Economic analysis of dell desktop computers industry

Business, Industries

Recommendations 31 References 33 1. Introduction Michael Dell started the company in1984with the revolutionary idea to sell custom built computers directly to the customer. As one of the world's premier providers of computer products and services, Dell now designs and manufactures a impressivefamilyof desktop solutions for virtually every computing need.

Within the last five years, Dell has grown from $7 billion in revenues to more than $35, 4 billion, and the company continues to expand in its current products and regions, and also into new markets. This makes Dell to the second largest seller of Computers and Computer products after Best Buy. As result of Dell's direct business model, Dell became leading seller of computer systems worldwide and the market leader in all customer segments of the United States.

The success of Dell's direct selling strategy is reflected by an increase of almost 100% n net revenues over the past five years The key principles of Dell's business strategy are: (1) a direct relationship to its customers that provides a constant flow of information about customers' plans and requirements and enable Dell to continually improve its product tottering; Customers can purchase custom-build products and custom-tailored services, which contributes to the efficiency in meeting the customers' needs and reduces inventory levels by a faster inventory turnover; (3) Dell is the low-cost leader, enabled by a highly sufficient supply chain management and manufacturing organization; (4) Dell revised a single-point ofaccountabilityfor its customers by offering an array of services designed to provide customers the ability to maximize return on investment, system performance and efficiency ; (5) Dell believes that standards-based technologies deliver the greatest value to customers because it provides flexibility and choice while allowing the purchase decisions to be based on performance, cost and customer service. On January 31, 2003, Dell had approximately 39, 100 regular employees, with about 21, 200 located in the United States. Dell has the luck of never having faced a work topped due to labor difficulties and the organization beliefs that its employee relation is good.

In this study research, we analyze Dell's Desktop PC's in the US market. The US accounts for 35% to of global unit PC demand. Dell offers a wide range of computer systems (desktop computer systems Servers, storage, networking products, workstations, notebook computers, software and peripheral products), of which we focus on desktop computers. Dell offers two different desktop computer systems. Theversion is for the corporate and institutional customer segment that demands highly- reliable, stable, manageable ND easily serviced systems. Theproducts target small businesses and home users with a need for fasttechnologyturns and high-performance computing. 2. The Industry Demand 2. 1 .

Overview Rapid change is a key characteristic of the industry, and how well a company manages this variable can determine whether it emerges as an industry leader, a second- or third- tier player, or worse yet, not a player at all. During each evolutionary phase of the computer hardware industry, the price for computing power has decreased, usability has increased, and the market has broadened. The rapid proliferation of the Internet culminated in strong growth for the computer hardware industry in 1999 and through most of 2000. However the industry's fortunes reversed in 2001 and demand remained soft in 2002 due to the global economic downtown.

The huge decrease in worldwide shipment growth can be attributed to the merger of H-P and Compact computers. There were overlapping products and high inventory costs for not sold products in 2001. Moreover, the lackluster U. S. Economy is likely to hurt the PC demand. The Gross Domestic Product (GAP) tell 2001 trot 4 1% to only O The US economy began to recover trot the recession in early 2002, finishing the year with 2. 4% growth. Standard & Poor's currently forecasts real GAP growth of 2. 4%for 2003 and 4. 4% for 2004. Furthermore, the PC market is disgusted with PC's. A large part of the population owns a PC by now, and people do not need a new one. Their old one is sufficient for their needs.

Although computer technology has progressed rapidly in recent years, the performance of the computer for 'the average customer' has not improved significantly. A strong recovery in PC demand does not appear imminent. According to DC (International Data Corp..), the GAP growth stays like in 2002 at 2. 4%. In the first quarter of 2003, worldwide PC shipments rose 2. 1% since the consumer spending remained weak and commercial PC demand failed to recover materially. In such a weak demandenvironmentwe see an aggressive price competition. To notify is that Toshiba, a manufacturer of Laptop PC's, which is a technical substitute of Desktop PC's, moved up to the five top PC makers in terms of market share, both in the United States and worldwide.

This move reflects the continued move in demand favoring toe books over desktop computers. The forecast of the consumer market is more optimistic. It dropped 19. 6% in 2001 and rose 8. 4% in 2002. In 2003 the rise is predicted to advance 1 1. 3%. Dell was #1 in the first quarter of 2003, concerning global PC shipments. The company posted 24, 7% unit growth for the first quarter, far outperforming the overall market (which rose 2, 1%) and the other vendors in the top five. The most important competitors of Dell are Fajitas Siemens, Hewlett-Packard, IBM and Toshiba. In the above chart, you can see the percentage changes of growth rates of PC hinters from previous year.

Dell has the largest growth, that's because it's aggressive pricing strategy (15 % price advantage) and his advantage as a direct seller. It can pass lower component costs through to customers faster than its rivals can. It thus leads the competition in price cuts to gain market share. The company also intends to leverage its position as the low-cost producer in the PC Industry. Price The computer desktop market is driven by a strong price war. The lower the price, the higher is the quantity demanded. (This is proven by the price elasticity of roughly -1 we calculated. Keep in mind that it is difficult to compare the prices between the different years. First, there are several noticeable shifts in technology.

Therefore the performance and especially the equipment for desktop computers changed significantly. This means, today, you will get a better PC for lessmoneyin comparison to five years ago. Second, the data we researched does not consider the annual inflation. Thus if we include the initiation in this variable, the prices to earlier years will increase. Third, the average desktop price is not weighted, as it does not consider the different rises of the PC's and the share of the total quantity sold. The price changes of the several desktops that are sold to the different consumer groups may differentiate. GAP As you can see, the influence of the GAP to the quantity demand is also significant. If the GAP increases by one percent, the quantity demanded increases by 2. 53%.) This confirms the results we researched independently from our regression. Hours spent online The hours spent online increased constantly from year to year. This variable seems to be independent from economic influences. The money spent online per person per ear increases as constantly as the hours spent online per person per year, so we can see here a strong dependency. 2. 4. Forecasting In order to come up with a reliable forecasting for the future demand situation, we have to make a linear trend analysis. Here, we assume a constant period-by-period unit change in the variable " quantity".