

Dell e-commerce case study

[Business](#), [E-Commerce](#)



[pic]Case Study: Dell Computer – Organization of a Global Production Network; using E-Commerce to support its Virtual Company 1. 0 Executive Summary Dell's Direct Model of selling PCs directly to the consumers, bypassing the distributors and retailers (resellers) channel, has been pioneered and provides distinct advantages over the indirect sales model. Customers have the ability to contact Dell directly and order technologically advanced systems at competitive prices.

This direct contact with consumers gives Dell the unique opportunity to know exactly what its consumers want and offer products that would satisfy their specific needs. To fulfill the orders quickly and in supporting the “ Build-To-Order” strategy, Dell has developed an excellent manufacturing and logistics capabilities supported by information systems that enable it to substitute information for inventory. Dell coordinates a global production network that spans the Americas, Europe and Asia, combining in-house final assembly with heavy reliance on outside suppliers and contract manufacturers.

The use of Internet and E-commerce has further giving Dell a means for extending the reach and scope of its direct sales business model at a relatively low marginal cost. It has done so in part by automating its functions such as product configuration, order entry, and technical support, enabling the company to grow revenues without a corresponding increase in customer service costs. Also, it has used the Internet to coordinate a network of suppliers and business partners who carry out many of the processes involved in building, distributing and supporting personal computers.

In short, Dell's supply chain consists of only three stages— the suppliers, the manufacturer (Dell), and end users. Dell's direct contact with customers and its use of e-commerce allows it to:

- offered competitive prices, high levels of support
- properly identify market segments,
- analyze the requirements and profitability of each segment, and develop more accurate demand forecasts.
- cut on the standard supply chain cycle and deliver goods directly from the manufacturer to the customer.
- turn its inventory over 60 times a year
- introduced new products without having to clear out old inventory in the channel
- minimize the rapid depreciation costs that mark the PC industry
- operated on a negative cash conversion cycle - by receiving payment from its customers before it paid its suppliers for components
- build strong, stable relationships with the large corporations and other organizations who are its core customers

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2. 0 Key Success Factors

- Supply Chain Know-How - A key component of Dell's supply chain management was having materials in close proximity to Dell factories; therefore suppliers are required to have inventory hubs near the manufacturing plants. A huge benefit of this supply chain solution is communicating with these hubs in real time to deliver the required materials. Dell had reduced its inventory to an all-time low of a 5 day supply, which comparatively was 20 to 70 days for its major competitors, thereby creating a competitive advantage.

By operating on a just-in-time basis, (a result of an 87% reduction in primary suppliers) Dell was able to provide better service with a faster turnaround time. Also by reducing the total vendor pool and choosing suppliers physically close to Dell's factories, supplier loyalty was increased, leading to further economies of scale.

- Strong supplier relationships - Dell seeks long-term single source relationships in situations where alternative sources are unavailable or the relationship is advantageous with respect to performance, quality, support, delivery or price.

Securing long-term relationships with vendors allows Dell to more fully integrate major vendor into Dell's supply chain management programs. This helps Dell reduce inventories of components, which translate into lower unit costs. Dell also seeks to lock-up supply at the lowest possible cost. Recently Dell signed a long-term supply agreement with Philips for the supply of CRT and flat panel monitors.

- Strong commitment to IT Practices ? Pre-installing software for Eastman Chemical, maintaining a corporate asset database for innovational support ?

Integrating supply chain vendors with more precise demand forecast for business process support. ? Premier Pages - customize, buy and track systems, resolve tech issues for operations support.

