

External environmental analysis



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Introduction

Dell Inc was founded by Michael Dell in Austin Texas in 1984. While he was a student at the University of Texas in Austin, he started by selling Personal IBM computers under the brand name PC's limited that were assembled by him personally. In 1985 he incorporated his business as Dell Computer Corporation and rolled out the first computer called the Turbo. Today it is one of the leading manufactures of personal computers in the world. As per Fortune magazine 2010, Dell is listed as the 38th largest among the Fortune 500 companies of the world.

Dell started selling computers directly to the end users by avoiding retailers and channel partners to cut down distributing costs. By using the direct model of selling, it was able to provide personal computers at a competitive price that its competitors. Another reason why people bought Dell computers is that they were custom made to meet their requirement. So the Direct selling model and customized built were Dell's competitive advantage over its competitors.

In 1991 Dell made its first laptop and by 1993 it was one of the top five computer manufacturers of the world. From then Dell, has increased its product list by adding printers, serves, data storage devices, PDAs (personal Digital Assistants), high definition televisions and computer accessories. Dell faced various challenges on the road map to its success. We shall now discuss the external factors that influenced the growth of Dell in the United Kingdom.

<http://money.cnn.com/magazines/fortune/fortune500/2010/snapshots/1053.html>

<http://www.referenceforbusiness.com/history2/68/Dell-Inc.html>

Analysis of Macro environmental factors

PESET analysis is used to analyse the influence of macro environmental factors on an industry. The factors include Political, economical, social and technological. We shall the factors in detail.

Political Factors:

Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples include:

Tax policy

Employment laws

Environment regulations

Trade restrictions and tariffs

Political stability

In 1980, Ronald William Regan was elected as president of the United States. He implemented several political and economic initiatives. The political environment was favourable to start up industries.

Economical factors:

All businesses are affected by national and global economic factors. They affect the purchasing power of potential customers and the firm's operating costs. These factors include:

Economic growth

Interest rates

Exchange rates

Inflation rate

America was called the land of opportunity. This tells that the economical factors were aiding Dell to grow successfully. Dell as company was found with an idea to reach the customers directly. This helped Dell to provide quality products at a much lesser price than its competitors.

Social Factors:

Social factors include the demographic and cultural aspects of the society. These factors affect the mind sets and needs of customers.

Health consciousness

Population growth rate

Age distribution

Career attitudes

Emphasis on safety

Due to Dell's direct model of selling, it was able to focus on the designing the computers to cater the needs of specific targeted customers. Dell gave importance to customer feedback to improve its business processes. It gained huge appreciation from customers as the computers were built by order. This became a challenge to its competitors as they were relying on channel partners and distributors.

Technological factors:

Technological factors help the industry to perform more efficiently. The efficiency of the companies increases when they start competing with each other on the factors like:

R&D activity

Automation

Technology incentives

Rate of technological change

Dell being the leaders in the computer manufacturing industry, it has to adapt itself to the new evolving technologies like usage of Information technology, E-Commerce. It was very good at implementing and using the technologies effectively.

<http://www.quickmba.com/strategy/pest/>

Analysis of Macro environmental factors

In 1979, Michael Porter developed the five forces model. This helps to analyse the competition and attractiveness of the industry.

Analysis of Porter's Five Forces

<http://www.mba-tutorials.com/strategy/65-porters-five-forces-model.html>

Rivalry among competitive firms

Potential entry of new competitors

Potential development of substitute products

Bargaining power of suppliers

Bargaining power of consumers

<http://www.mba-tutorials.com/strategy/65-porters-five-forces-model.html>

Rivalry among competitive firms

Competition in the market is good, as it increases the efficiency of the industry and the firms and organisations in it. However some argue that it cannibalises the industry itself.

As the market is huge and growing everyday. Competitors are only few in the market. The competition to gain more market share is increasing day by day. Desll's direct model is their complete advantage over its competitors.

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Potential entry of new competitors

“ A debate over how to define the term ‘ barriers to entry’ began decades ago, however, and it has yet to be won. Conditions that constitute entry barriers may be structural or strategic.”

<http://www.oecd.org/dataoecd/9/59/37921908.pdf>

The barriers to enter the computer market are high, as it needs huge investment in infrastructure, technology, operational costs and man power. Other factors like domination of large players who have already established their brands reduce the possibility of new entrants.

Potential development of substitute products

Availability of substitute products will saturate the industry. As the computer industry is growing more and more, we can say the potential development of substitute product is negligible. We can even conclude that there are no substitute products for computers.

Bargaining power of suppliers

Suppliers of computer manufacturing components have moderate bargaining power only when they can implement and create new components by implementing new evolving technologies. However their market is limited as their customers are the computer manufacturing companies, which are few in the market.

Bargaining power of consumers

Bargaining power of consumers plays a major role in the computer industry. Consumers have a great bargaining power due to the high competition in the

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market. Technology remains the same, but its price keeps decreasing day by day. Companies have to reduce the prices accordingly, to capture or retain their market share.

<http://www.mktgsensei.com/AMAE/Strategy/HBR%20on%20Strategy.pdf#page=25>

Key Success Factors

Key success factors are the advantages of a company in the market.

Identifying them is a challenge; however it pays the companies when they focus on improving them.

Key success factors of Dell are as below.

Direct selling model.

Built to order

Lean inventory

Implementing technology change effectively.

Getting constant feedback from customers.

Analyse customer feedback and improve quality of products and business processes.

Conclusion

After the analysis of the macro and micro environmental factors, we have listed the key success factors. By focusing on them Dell can definitely

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capture large market share in the computer industry hence making huge profits.