

# Dells segmentation targeting positioning marketing essay

[Business](#), [Marketing](#)



According to Magretta (1998), the start up of Dell was a relatively tough one as Michael Dell; the founder of Dell could not afford to create a value chain and strategy for Dell. Therefore, they focused on delivering solutions and systems to customers in order not to let their investors down. Below are the factors that allow Dell to grow steadily from the start of their business.

## **2. 1 Dell's Segmentation, Targeting and Positioning**

It is vital for a company to have the right formula of segmentation, targeting and positioning in order for Dell to grow successfully. Dell realizes a point that they cannot please every customer but they combat this problem by serving them with their best. According to Kotler (2008), a company must identify the parts of the market that it can serve best and most profitably. Dell's target of industry is the computer hardware market, in which they produce desktop as their first product. Dell move on by providing notebooks, servers and computer peripherals, this allow Dell to increase in their revenue. In addition, Dell has partnered with major corporations such as Microsoft to ensure their products are equipped with the latest software as per customers' needs. By having a clear target and goal leads Dell to success. In the aspect of market strategy, Dell uses customer segmentation and product segmentation to target several markets and specifically design products for them. Different geographical area has different pricing and marketing strategies. For instance, in United States, the prices of Dell computers are slightly cheaper than in Asia. In terms of demographically, Dell do not place bias on gender and race but there is a slight bias in income, occupation and education of customers. This is because these factors play a role in deciding what type of products the customers will buy. For instance,

for a higher income group range would be able to afford buying a slightly expensive computer than those that have a lower income. Lastly, looking at the behavioural aspect of customers, Dell focuses on the benefits that customers will look for in purchasing. For example, lower price, higher quality or features provided. In overall, Dell selects customers that require a lower service costs and predictable purchasing patterns. This is to ensure that Dell is able to create an opportunity to form core competencies in targeting and keeping specific database of customers.

## **2. 2 Dell's Marketing Mix**

In order to further understand how Dell grows from a small business to a mega company, it would be helpful to study their 4P marketing mix.

### **Product**

Dell started with telephone sales of upgraded IBM compatible PCs, and then shifted to assembling and marketing its own brand of PCs in 1985. It provided customers with a 24-hour hotline for complaints and guaranteed 24- to 48-hour shipment of replacement parts. As its customer base grew, Dell also implemented a direct toll-free technical support line (Dell, 1999). Dell offers its customers a wide range of computer systems workstations, servers, desktop computers and notebook computers as well as storage products and solutions. Dell also extended their selection by adding computer hardware peripherals, computer software as well as support services. Dell sells 90% of its PCs directly to the final customer, largely bypassing the reseller 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. Never the less, Dell does not manufacture the components of its final products, but instead it relies on a number of trusted suppliers who have convenient warehouse facilities within 15 minutes of Dell's production centres. Dell's PCs are built to customers' specifications upon receipt of an order, giving Dell additional advantages over indirect PC vendors who must try to forecast demand and ship products based on those forecasts. 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 (Kraemer, et al., 2000).

## **Place**

The place or distribution channel is one of Dell's distinct advantages in their marketing mix. This is because Dell uses a direct channel model where it sells its products directly to the customer without need for a distributor or a middle man. While Dell does not manufacture its own components or subassemblies, it does handle final assembly for nearly all of its desktop PCs and servers (Kraemer & Dedrick, 2002). In some cases the notebook PCs are shipped complete to the final customer. Dell organizes manufacturing by region, operating one or more assembly plants to serve its major markets. However, Dell is increasingly ordering base units from its suppliers and doing final configuration of notebooks in order to offer more configuration options to customers (Kraemer & Dedrick, 2002). Though it initially started with selling products over the phone using a toll free number that customers can call free of charge, they were the first to adopt advanced technology and use

the internet as a direct channel to sell its products. Dell's decisions about where to locate are driven by the need to minimize costs while extending the build-to-order, direct sales model around the world. Therefore, this provides customers the ability to purchase lower cost of computers. Given the need to have production and support capabilities in the major markets, Dell selects specific locations based on a combination of factors including labor costs, transportation and information infrastructure, market access, proximity to markets and government incentives. In overall, there is not much actual manufacturing that is located very close to Dell's plants except the one in Malaysia (Kraemer & Dedrick, 2002).

