

# Dells generic strategy business essay



**ASSIGN  
BUSTER**

\n[[toc title="Table of Contents"](#)]\n

\n \t

1. [Introduction](#) \n \t
2. [Dell’s Generic Strategy](#) \n \t
3. [The Value Chain of Dell](#) \n \t
4. [Competitive Advantage of Dell](#) \n

\n[/toc]\n \n

## **Introduction**

Dell Computer Corporation was started in 1984 by Michael Dell, who had the simplistic view that personal computers could be built and sold directly to customers (Suite 101, 2009) alongside this ideology that Dell, could best understand consumer needs and efficiently provide the most effective computing solution to tailor those needs (Information Systems Management, unknown date). So Dell’s mission is to be

“ The most successful computer company in the world at delivering the best customer experience in markets we serve” (Dell, 2010(a)). In doing so, Dell aim to meet customer expectations of:

Highest quality

Leading technology

Competitive pricing

Individual and company accountability

Best-in-class service and support

<https://assignbuster.com/dells-generic-strategy-business-essay/>

Flexible customization capability

Superior corporate citizenship

Financial stability

(About, 2010)

So, Dell, since the last 26 years, has become a mass producer of standardised products and has evolved dramatically since they were first formed in 1984. The company, at first, merely took orders on the phone to help fulfil their policy of building custom built personal computers (PCs) (Dell, 2010, (b)). However, the company then gained first-mover advantage in the mid 1990s, when it became one of the first companies to offer PCs online (Chaffey, 2007, p. 239). In 2008, Dell was one of the market leaders in the worldwide PC market with sales around US\$41 billion (lynch, 2009, p. 789) and since their evolution, Dell, have diversified their product range and scope from “ small desktop computers to large server computers-to individuals, businesses and other organisations” (Schneider, 2006, p. 108).

In 2009 in they owned a global market share of 12. 4% in the number of PCs shipped worldwide, with only Hewlett Packard (21%)and Acer (13. 4%) preceding them during this period (Bloomberg, 2010). Notably, this was the first time Dell had fell behind Acer in the second spot as the world’s largest computer-maker and this was primarily due to Acer producing low-cost net books and other inexpensive home computers at a reduced operating margin (Bloomberg, 2010). However, recently, in 2010, they did move back into second place in the global PC manufacturing market ahead of Acer but only

slightly as they had a 12.8% market share compared to Acer's 12.4% (Afterdawn, 2010). So this level of competition has been intense since 2006 as companies such as HP and Acer were vastly reducing the cost of their global network suppliers, which forced Dell to enter into new global markets such as in China (George and Jones, 2009, p. 195). However, Dell, see their strengths in the commercial and corporate market (Techeye, 2010), as this is still their dominant market, even though home consumers are an ever growing element of their strategy. So, Dell's competitors now include both, domestic manufacturers of PCs such as Apple and HP as well as, overseas competitors such as Sony, Acer and Lenovo in Asia (Jones & George, 2009, p. 195).

This essay will therefore explore Dell's generic hybrid strategy and the activities which constitute this strategy. This will then lead to a value chain analysis of the company, which can be used as a tool to emphasise the linkage between the primary and support activities which are used to create value within Dell. This will then pave show how these added values create a distinctive competence within Dell, which, overall, have lead to competitive advantage since the company began to aggressively cut its costs and prices to increase their global market share in the 2000s (Jones and George, 2009, p. 195).

## **Dell's Generic Strategy**

Michael Porter's Generic Strategy Model (1980) was created to specify how companies use 'generic' business strategies, to gain a competitive advantage over their competitors. This encompasses how companies use cost reduction and/or differentiation within their product and services to

appeal to a particular broad or narrow segment of the market, in order to gain this competitive advantage.

Overall Dell, operate a ‘ hybrid broad focus’ strategy and this can derived be from Porter’s Generic Strategy Model obtained from the Mind Tools website (2010):

In order to understand Dell’s ‘ generic’ strategy we must explain the different segments of this model

Firstly, cost leadership occurs when a company “ achieves lower costs than its rivals and competes across a broad range of segment” (Ogden and Wersun, 2007, p. 282). On the other hand, differentiation is when “ a company has a range of clearly differentiated products which appeal to different segments of the market” (Ogden and Wersun, 2007, p. 282).

