

Master

Business, Management



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business environment and market conditions, increase of the need to use economic logic, basic theories and tools of economic analysis in the business decision-making process and rapid increase in the need of professionally equipped managerial manpower in every field has caused the emergence of Managerial Economics. In general, Economics itself is defined as a social science, which studies human behavior in relation to optimizing allocation of available resources to achieve set goals (Wilkinson N., 2005). In turn, Managerial Economics with the application of Economic theories and techniques of Decision Sciences, such as Mathematical Economics and Econometrics, analyzes business problems, evaluates business options and opportunities to achieve appropriate (efficient) business decision (Wilkinson N., 2005). Managerial Economics has the following relation with Economic Theory: as economic theories are based on the model with certain simplifying assumptions, Managerial Economics evaluates economic relationships with the help of Decision Sciences (mathematical models and applied statistical tools) based on actual data to explain and forecast economic behavior of organizations. To be more precise in the field of microeconomics internal operational issues are considered by the managers of the firms such as what to produce and how much, what kind of technology to choose, what would be the pricing strategy, how to promote sales, how to face price competition, how to decide on new investments and manage profits and how to manage inventory of both finished goods and raw materials, while in macroeconomic conditions determinants of the operational environment of the organization is considered by the management such as economic system in the country, general trends in

National Income levels, employment, prices, investments, structural change in the working of financial institutions and government's economic policies and political stance (Wilkinson N., 2005). Furthermore, in any firm, non-profit or profit maximizing organization, management decision problems arise that aim at certain objectives to be met along with constraints, so that profit maximizing firms aim at maximum profits with given resources and technological constraints, while non-profit organizations such as schools aim maximum students to be taught within given infrastructure, hospitals target maximum patients to be treated being a subject to certain standard of medical treatment, public sector enterprises aim to reach maximum supply of public services at minimum possible cost (Webster J., 2003). Even though objectives and constraints are considered to be different by nature, decision making process and management problems remain similar. Thus, an organization must decide its vertical and horizontal boundaries for effective management and distinguish marginal from average values and stocks from flows so that the firm could benefit from scale and scope to which business can be increased without a corresponding increase in costs as the same products can serve for 100 users as well as 100 mln users (eg. internet resources), showing capacity of the firms can serve larger number of users with incurring less cost (eg. by increasing capacity of computers and links) or as diversification into related fields and products can result in effective gains from economies of scope (Webster J., 2003). In the expansion process of the firm following issues may arise in the face of the management: *

Diseconomies of scale, when the management in its organizational structure becomes more and more remote from operations of each division. *

Principal-agent problem arises, when owners and management get separated with having different objectives. * Outsourcing of some operations could be a better solution. * Resource constraints. * Legal constraints. However, the main focus of a firm is on profit maximization or sales maximization with the distinction of attaining short-run or long-run profits maximization that determines the allocation of resources of the firm. In this context decision making becomes a central objective of Managerial Economics, which is defined as a process of selecting the optimal action from among alternative courses of actions and generally can be considered from the steps of problem recognition with identifying difference with current and desired situations, with further research of adequate information for resolving a problem and evaluation of alternative solutions and finalizing on the stage of selecting optimal solution for the management problem (Chart 1) (Webster J., 2003). Chart 1 Management decisions can be regarded depending on the level of the management into strategic, tactical and operational decisions determining long-term, medium-term and day-to-day decisions performed by the management (Webster J., 2003) (Chart 2). Chart 2

1. 2 Objectives, Research Questions and Research Hypotheses This study has the following objectives: 1. To identify major decisions made in an organization in the example of Dell Computer Corporation (Dell). 2. To identify the role of managerial economics in making vital decisions in the example of selected organization. Further following research questions are raised: 1. What are the results of the decisions made in the selected organization? 2. What was the role of managerial economics in making decisions in the selected organization? Following research hypothesis are

developed on the base of the above research questions: 1. Key role of management decisions in achieving success of the organization. 2. In the process of rapid changing of market conditions and business environment decision-making is becoming more and more complex and vital for the firms.