## **Price**

Price is the amount of money charged for a product or service, or the sum of the values consumers exchange for the benefits of having or using the product or service. (Kotler, 2008). In this case Dell provides high quality computer systems at the lowest price to match the customer's expectation of value for money. It is also able to supply products at low price by cutting out all costs of manufacturing parts as well as costs associated with retailers and distributors. Furthermore, Dell requires that its suppliers continually reduce the price they are charging Dell; in exchange it agrees to reward these suppliers with larger orders and longer-term contracts (Kraemer & Dedrick, 2002). This requirement causes suppliers to continually seek lower wage production sites in order to meet price pressure from Dell. As pricing remains a major factor in the customer's buying decision, Dell uses the

internet to get a reasonably accurate idea of the market's supply and demand, hence reflecting on its price changes and promotions.

## **Promotion**

Promotion is the most important component of the four P's so it is crucial to understand and be able to promote a product. Dell uses many different promotional methods to market their products, such as advertising on television, on the internet, in magazines and newspapers as well as direct mail ad campaigns. They even use sponsorships in professional sports as well as product placements in films and television in the marketing techniques. Perreault suggest that direct sales channels and direct customer relationship approach has enabled Dell to fully understand its customer's requirements and preferences as well as to maintain its competitive edge (Perreault, 2009). It is clear from the above details that Dell's current marketing mix is one of the main factors that contribute to its competitive advantage. The way the company is able to use its marketing strategy should allow the company to leverage its competitive advantage in its core market segments. However, Dell should take advantage of the market opportunities that could potentially increase the business revenue and strengthen its market position. These opportunities will require changes in the market strategy in order to fulfil the market demands, hence increasing profits and market share.

## **2. 2 Dell use of Electronic Commerce**

Dell has used the Web as one of its primary advantages over their competitors. They have used proprietary differentiation as the basis behind

turning their undeveloped vision into a winning strategy. In today's world, the Internet is a force of continuous change and has impacted not only the way companies conduct business, but has transformed entire industries. In many ways, the Internet has posed as a disruptive technology. In order for companies to ensure future success, they must embrace the online technology, or they will be run over by the fast paced race that the Internet has produced. Dell began as a direct mail-order seller of computers, but as they saw a tremendous opportunity to expand their business on the Web, they had to destroy their old business model and transform it into something new. Dell's CFO, Tom Merideth talks about their transformation into a Web-based company and the integration of technology to grow their company. In Dell's case, what accounted in part for success in e-commerce was reassuring existing sales teams that they were not going to do away with their jobs. Initially, employees were still paid commissions on Web sales because Dell didn't want their salespeople to feel overly threatened by change. Then Dell showed them that the Web was an enabling technology that would transform their lives, but not to their detriment. Fundamentally, Dell needed the technology to succeed, in order to build the company to scale (Dell, 2013). As a result of their innovative transformation, Dell sells more than \$30 million per day on the Internet, accounting for 30% of their overall revenue. Dell views the Internet as the most genuine and efficient form of their direct model, providing greater convenience and efficiency to customers as well as to Dell. Their current target is to have more than 50% of their business online, which includes moving an even greater volume of sales transactions online, bringing service and support to the Internet, and

expanding an already wide range of value-added services. Meanwhile, the Internet is becoming more integrated into daily life. Businesses are relying on the Internet for commerce and real-time information exchange. Also, customers are going online to shop, bank and conduct personal communication via chat rooms and E-mail. The Internet has been thoroughly integrated as an educational tool into grade schools, high schools, colleges, and universities. Dell's opportunity for growth lies in their ability to provide products and services that enable Internet access and enhance the online experience (Dell- FactPak, 2013).