However, Dell, appear to operate on a hybrid strategy, similarly to the car manufacturing industry, which incorporates both the ‘ cost leadership’ and ‘ differentiation’ elements of Porter’s model. A hybrid strategy, overall, “ seeks simultaneously to achieve differentiation and a price lower than that of competitors” (Johnson et al, 2008, p. 230). So, Dell, use both of these aspects, but in a broad focus since they offer their products on a wide scale, as explained earlier, as they offer both corporate and commercial solutions to small, medium and large sized enterprises but also satisfy the needs of users within different spectrums such as within the public sector right down to the home user. This is explained by on their homepage when they state:

“ For more than 26 years, Dell has empowered countries, communities, customers and people everywhere to use technology to realize their dreams. Customers trust us to deliver technology solutions that help them do and achieve more, whether they’re at home, work, school or anywhere in their world” (Dell, 2010(c)).

So the focus is very much broad, but Dell has this ‘ direct business model’ which involves gathering customer needs and tailoring that solution to meet their requirements For instance, Premier Dell. com offers “ technological solutions to businesses which helps them manage all phases of computer ownership such as purchasing, asset management and product support”(Chaffey, 2007, p. 97)

So their broad direct focus helps simultaneously create both cost leadership and differentiation strategies and helps explain why, perhaps they have been one of the most successful PC manufacturing corporations in the world.

So how does Dell use both of these strategic elements of Porter’s model?

Firstly, with ‘ cost leadership’, Dell’s direct business model involves purchasing standardised components which ultimately minimises the need for expensive research and development and sales are then made direct over the Internet to customers (Ogden& Wersun, 2007) thus eliminating “ retailers that add necessary time and cost, or/who can diminish Dell’s understanding of customer expectations”. (Information Systems Management, unknown date). So this results in low costs and is a very aggressive pricing policy which helps gain market share from any competitor whom has taken “ their eye of the ball and has let their costs increase”

<https://assignbuster.com/dells-generic-strategy-business-essay/>

(Ogden & Wersun, 2007, p. 60). Consequently, Dell have lower manufacturing and distribution costs than most of their competitors, thus they have achieved a cost leadership strategy over their rivals.

However, another school of thought can equally argue that within Dell's generic strategy lies a 'differentiation' strategy. This also exists within their direct business model as consumers can design their own computers which tailor their own unique needs and specifications. This is differentiation as Dell not only offers differentiated products to specific users, but also to specific markets (small, medium, large-sized, public sector, businesses, etc), thus reinstating this concept of the company having a 'broad focus'. Hence, Dell's direct sales model has allowed it to differentiate its PC products by allowing "customers to design their own computer system and offering complementary services such as online customer support, three-year-on-site warranty, web hosting, installation and configuration of customers' hardware and software" (Grant, R. M, 2005, p272). Furthermore, Timmers (1999, p. 227) stated how Dell, on their website, don't merely offer the 'best PC offer of the month approach' but rather an approach which offers discounts for large purchases which are tailored to that particular individual or company, as well as having support which is customised to users' needs (Dell, 2010 (c)). However this whole concept could be challenged as many people would be reluctant to buy a Dell PC without testing it in store first, however this argument becomes less relevant as more and more of us know people who have bought a Dell computer, since we can inspect theirs (Ogden & Wersun, 2007, p. 61).

Notably, Schneider (2005, p. 305) also argued that because Dell made most of their sales online, they often unintentionally left themselves exposed to the laws and ethics of the banking industry and in this case, in 1999, they had offered monthly payment setups to customers without disclosing the full details of the lease plan associated with this payment scheme. So, this pinpoints how despite Dell having a successful online strategy, they could be left vulnerable to changes in the legal environment, which could clash with their online customisation policy. Nevertheless, Dell's hybrid strategy was a clever one; not only did it conjunctively produce cost effective manufacturing policies and customised products, but it also overcame the barrier of having access to new suppliers or distributors which can be arduous for companies gaining and sustaining success within an online market. This factor can be analysed in more depth from the company's value chain activities.

## **The Value Chain of Dell**

Overall, the following value chain model by Michael Porter helps analyse the type of activities within Dell's value chain and how they interlink with one another, to fulfil their generic strategy.

