

The e-business model of dell and its impact on company logistics



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Introduction:

Supply chain management can be defined as the interconnectivity of components that are related to one another with up and down stream-links between a variety of procedures that bring value in the shape of product and services offered to the clients (Christopher, 2002). The recent innovative performance of Dell computers is in response to the ever increasing competition taking place in the industry of Personal Computer in relation to time factor. The supply chain of Dell signifies how the company is getting benefitted from the information technology to speed up its delivery process (Sunil, 2010). Dell was founded in 1984 by Michael Dell. The company took initiative as a telephone sales brand for the “ IBM-compatible” upgraded Personal Computers after which it defined its marketing segment by formulating its own PC brand (Kapuskinski et al, 2004).

Opportunities for reducing the lead times:

Michael Dell had rightfully proclaimed that “ we are becoming the PC outsourcing company, not just the PC supplier”. In the PC industry, product life cycles are being reduced from twenty months in 1988 to about six months in the twentieth century. Together with this the price factor continued to double after every eighteen months. This situation resulted in inventory depreciation to a great extent. To further add up, bringing the products in market on time is crucial to stay competitive in the global world where clients are eager to opt for the latest technologies and appreciate the quality constructs for repeated buying (Kraemer et al, 2000).

Dell excelled in the IT world, by satisfying business customers through adoption of softwares that helped to keep track of PC inventory of customers, allowing them the freedom to directly make a purchase instead of passing through the supply chain processes like heading to the central purchase office etc. The company offered clients to have computers on lease and preferred electronic payments online (Kraemer et al, 2000).

Inventory management

Mainly two factors are involved in assessing a PC industry's inventory management.

The modular, standardized product nature following architectural interfaces that are similar (either provided by Microsoft or Intel)

The differentiation factor i. e. the product distribution structure.

Competitive edge in supply chain – product distribution structure:

With the onset of 1990, PC industry suffered a back lash with regard to manufacturing and product design as the technological development available to everyone was usually provided by the same supply base. To fulfil their business objectives, the conventional supply chain distribution channel adopted by major PC companies, helped them to sale their products to distributors who afterwards purchase commodities from a variety of producers and then sell them to many retailers, system integrators, resellers thus finally reaching consumer. In the past decade, this business model was successful due to the fact that large volumes of personal computers were effectively distributed to a variety of customer range, also providing them

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with manifold configurations. However the conventional model failed because of its extensive reliance on market forecast. This distribution channel was mainly constricted either because of the short supply of product in demand or high inventories posed by slow retailers. The indirect model also requires the inventory to be monitored at every phase for filling orders (Sunil, 2010).

Dell is the company that pioneered innovative business model with the strategy of direct sales to the ultimate users and assembling a computer only when an order is placed. Selling directly helped Dell to minimize two steps involved in the supply chain which could aid in building up the inventory and also provide an opportunity to know the actual and potential clients so that better services can be offered to them in future either by promoting the preferred Dell model or bringing about further sales expansion according to demand (Kapuskinski et al, 2004).

Conventional Indirect distributional channel of personal computers' manufacturing companies

Direct distribution channel of Dell

Direct Sales:

This approach is strengthened by two factors:

Target customer segmentation of products and services

Direct relationships with customers

The company does not make sales through any integrators or resellers, nor does it utilize any channel service profit margins. Sales are made by the collaborative efforts of the company's task force and by means of advertisement. Direct customer relationship helps to develop a strong customer base as usually vendors that make sales through retailers and resellers are unaware of the demands of final clients. This trend aids Dell to recognize consumer trends so that product innovations can be made accordingly. One disadvantage of the direct sales method is the lack of channel's extensive reach to myriads of large marketing and sales firms which cater to all market needs. To overcome this drawback, Dell has done market segmentation on the basis of size and targeted those large clients that can be easily accessed through the sales force of the company (Bozarth and Handfield, 2006).

The widely diffused customer orientation of low income group is also getting benefitted by the products of Dell with the online infrastructure offered by the company. Together with routine sales, Dell caters markets by selling non-Dell products like softwares to the resellers e. g. the company is the second largest reseller for the HP printers around the globe. Such ease of access allows Dell to experience the market trends and competitor moves while maintain its Direct sales strategy. The internet usage as a direct channel for sales further aided Dell as direct sellers can easily correspond and sell their products to a wide variety of potential clients at minimum marginal expenses (Kapuskinski et al, 2006).

Process flow taking place through supply chain:

Build -to-Order Production:

This approach is central to the “ delivery, sales, logistics, procurement, and production”. Build-to-order production helps Dell to mechanize new technologies as soon as the customers show an inclination for change and also makes it convenient for adjusting the production process so that demands can be met quickly. Another advantage associated with Dell supply chain is that the company does not have to purchase components and develop products until the client has given payment. This gives Dell a “ negative cash conversion” cycle through which dues are received from customers prior to paying suppliers and retailers (Kraemer et al, 2000).

When customer places an order for the Dell product through internet, they are supported with software for configuration management that helps them to choose from a variety of software and hardware alternatives. The vendor operator makes sure that all products are correctly priced throughout the system thus allowing customer to make a sensible choice (Wu et al, 2006).

Customers can also get benefitted by the Dell Customer Call Service that will directly connect them to the inventory of Dell so that they can inquire whether the items they are searching for is available or not. If this is not the case than the sales person can offer the inventory available at discount price or make the customer aware of the new components being launched by the company at premium prices but to be offered to the client at normal price rate to finish the sale process. At the same time suppliers will be informed of the component shortage so that they restock their inventory (Kraemer et al,

2000). (supply chain's configuration details, component assembly, bill of materials, role of employees and work flow chart yet to be added).

The production system of Dell implements the Just-in-time and lean manufacturing approach. Both these principles help to reduce inventory parts by driving the supplier to “ restock parts” just in the way they are required and mostly to control the parts in possession till they are utilized (Kapuskinski et al, 2006)

The strategy of Dell goes beyond the realms of lean production but the major disadvantage linked with the process is that for achieving “ mass product customization” Dell must make sure that the product component specification for the upcoming order is already available e. g. it might happen that vendors like IBM or Compaq order hard drives from Dell with different batch codes to be used in various manufacturing process, Dell must ensure that the product variety to meet this demand is handy. This gives rise to the need that all supply chain components of Dell including the manufacturing and sales arms, and its suppliers should work in close collaboration which can be made possible by developing intimate relations with limited suppliers, enhancing business processes and facilitating information technology in the logistics (Bozarth and Handfield, 2006).

Process flows in the Dell Supply Chain Context:

For curtailing costs, the company is continuously revamping its products design, making, procurement and other processes related to logistics so that supply chain can become efficient.

Unlike other PC companies Dell has till date remained loyal to its original business model. . The strategies adopted by Dell dealing with “ build-to-order” manufacturing and “ direct sales” helped the company to lessen inventory costs and to develop new product range for sale. This method helped Dell to improve its market share and get massive investment returns (Gunasikaran and Ngai, 2005).

Although the model utilized by Dell for business processes is simple yet the execution is complex. As other PC manufacturers are dependent on the retailers, resellers and similar supply chain agents for carrying out most of the sales and marketing work, Dell has to extend its product reach to the potential customers through personal efforts. For its competitors, the methods chosen to achieve economies of scale is to operate “ high volume assembly lines” but Dell has to fill every order for meeting the specifications put forwards by customers. This process probes extra expectations from the company’s shop floor employees, information systems, logistics and suppliers (Bozarth and Handfield, 2006).