### **2. 3 Direct business model**

From the beginning, Michael Dell has envisioned a new virtual retailing model of "inventory less retailing" in the personal computer industry, which has proven to be a winning formula Bennett & Graeme (1994). Dell's business strategy is based on its direct business model of delivering a superior customer experience through direct, inclusive customer relationships, cooperative research and development with technology partners, custom made computer systems built to customer specifications and service and support programs tailored to customer needs. Dell believes that the direct model provides it with several clear competitive advantages. First of all, the model eliminates the need to support a widespread network of wholesale and retail dealers, which allows them to avoid dealer mark-ups; avoids the higher inventory costs associated with the wholesale/retail channel and the competition for retail shelf space; and diminishes the high risk of obsolescence associated with products in a rapidly changing



technological market. Secondly, the direct model allows them to maintain, observe and update a customer database that can be used to influence future product offerings and post-sale service and support programs. This direct approach combined with Dell's cost-effective procurement, manufacturing and distribution processes, allows them to bring relevant technology to its customers faster and more competitively priced than many of its competitors (Dell Computer, Corporation, 2003). In Dell's case, the direct model is easy to understand but hard to replicate. Dell's competitors do not understand that it is not the parts that make the model successful but it is the activity. One of the underpinnings of the Dell direct model is supply-chain management. The direct model facilitates faster asset-management velocity across the board; whether its inventory or cash diversion, the model operationalizes speed as a construct. More volume is brought to market at better price points faster. The Internet enables Dell and other companies to accelerate the pace. That's the value on the supply-chain side. Many of our competitors in the indirect channel have focused on the velocity part of our model, but they have ignored an equally important part of the model, which is that touch is as important as velocity. The Internet allows Dell not only to continue our drive to maintain relationships directly with customers, but to be even more intimate. Dell can personalize products for them based on their individual home pages or on over 19, 000 corporate Premier Pages. The Internet let customers configure the product online, order online, check the status of their order online, and get support and upgrade service online. Dell even enables them to list their product at an auction and dispose of it online. This is the kind of customer experience that builds long-lasting relationships.

## **2. 4 Just – in – time Inventory System**

Dell has set up a system of virtual integration that has other computer manufacturers very envious. From their warehousing, supply-chain integration, and build-to-order manufacturing with quick customer satisfaction, provides Dell the competitive edge in what has turned into a commodity business. By building Web-based linkages with suppliers, they are able to efficiently manage order flow, provide real time data from their manufacturing plants, and implement just-in-time delivery. Once the customer orders the product, the Internet allows the company to use their order entry and support tools and literally hand the product to the customer right away. As of today, Dell inventories are measured in days, but they are hoping to soon measure them in hours. Lower inventories also allow the company to offer the latest technologies by not having inventory that goes to waste with the emergence of new innovations (). Dell's relationship with their suppliers has played a key role in their success story. They have found a way to get most suppliers to keep components warehoused within minutes from Dell's factories in Austin, Penang, Malaysia, and Limerick, Ireland. This has led them to reduce their number of suppliers from 204 in 1992, to only 47 today, all of whom have been willing to cooperate with their warehousing plan. These suppliers manage their own inventories, while they run parts to Dell as needed. The biggest advantage for Dell is that they don't get billed for the components until they leave the supplier's warehouse. Dell doesn't take these components until an order is placed, which saves them a lot of money because the prices of PC parts can fall rapidly in just a few months. Unlike Compaq and IMB whose computers can sit on a dealer's shelf for

several months, Dell can order the parts right before assembly and have the newly built computer to the customer within the next two days. By using this method, Dell figures that their parts, on average, are 60 days newer than those in an IBM or Compaq machine sold to the customer at the same time. For suppliers that Dell shares with their competitors, like STB Systems Inc., a manufacturer of video graphics cards located near Dell's plants, Dell has the advantage of receiving rush orders in just minutes, when it takes 12 to 18 hours to reach Compaq, and up to two days to get to IBM and Gateway. Their higher-cost items like the main circuit board, take longer to get to the Dell factory because Dell uses regional suppliers. Therefore, they have switched to three regional subcontractors who are able to have the circuit boards trucked from Mexico in 15 hours.