- Customer Efficiency - Dell has made a serious investment in understanding its customers' activity in real time and then uses this information to constructively build its business and its winning culture. Dell constantly monitored the customer's shifting preferences, which helped in pricing, inventory management, and cost accounting. Also, Dell's factory assembly process was highly organized

(i. e. bar codes), efficient (i. e. systems were “burned in”) and extremely fast (i. e. 36 hour turnaround) and its customer service was exemplary for the industry. (a) Start with customer value - Historically, customers were segmented by verticals (e. g. , consumer, corporate, government and small business) as well as regions and size. Dell had to look across an aggregated view of these existing groupings to identify shared values relating to product features and supply chain capabilities. A global view was critical to this process. As Mr. Noakes stated, “[Our] growth markets are not in traditional regions. We need to adjust our model to the new requirements. (b) A unified, end-to-end business strategy — The Dell team stated this effort was “truly a corporate wide transformation. ” Key to this was the ability to clearly articulate the need for change, the vision and the role of different organizations. To support this communication, several leaders started an internal blog to keep people up to date. • Culture - Dell's winning ways begin and end with its culture. Dell has created a disciplined culture that relentlessly focuses on optimizing its operational model, responding to its customers' needs and sustaining a self-motivated and experienced workforce

Market Sensing - Dell consistently sensed market changes before they happened and was able to anticipate and identify product areas to maximize sustainable profits using its Direct Model. As a result of this ability, Dell could pick and choose which market they entered, making sure it was a market leader quickly upon entering. • Strong Information Management practices - is a powerful strategic weapon in Dell. It is widely distributed, analyzed and acted upon. People know where they and their business units stand at any time. They re-act accordingly.

According to Dell: " If the folks in its consumer business notice it's 10am and they're not getting enough phone calls, they know they have to do something: run a promotion on the web starting at 10: 15, or change their pricing or run more ads. They can't wait 30 days after the end of the quarter to figure it out. " Openness and sharing are part of success at Dell. • Lower Unit Costs - Removing the third party retailer from the sales equation eliminates additional product mark-ups. The savings can be either recognized as higher margins or passes along to consumers.

In both situations Dell is experiences better pricing flexibility than its competitors. When economic conditions are slow Dell is able to offer product at lower prices and still operate profitably. Dell's success in the most recent economic downturn serves as clear signal that the company can weather less than favorable economic conditions. In 2001, Dell's domestic market share actually climbed from 19% to 24. 2%. • Quicker reaction to customer wants and needs - As mentioned above Dell focuses on streamlining their production operations. Finished products are quickly assembled in direct response to a customers order.

Low finished good inventories put Dell in a better position to continually offer the newest and most requested technologies. Changes in customer demands hurt the competition more as they struggle with product obsolescence and high inventories. Competitors may be forced absorb write-offs associated with inventory obsolescence or markdown products below cost to clear inventory. 3. 0 SWOT analysis of Dell Computer: Strengths • Biggest PC (personal computer) maker in the world. Dell's brand is one of the best

known in the world. They are the number one PC provider for medium and small businesses across the US for 10 straight years. Direct to customer business model. - They deal directly with the customers with no use of a middle man, i. e. retailer channel. - They offer their customers the ability to track their delivery by contacting customer services, based in India. - They design the computer to the customer's specifications. • It uses information technology, and excellent customer relationship management (CRM) approaches to capture data on its loyal consumers. This allows it to produce the personal computer based on the customer's own specification. • Cost advantage over rivals Their assembly is done at a fairly inexpensive cost - By offering superior telephone customer and/or internet services such as Premier Access, and outsourcing their shipping, Dell had the lowest operating cost in the industry at 11.5%. • Dell is not a manufacturer; Components are made by suppliers and Dell assembles the computers using relatively cheap labor. The finished goods are then dropped off with the customer by courier. Dell has total command of the supply chain. • No inventory buildup. Dell built its computers to order; none were produced for inventory. Wide geographic coverage and strong global distribution capabilities • Good supply chain management capabilities. • Good customer service capabilities Weakness • Dealing with a large amount of supplies from many different countries can cause a large issue when products are recalled. Example in 2004 Dell had to recall 4.4 million laptop adapters because of a fear that they could overheat, causing electric shocks or fires. • High dependence on suppliers. They build computers, not develop them. It buys from a group of concentrated hi-tech component manufacturers.

