

# The porter generic strategy



This essay is mainly talking about Dell, Inc. Dell was founded by Michael Dell in 1984 and its headquartered is in Austin, Texas. Dell is famous for its producing, design, and sales household and office computer. Dell also gets involve in high-end computer market. It also has many other products like software, printer, smart phone and many other computer peripheral products. There are two modules will be used in this essay, one is ansoff matrix, which has four quadrants, Market Penetration, Market development, Product Development and Diversification. You will see how Dell Inc. uses each of these methods to get the market share. The other is vertical integration. You will see more details of the using of vertical integration, backward integration and forward integration.

## **Ansoff matrix**

### **Theory:**

Ansoff matrix was put forward by the father of strategic management, Dr. Igor Ansoff, in 1975. It mainly focuses on the present and potential product and market of a company. Therefore, there are four possible combinations of it: Market penetration, Market development, Product development and diversification. As the graph below.

Market penetration: Market penetration occurs when a company wants to occupy more market share with the existing product in their existing market. The best way is to seize the customers haven't use your products from your competitors or the customers not use this kind of products yet. There are many methods you may use. For example, you can do some promotion for your product like bundle, discount etc. This is the lowest risk way to occupy the market share.

Market development: Market development occurs when a company wants to launch an existing product to a new market or new segments for the product. The aim is to sell more products. There are many methods could be used to make the market get larger. The main requirement is to find a new region which also have demanded customer for this product. Normally the product positioning and the sales methods need some adjust and the core technology will not change.

Product development: Product development occurs when a company wants to launch a new product into an existing market with line extension strategy, taking the advantage of current customer relations and the economy of scale and scope of current product to launch next generation of the product or related service to the current market So as to improve the market share.

Diversification: The diversification could be divided into two parts, one is related diversification and the other is unrelated diversification.

Related diversification means the company expands or adds its existing product line or market. For example, a phone company wants to have their own wireless service by buying over one. The advantage of it is that the company has already had the special knowledge of this market. It's easier to know the opportunities and threats of it also.

Unrelated diversification means the company extends or adds an unrelated product line or market. For instance, the phone company is the same, but this time they want to enter the food industry, which has nothing related with its former industry. Of course, it will increase the economy of scope of the company. That's one of the reasons why many company taking the high

risk to do the unrelated diversification when they have some free cash. When one of their industries is about to collapsed, they can let others to support it.

### **Application:**

Product development: Dell is keening on product development by keeping doing innovation to be the market leader. They believe that innovating continuously can satisfy the demand of customers. Latitude laptop is one of the most successful product lines of Dell, Inc.

Latitude is a commercial laptop which is mainly focus on government education and large enterprises etc. One of the features they need is to deploy a large amount of machines; the second one is convenient for deployment and every machine need to have the similar configuration and the same mapping and so on. Moreover, mobile workstation which is mainly for the user need mobile working and doing complex graphics processing and graphical presentation will also be needed.

From the product positioning, of course, Inspiron and Latitude are for different customers, but in the actual purchase, there are some B2C customer wants to buy commercial laptop, and some B2B customer will enjoy personal products. Dell can satisfy the customer like that. But in the designing phase, Latitude pay special attention to four areas, namely, reliable and durable, stability of the product life cycle, convenient to use and professional services, these are quite different from Inspiron different.

Diversification: Dell annual total sales is \$35 billion in 2002, become the largest international computer company around the world. However, it seems like dell wants to do better not only in this industry. It starts in touch

with other more fields like, the network switch, digital product etc. In earlier 2003, Dell accelerates the pace of its diversification. After launched printer officially in the United States at the beginning of that year, Dell start to step out of the IT industry and enter into household electrical appliance industry by producing Dell TV.

As another part of their diversification plan, Dell also has a lot of strategic partnerships. In 2009, Dell has make sure to enter into Smartphone industry through its two partnership which are the major telecommunication companies in the world China mobile and Claro, which is famous in brazil.

## **Porter Generic strategy**

### **Theory:**

Michael Porter is a professor of Harvard business school. He has written many vital strategic modals about Strategic management, like Porter five forces, Porter's clusters and this one Porter Generic Strategy. Porter had divided the strengths of a company into two main parts: cost leadership and differentiation. Like the graph below.

Cost leadership: Normally, when a company chooses the cost leadership strategy their aim is to be the lowest cost producer in the industry. The company may sell their product at an average price with others to make more profit than its competitor or they can sell the product at a lower price than its competitor to gain some more market share. Of course, in the real market the price war will seem a little stupid, because even if you won it you are also a loser. The desire of the customer is infinity. When you offer a lower price, they will wish more. At that time, the customers become hard to

satisfy. It's horrible for a sales person and the whole market. This strategy usually will be used in a broad market. Like, Wal-mart, which is one of the biggest multinational retailers around the world.

