are tied to Dell electronically, and get the orders for field service within an hour or two of a call coming in to Dell. * Consulting: Dell partners with Arthur Andersen and Gen 3 in the U. S. to provide consulting services to companies that seek to emulate Dell's success with the direct model and Internet-based IT.

New Market and challenges

Porter's Five Forces model of Dell

Threat of New Entrants: MODERATE

The entry of new comers in quite difficult because of the entry barriers that are caused by:

- * Buyer loyalty
- * Brand name
- * Low price
- * Award winning customer service
- * Customization

Decreasing profitability shows that there is a threat of new entrants. HP overtook dell few yrs back Rivalry: HIGH

- * Price War
- * Decreasing profitability
- * Low differentiation

However, in the midst of sever competition, Dell can still gain market share from other competitors. That proves Dell's business strategies have been successful. Threat of Substitutes: LOW

- * Strong presence of PC's throughout society
- * One computer for every three people in the U. S.
- * Customer service
- * Direct Business Model

However, high price, and lack of software support prevent people from switching to Apple system. Bargaining Power of Buyer: High

- * Highly price sensitive
- * The cost leader has high market share which leads to high bargaining

power relative to its suppliers * Reliability and customer service become important factors. * Dell's products are very reliable and customer service is outstanding. These two factors help Dell to create certain brand loyalty. But that's given the fact that the Company set the prices very low. If the prices are raised too high, customers will not hesitate to switch.

Recommendations & Implementation

Server/Storage/Service Growth

* The booming PC market seems to have bottomed out, with little signs of improvement due to market saturation. Positive signs have come mainly in the form of limited PC replacement programs at some large companies and sales of notebook PCs. Any future PC market recovery will most likely be tied to an improvement in the economy. * Therefore, Dell should ramp its efforts in three non-core areas as key for future growth: servers, external storage and services. Meanwhile, it can carry on with its aggressive price-cutting strategy for all of its products. Hopefully, these moves will allow them to gain traction in some markets, and even overtake some competitors in others.

Once Dell has used its lowest price strategy to increase its installed base of clients in hardware sales, particularly in the enterprise market, the company can leverage its expertise in customer support to keep those clients. Even though Dell has already made some impressive progress in server and storage developments, it still lags behind other server vendors in total shipments and sales. The company needs to create a greater presence among enterprise and service-provider customers. * Dell can quickly grow its storage business by providing simplified and standardized storage solutions

to customers ranging from small businesses to large, global corporations with enterprise-class requirements.

It can leverage its ties to Microsoft, Intel and other prestige component vendors to focus on providing Windows-based storage and server products. This move will make its high-end storage products work with IBM, Hewlett-Packard and Compaq Computer Windows servers, as well as Dell servers. This allows Dell to widen its customer base by appealing to customers that don't have Dell servers, or have a mixture of servers from different vendors. With comprehensive support for multiple platforms, Dell can also offer customers a storage solution that leverages their existing Windows server investments, while scaling to accommodate their growing data requirements.

* An expansion of the services group should also be pursued based on customer needs, which will vary from country to country.

While Dell continues to partner with third-party services firms in some areas, it should also bulk up on its own services capabilities so it can provide customers with more complete services offerings. Dell should realize that it would need to expand its services capability significantly in order to be taken seriously by some global enterprise and service-provider customers. Dell can also implement a fixed-price approach to services that will boost its presence in that market. New services, such as migrating from Unix-based servers to new ones based on Linux can be offered and combined with Dell's hardware. A total of \$2 billion to \$3 billion in service revenue can be achieved if this strategy is correctly implemented. Dell's three-pronged growth strategy by no means guarantees a sure-fire path to future profitability, but Dell's

deliberate and measured steps to expand beyond its PC roots could result in additional good news in the future.

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