Whilst this is a tremendous advantage in terms of business operations, allowing Dell to focus on marketing and logistics, the company is reliant on a few large suppliers, and to an extent is locked in for periods of time (i. e. unable to switch supply due to the lack of large suppliers in the World). • Their supply orders are so large that they become limited to dealing with a small few suppliers that can handle the volume. • Dell lacked solid dealer/retailer relationships. They have weak business relationships with many computer retailers. • No proprietary technology. They do not have unique technologies to offer the market. Because outsourced all components, it is very difficult to manage the quality. • Dell is the lack of multi-channel distribution capabilities. It will be very difficult to expand the selling channels because there are no other retailers in markets. • Dell's products promotion and introduction of new products fall behind other competitors • Weak dealer network Opportunity • New products and new market still has room for development. • Continuing to market on the internet to gain larger market base. • Broadening their scopes in Europe, India and China. • Expand into government and education markets. Utilizing existing company skills or technological know-how to enter new product lines or new businesses. • Entering into alliances or joint ventures to expand the firm's market coverage or boost its competitive capability • PC industry's growth prospects remain attractive • Dell can further capitalize on the remaining build-out of the Internet infrastructure and increase market share in the external storage market Threat • The single biggest problem for Dell is the competitive rivalry that exists in the PC market globally. As with all

profitable brands, retaliation from competitors and new entrants to the market poses potential threats.

Dell sources from Far Eastern nations where labour costs remain low, but there is nothing stopping competitors doing the same - even sourcing the same or similar components from the same or similar suppliers. Remember, Dell is a PC maker, not a PC manufacturer.

- Increasingly popular brand names in the competition.
- Likely entry of potent new competitors.

Competition can basically create the same computers since Dell builds computers, not designs them.

- Fluctuations in the currency markets can make global business operations more open to losses in certain areas of the supply chain.
- Dell, being global in its marketing and operations, is exposed to fluctuations in the World currency markets. Although it is a very lean organization, orders do have to be placed some time ahead due to their size or value. Changes in exchange rates could leave the company exposed to potential losses in parts of its supply chain.
- Tariff trade barriers affecting their positions in multiple countries.
- The global economic downturn.
- Loss of sales to substitute products, like Ipad, Tablet PC.
- Growing bargaining power of customers or suppliers.
- Price difference between brands is getting smaller all the time.

4. 0 What are the SCM strategies that Dell had implemented?

Dell revolutionized supply chain management with its direct model, build-to-order (BTO) manufacturing, just-in-time inventory model and impressive cash-to-cash conversion cycle. Dell designed its supply chains based on a mix of cost optimization, delivery speed and product choices that customers

value. Its strategy was built around a number of core elements: build-to-order manufacturing, mass customization, partnerships with suppliers, just-in-time components inventories, direct sales to customers, market segmentation, awarded-winning customer service and technical support, and pioneering use of the Internet and e-commerce technology.

Through this strategy, the company has somehow achieve what Michael Dell called " Virtual Company / Integration" stitching together of Dell's business with its supply partners and customers in real time such that all three appeared to be part of the same organizational team sharing extensive data and information [pic] Process Streamlining In particular, Dell focused on enabling " just-in-time" delivery of parts and components---a process whereby Dell's suppliers delivered goods to Dell very close to the time Dell actually needed the parts for use in computers that consumers had already ordered.

This shortened the time during which Dell needed to maintain an inventory of parts and reduced the costs associated with storing that inventory. The reduction in costs associated with the innovative manufacturing processes allowed Dell to offer its products at low prices that were attractive to consumers and that were difficult for competitors to match. Moreover, the low-price approach allowed Dell to gain market share without investing heavily in research and development in the early stages of its growth.

Build-to-order(Postponed) - Dell built its computers to order; none were produced for inventory. Dell customers could order custom-built computers based on the needs of their applications. Desktop and laptop customers

ordered whatever configuration of microprocessor speed, random access memory (RAM), hard disk capacity, CD-ROM drive, fax/modem, monitor size, speakers, and other accessories they preferred. The orders were directed to the nearest factory.

In 2000, Dell had PC assembly plants in Austin, Texas; Nashville/Lebanon, Tennessee; Limerick, Ireland; Xiamen, China; Penang, Malaysia; and El Dorado do Sul, Brazil. All six plants manufactured the company's entire line of products. Partnerships with suppliers - Michael Dell believed it made much better sense for Dell Computer to partner with reputable suppliers of PC parts and components rather than to integrate backward and get into parts and components manufacturing on its own.