### **3. 0 Strategies to support Dell's growth**

#### **3. 1 Pricing strategies and objectives**

The ability of price to affect consumer decision and its flexibility makes pricing strategies important in meeting Dell's objectives in such a competitive environment. The main objective of Dell is to produce the low price and value for money products for the customer while maintaining profitability for the company. The price strategies vary depending on the market segment where it is segmented. Meanwhile, allocating production sites across the globe, such as in China, Brazil and Ireland have allowed for the product pricing to be adjusted to reflect the affordability of local customers, without incurring added costs. Dell does not produce their computer components is actually of good benefit for the company in the

current economic environment as the pressure is on the suppliers to reduce their costs and prices while Dell would be able to pressure them more to lower the prices further. As competitors lower their prices and consequently their profit margin, Dell is able to match the price reduction or even lower without greatly impacting their own profits. This is mainly achieved by Dell's ability to utilise its relationship with its suppliers to cater immediately for the market's supply and demand. Dell has built these relationships over a number of years which cannot be easily replicated by its competitors. Dell's direct sales approach which cuts the middle man's costs and their efficient JIT (Just-In-Time) inventory methods has enabled them to reduce costs further and provide lower prices to the consumer. In addition, the internet based marketing strategy provides a reasonably accurate idea of supply and demand, which enables Dell to execute a successful pricing strategy. However, the profit margin is not that high in computer hardware and Dell would be wiser to invest more into after sales support and services where the real profit lies. The corporate segment is an area where Dell can alter its low cost pricing strategy by offering more services for a higher price or combining hardware, software and services into a bundling offer, which would still be regarded as good value for money. This strategy can even be broken down into multiple tiers which would suit different corporate customers depending on service level agreements. In 1997, Dell stopped having the suppliers send monitors for their computers to the Dell warehouse. Instead they came up with a plan that saved delivery time and money. When a machine is ready to be shipped, Dell sends an E-mail message to a shipper, such as UPS, and has them pull a computer monitor from

supplier stocks and schedules it to arrive on the same day as the PC. This saves them \$30 per monitor in freight costs. All these improvements to their operations and handling of inventory has made their operating ratios much lower than that of their competitors, the industry and the market.

## **4. 0 Conclusion**

Over the years, Dell had successfully managed to maintain its integrity and brand equity as a provider of quality solutions at reasonable prices. Their strategy of low cost and direct customer relationship has been and remains the main reason for their continuous success, so it would be wise for Dell to continue using the same strategies for as long as they are successful. However, the increasing challenges from competitors such as HP and Compaq and the global changes such as the latest economic recession should be an incentive for Dell to explore new horizons on the global market, whether by expanding their indirect sales channels or focusing on new or upcoming product segments which has the highest market demand and which provides more opportunities for revenue growth and continued market leadership. For example, focusing on saving the earth or improving it by providing environmentally friendly, energy efficient products while maintaining the core brand value of quality at lower prices should be Dell's priority. Dell would have a competitive advantage in this niche market as it has already taken the initiative in this area and should be able to use its global brand image to attract this market segment. Overall, Dell has been and still is the leader in direct marketing channels with excellent market strategy that allowed it to continuously identify and target the right product

segments to complement their brand image and innovation aspects. Dell should not fix what is not broken so they would continue to provide high quality products at lower prices through direct sales channels, while at the same time expanding their global presence through indirect channels of selected partnerships in new markets. Bennett & Graeme (1994). " The Evolution of Dell", Retrieved on March 1, 2013 from <http://tcp.ca/Sept94/DellEvolution.html>Dell Computer Corporation (2003), " 10K Report", Retrieved on March 1, 2013 from <http://www.dell.com/downloads/global/corporate/sec/10k-fy03.pdf>Kotler (2008), " Principles of marketing", fifth European edition, p. 639, PearsonKraemer, Kenneth L. and Dedrick, J. (1998)." Globalization and Increasing Returns: Implications for the U. S. Computer Industry", Information Systems Research, 9(4): 303-322. Magretta. J, (1998), " The power of Virtual Integration: An interview with dell Computer's Michael Dell", Harvard Business Review, March - AprilPerreault, W. (2009), " Essentials of marketing", 12th edition, Mc Graw HillDell- FactPak (2013), " Where We're Going", Retrieved on March 1, 2013 from [http://www.dell.com/us/en/gen/corporate/factpack\\_000.htm](http://www.dell.com/us/en/gen/corporate/factpack_000.htm)

**Assessment Criteria**

**Marks Allocated**

**Marks obtained**

**1.**

**Summary / Background of Company**

**10**

**2.**

**An analysis section which synthesizes and integrates the answers to the company growth.**

**20**

**3.**

**Facts / Theories / Concepts to support the company growth.**

**15**