Dell's customisation policy of tailoring technological solutions to satisfy individual or company needs, has provided the company with the two main advantages of being able to reduce marketing and sales costs by eliminating their intermediaries and building to order which, overall, reduces inventory costs (suite 101, 2009). This originally led to soaring profits, as the internet has, ultimately, allowed Dell to extend the scope of their sales at a reasonably low marginal cost



This following diagram allows a more definitive insight into how Dell's value chain operates:

(Dedrick and Kraemer, 2001)

Dell, unlike their competitors, actually eliminates the need for distributors and retailers to sell their product, which as mentioned earlier creates 'cost leadership'. Hence, this direct PC value chain, works around this 'built to order' (BTO) strategy.

The BTO process begins with the customer placing an order through the internet, phone or email and then it takes approximately one day to process the order (Turban et al, 2006, p. 506). This then corresponds to this concept of just-in-time management as here Dell, only purchase the necessary parts which are needed for that particular order with the result being that inventories are kept to a minimum. Michael Dell emphasised this whole idea when he stated:

" We tell our suppliers exactly what our daily production requirements are. So it's not, well every two week deliver 5, 000 to this warehouse and we'll put them on the shelf, and then we'll take them off the shelf. Its tomorrow morning we need 8. 562 and deliver them to door number seven by 7am."

(Mhhe, 1997).

So, in the Dell manufacturing process, parts come into their factory to fulfil actual customer orders hence " no PCs are made for stock, so there is no cost of hiding stock" (Lynch, 2009, p. 789). This also has the advantage that if " a supplier such as Intel, launches a new computer chip, then Dell is not

caught with high stocks of the old chip” (Lynch, 2009, p. 789), allowing the company to efficiently keep up with changes in technology.

Therefore Dell’s procurement support activities i. e. purchasing of stock, play a pivotal role in executing these strategies of BTO and JIT, both, before and after the product has been sold.

So what are the exact support and primary activities that Dell has used, in conjunction with one another, which has lead to them adding value to their activities?

A traditional firm usually incorporates a make-to-forecast strategy in which products are produced from long-term demands of consumers. Hence, when considering Porter’s value chain activities, here “ the primary activities of the value chain move from inbound logistics to operations to outbound logistics and then to marketing and sales” (Turban et al, 2006, p. 506). However, since Dell manufactures the product only after an order has been given, then the marketing and sales support activity is moved to the front of the value chain (Turban et al, 2006, p506). Notably the inbound logistics element is important since the correct parts have to be delivered but since the holding of stock isn’t necessary with Dell due to their JIT system, then it becomes less meaningful. Therefore the operations segment which transfers the supplies into the finished customised product and the service segment which Dell exemplifies to help the end-user(s) maintain their products i. e. the PCs value after the PC has been delivered, are the key primary elements of Porter’s Value Chain in which Dell uses. However, without the marketing and sales aspect these primary activities couldn’t be executed since customised

orders wouldn't be known and this has a direct link to the support activities of technology and procurement, as technology i. e. the internet allows Dell to sell their products to their customers and without it, it would be arduous to establish their hybrid strategy and procurement mechanisms are pivotal in maintaining their BTO and JIT policies since this deals with the acquisition of supplies in the more efficient way.

There are though some criticisms of Dell's value chain activities. Such as, the BTO strategy is sensitive to short term changes in demand. For example " if a particular computer component suddenly becomes wildly popular or temporary unavailable, the standard supply in inventory may diminish fast, and customer orders will not be completed on time" (Turban et al, 2006, p. 507). Also, in terms of their service function. Orman (2007) argued that despite Dell providing one of the most effective support systems to its customers the company, fails to provide comparisons to the products of other vendors such as HP and also fails to compare products from one class to another such as desktops in relation to notebooks., Nevertheless though, Turban et al (2006, p. 507) highlighted that by using key value chain activities such as operations and technology, Dell showed the world that when these are used effectively and efficiently, they can be used to gain a competitive advantage creates a distinctive competence and therefore leads to competitive advantage.

## **Competitive Advantage of Dell**

By orchestrating a SWOT analysis of Dell, we can clearly see the key components which