Just-in-time components inventories - Dell's just-in-time inventory emphasis yielded major cost advantages and shortened the time it took for Dell to get new generations of its computer models into the marketplace. New advances were coming so fast in certain computer parts and components (particularly microprocessors, disk drives, and modems) that any given item in inventory was obsolete in a matter of months, sometimes quicker. Direct Selling - Selling direct to customers gave Dell firsthand intelligence about customer preferences and needs, as well as immediate feedback on design problems and quality glitches. Market segmentation - To make sure that each type of computer users are well served, Dell had made a special effort to segment the buyers of its computers into relevant groups and to place managers in charge of developing sales and service programs appropriate to the needs and expectations of each market segment. Their market segment comprises

from large customers, both corporate and governmental buyers, to small customers, both small businesses and individuals.

Customer service and Technical Support - Dell contracted with local service providers to handle customer requests for repairs; on-site service was provided on a next-day basis. Dell also provided its customers with technical support via a toll-free number, fax, and e-mail. Virtual Integration and Information Sharing - On-line communications technology made it easy for Dell to communicate inventory levels and replenishment needs to vendors daily or even hourly. 5. 0 What are the values of the Dell's strategies? The direct business model had a valuable benefit that Michael Dell didn't anticipate.

It enables the company to have an actual relationship with customers. This provides essential information that is used to leverage relationships with the suppliers as well as customers. It also provides 2 distinct advantages: • reducing marketing and sales cost by eliminating markups of distributors and retailers • building to order reduced inventory costs and risks of retaining inventories. Knowing the customer is the foundation for creating value It is no longer good enough to simply meet customer expectations. It is not ven good enough to delight the customer. These goals are often one-time goals. Continued success, particularly at a fast pace means it is getting increasingly important to KNOW the customer. Knowing the customer means having knowledge that lets Dell constantly add value. Knowing the customer means Dell can design new products, new services, and new pricing schemes that constantly meet and exceed customer expectations. Dell achieves this

through creative use of their information systems as well as through their people.

Their information systems attract, store, manipulate, and report information on customers. Their people used this information to respond immediately to changes in market conditions, changes from competitors, and changes in customer preferences. Price for Performance Dell boasts a very efficient procurement, manufacturing and distribution process allowing it to offer customers powerful systems at competitive prices, especially for the price conscious customers. Continuous reinvention is critical for continued velocity

At some point, every strategy and every goal is outdated. Dell has the keen sense to identify possible new strategies and goals early, and to reinvent itself in order to move in the new direction. This was true when Dell made their entry onto online service over the Internet. The Dell Direct Model was extended to allow customers access to systems which let them tap directly into Dell's service and support databases. Dell has already reinvented itself again by viewing their business as one of integration and distribution, rather than simply as a hardware manufacturer.

Complexity reduction — Product options had become too complex. In response, Dell reduced configuration complexity in line with customer requirements. Product offerings had exceeded customer requirements and were adding unnecessary cost and responsiveness waste in the supply chain.

Improved internal collaboration — Identifying and managing functional interdependencies have driven collaboration across product design, supply chain, marketing, sales and finance. Dell also simplified interactions by

centralizing global operations, while aligning to customer verticals. . 0

Conclusion Dell is simply a success story; it shows how one can gain market advantage by simply understanding what brings value to customers. Dell's direct selling and build-to-order has given it a unique position in the industry. Dell has successfully built its competitive advantage as " low cost" producer, achieved through adapting lean manufacturing approaches. Also today, the Internet has created many new opportunities to interact with customers, people and to provide products more closely customized to individual customer preferences.

Certainly Dell's competitors see the advantage of the company's direct model, and to a varying degree use similar tactics. But, the other vendors have legacy ties to supply chains -- supply chains with distributors and resellers that still hinder these non-direct channels less efficient. So Dell had the ability to cut margin without cutting profit! Dell's e-commerce service is a valuable management tool for online business, whereby, increased efficiency, cost effectiveness and improve customer satisfaction. Selling online allows the whole process to be automated and more efficient.