Chapter Two: Literature Review

3. 1 Major decisions made in Dell Computer Corporation

Dell is one of the most successful computer technology companies in the world at delivering the best customer experience in the global computer technology market with being recognized as a launcher of on-site next day product service in computer systems industry. In 1989 company went from last into first place in IT industry on the management of its inventory. Globally, Dell has a second place in hardware design, manufacturing and distribution with market share of 16% (HP is on the first place with 19%) (Leita H, 2007). Dell's reputation was built on its unique and distinctive build-to-order strategy, where customers were able to order PCs directly, which is transferred through credit check and further into the manufacturing line, with the product built, tested and shipped to the customer within 5-7 days after placing an order. Impressive results have been gained through such strategy, which allowed Dell to eliminate middle-men (resellers), who are the part of the traditional distribution channel. This resulted in lower costs for the customers, as well as Dell was able to better meet customer needs and, thus, adapt to market changes faster than its competitors. On the other hand, Dell manufactured PCs directly for the customers, which eliminated the need to build inventory storage building systems, the need for staffing positions to move inventories worldwide and spend time and resources by managing and tracking inventory. Moreover,

Dell applied Just-in-time manufacturing by creating relations with suppliers, who were placing their warehouses on the site of the plant that allowed Dell to respond rapidly to customer orders in building their products, where Dell made actual purchases of the supplies after customer order was received. Dell also created unique information systems within the entire company that eliminated any waits, backlogs and losses in the business process. Another gained benefit from its management strategy was that the problem of obsolescence of the inventory was resolved as IT industry has a rapidly growing and changing nature (Chart 3) (Leita H, 2007). Chart 3 Customers of the company were divided into three categories (Morris, Robert (2008)): * large businesses with dedicated sales people appointed to support such customer needs; * small to medium businesses with sales personnel insuring needs of small and medium businesses, and; * personal consumers, who were served through Internet channels or by telephone. The Dell Direct Model shown on Chart 4 in comparison with traditional distribution chain outlines build-to-order strategy as central to the Dell management principles. Thus, Direct-to-Customer business model provides the following advantages to Dell (Morris, Robert (2008)): * Price for performance — as intermediaries are excluded in a relationship between customer and manufacturer, Dell is able to allocate more resources and provide more powerful computer systems for its customers; * Customization — any product is built to order; * Service and support — knowledge gained through the contact with customers give advantage in meeting customer needs better; * Latest Technology — introduction of latest technology in its product lines more quickly. Chart 4 Other key managerial principals fundamental to Dell

business include (Allen B., 2009): * exchange inventory for information — this principle includes storing information on customers needs and preferences instead of keeping inventory; * volume, velocity and value — is involved with the speed to respond to the orders made by the customers, where the focus was on how fast inventory movement was rather than its quantity (Chart 5); Chart 5 * constant change — as the IT environment changes rapidly, one of the key management principles of Dell is to adapt to those changes with being able to make innovation in the time frame that management desires. Chart 6 shows Phases of innovation model of the company, which is comprised of developing objectives, planning and defining constraints with business justification of the desired product, designing, testing by customers, launching and storing customer feedback; Chart 6 * Criticality of coordination — implies constant support of employees to find necessary information and frequent management meetings. Developed in the company Information Systems provides instant information to employees through e-mail or over the intranet (Allen B., 2009). Dell management style and business processes are based on the similar principals as the Zero-Time Organization with the aim to provide products to the customers instantly, which means that the needs of any customer are accomplished as soon as the needs are expressed. Such organizations are characterized by holonic organizational structure, where each part in itself possesses with enough authority and ability to operate independently, if necessary that identifies cell manufacturing structure, where individual cell represent independent unity with access to any information of the company. One advantage of such manufacturing is that any individual within the cell group is able to stop

production line in case defects are found (Allen B., 2009). 2. 3 Research Framework Decisions made in Dell are the vital keys of success of the company and its achievement of competitive advantage over other participants in the IT industry. Most influential decisions made in Dell were outlined, which helped the company to adapt and take one of the leading positions in such highly-competitive market as IT industry. However, Dell is not using its direct-to-customer model outside USA and using traditional distribution channels to make sales in other markets. There is high probability that Dell could achieve even better results on a global level, if it could apply those managerial strategies that give competitive advantage within USA to Dell products (Allen B., 2009). Also it should be noted that the product line of the company is wide that gives the chance to the company to benefit from economies of scope, while the ability of the company to achieve large amounts of customer orders contributes to the company in the form of economies of scale. On a microeconomic level the company was successful to develop very efficient operational models such as direct-to-customer, just-in time models, tough-and-feel before buying model, information coordination systems, zero-time organizations principles that served as key elements of success of the firm. Reference 1. Chung, David (2002) Dell Computer Corporation Successful Business Model, available at <http://www.webster.edu/~hcohen/week7/dchungw7.html>; 2. Success Story: PeopleView helps dell computer create a winning culture, available at <http://www.e-perception.com/success/dell.html>; 3. Leita H, 2007, Second and third principles of happy cash flow, available at <http://www.happycashflow.com/archives/200705.html>; 4. Strickland, 2009, Strategic Management,

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