**Differentiation:** Normally, the companies who choose the differentiation strategy need to have a unique feature or function for its products, unique enough to let the customer willing to pay some extra price for it. Nowadays, quite a few companies are using this strategy. Because everyone wants to be different from others, using different product is one the ways. For companies, be different from your competitors is a good way to avoid facing directly to your competitor just like what we learn in the blue and red oceans strategy. For example, in the fast-food industry, SUBWAY is quite different from the others by quality and making process. The slogan of it is “ Think Fresh. Eat Fresh”. You can also see it from the making process, you can choose the vegetable you like and the sauce you want etc. That's also the way to reduce the threat of substitutes.

**Focus:** the focus strategy is AKA a “ niche” strategy. Normally, the companies who choose the focus strategy just concentrate on a quite small segment and tend to build strong brand loyalty for its products, no matter cost leadership or differentiation. Of course, if you did it you can charge a premium price for your product, because your products deserve it. The typical examples in automobile industry of the company using focus strategy are Ferrari and Rolls-Royce. They just occupy few market shares but also can make a huge profit annual.

Stuck in the middle: According Michael Porter, all the company should choose one of its strategy, cost leadership, differentiation or focus.

Otherwise you will be in a situation called “ stuck in the middle”. The company who stuck in the middle will have no competitive advantage. That means there will be quite small chance to make a lot profit.

### **Application:**

Nowadays, internet is one of the most important things for no matter students, the people already work or even the elder. That means the users and potential users of computers and laptops are huge. Different people look into the different functions of a laptop, like acoustic fidelity, the size of hard disk, image quality or gameplay. The gameplay is one of the significant elements will be considered for the age of under 35 when they buy a laptop.

The strategy Dell use in Porter Generic Strategy is both cost leadership and differentiation

Cost leadership: This strategy requires enterprises to establish efficient, large scale production facilities, try their best to reduce the cost, and control the cost of marketing research, services, marketing, advertising and any other aspects of cost strictly. In order to achieve these goals, the enterprise needs to give the high value in managing cost. That is the way to make your total cost is lower than your competitors.

Dell has their special way to reduce the cost at a lower point, which is a model called direct business model. Dell direct business model, which remove middlemen sales products direct to the customer. Allow the company provide all kinds of product to the customers at much lower prices

and also provide the door-to-door delivery. What's more dell also ensures that dell products have been sold while the product not produced yet.

Dell has become a global leading distributor in computer operating system and also step in the major manufacturers list. The so called direct model in dell is a set of communication channel with the customer, from customer direct to dell; the order can include many details like the configuration. Dell said that the “ direct sales model” in essence is simplified eliminating the middlemen.

Dell promotes further the use of the Internet to order the product online, continuously strengthen and expand its competitive advantage. Dell launched a website in 1994, and in 1996 joined the electronic business function, develop the business to the Internet direction. The next year, dell became the first online company and its sales reach one million US dollar. Today, based on Microsoft's Windows operating system, dell operates the largest global Internet e-commerce site. Dell PowerEdge server operation site covering 86 countries site, provide and language or dialect, 29 different monetary offers, at present there are more than 1 billion visitors browse it each quarter.

Differentiation: Realize differentiation strategy can have a variety of ways, such as design brand image, has the unique technology, unique performance, provide special customer service, have special business network, etc. Ideally, the company should have differentiation in several aspects.

Dell's success is the success of the implementation of differentiation strategy, not only the so called "direct sales model" Dell differentiation strategy, important is embodied in the three golden principles: the "adhere to the direct sales", "abandon inventory", "the alliance with the customer"

**Adhere to the direct sales:** Dell set up a set of channel to bypass the middlemen, direct to the customers of the marketing mode, the enterprise directly to the customer's order, and direct product sales to "final customer", direct to provide customers with the entire process of the service.

**Abandon inventory:** Enterprises in the inventory problem essence is two aspects: one is supplied by the main supplier of spare parts reserve inventory, and the second is for distributors reserve inventory products and in the supply of finished in transit. These two parts of the stock cause the enterprise capital backlog. Because Dell is "produce according to the order" can realize the product "zero inventory", don't need to reserve inventory for distributors.

**The alliance with the customer:** "the alliance with the customer" is the most prominent point of Dell's differentiation strategy. The view of Dell to the customer and competitor is: "thinking about customers, don't always focus on the competition". Many companies are too care about rival, spent too much time in the competitor, but have no time to look ahead, and then ignore the customer's demand. Dell put the main energy focus on customers. For large customers, Dell will send their technical staff stationed, help customers to solve the technical problem, and customer be in harmony

an organic whole, and become a customer of the computer information department. Such big customer like Boeing altogether has 100 thousand dell computers, and buys 160 dell computers a day on average, so dell sent 30 technicians resident Boeing, field sharing demand and technical information, and then press the demand information organization production.

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