Assessing the scope of competitive rivalry

Scope of competitive rivalry mainly deals with a global focus, however, local computer makers should also be considered. For the large corporations, having a presence in foreign markets is essential. Companies like Dell, HP, Lenovo/IBM, and Acer all compete in multiple international markets. If individuals in a particular country are capable of buying a PC, the top competitors all fight for their purchases. Competition is not cut throat per-se, but if a company like HP falters in any one of its multiple segments, Dell could come in and take its market share.

Stage in Industry Life Cycle

The thing about technology is that it constantly changes. The personal computer, servers, printers, and data storage devices have existed for decades, but constant R&D is employed to make these high-tech machines smaller, run faster, and operate more efficiently. Computers and their peripherals will likely remain in the growth stage for a very long time. Though growth has slowed in developed countries like the United States, it has increased in other developing countries like Brazil, India, and China. On that note, the idea itself has reached maturity. For example, servers (as well as personal computers) can offer long usage time if they are properly serviced over the years. Computers configured four years ago, if built with quality high-end components, can still compete with ones coming out today. New technologies make adding performance to personal computers and servers effortless, which furthers the life of the machines.

Degree of Vertical Integration

According to Thompson and Gamble’s research, “ There were too many technologies and manufacturing intricacies to master for a vertically integrated manufacturer to keep its products on the cutting edge."

Therefore, the industry has a very low degree of vertical integration. Companies search for the best manufacturers of parts and services and combine them to create a name-brand computer. Providers need to be accessible for when they are demanded. If they fail, companies like Dell and HP can switch as quickly as living creatures blink.

Ease of Entry/Exit

Because the industry has long been established and defined by the current competition, ease of entry/exit is not exactly easy. In fact, it would be nearly impossible for a start-up firm to enter. A long established company like Sony, for example, was able to enter late in the game because of their existing company structure and size. Only already established large companies would be able to enter the market, unless some entrepreneur discovered a way to enhance existing business models which maximized efficiencies in nearly every aspect of the venture.

Technology Innovation

The industry is highly characterized by innovation, considering it is nothing but technology. New products are constantly developed, daily in fact. Intel, for example, releases computer processing units (CPUs) every three months. As a result, costs decline . 5% weekly. These CPUs are among the main components of the computer. Since technology is evolving at a rapid rate, computer companies always look for ways to reduce inventory carryover while still having enough in inventory if demand spikes.

Product Characteristics

Defining the product characteristics is rather complex, as not only are the computers intricate in nature, but the number of products associated with this industry colossal. Looking at the main composition, the industry includes computers (servers, desktops, laptops), peripherals associated with the computer like wireless routers and printers, and external storage. Focusing on the computers and depending on the price, they vary in terms of processing speed, hard drive capacity, number of video display outputs, number of channels of surround sound, and amount of random access memory.

Economies of Scale

As with most industries, the name of the game is getting the best products for the best price. Gray areas do exist, however. CPUs for personal computers, for example, are only made by two competitors (AMD and Intel). Other manufacturers like SIS and Centaur exist, though they are not as well known and certainly not trusted enough to be in name brand PCs. The same goes for video cards. Many manufacturers do exist, but there are only two significant competitors in the market (Nvidia and ATI). Most manufacturers of video cards actually incorporate the chipsets of the two top competitors into their own models. There is a substantial amount of marketing and advertising that goes into the products of the top competitors. The public must be constantly reminded which computers are the best to buy. Because of cost cutting (as well as international expansion), many companies have some, if not the majority, of their processes outsourced. To further reduce costs, inventory carryover is kept low.

Learning and Experience Curve Effects

The industry is highly characterized by the philosophy of " learn by doing". For example, Dell has been improving efficiencies in their business model for the past eighteen and a half years (as of 2008). As a result, they are a leader in many aspects of their value chain. The competition follows suit, but they do not have as much experience as Dell does in this instance.

Capacity Utilization

Once again, as with all industries, it is important to have high capacity utilization in order to maximize efficiencies. Because there is little markup on computers and their components, companies need to squeeze savings out of every aspect of their operations.

Industry Profitability

If a company is well managed and knows what its customers want, then industry profitability can be high. Once processes begin to fall short or crumble, company profitability can go from black to red in a short amount of time. Compaq (before it became HP) was an example of a company with poor management structure. Executives ran the company into the ground because they were not finding ways to be profitable. Despite holding a large portion of market share, the company operated in the red for many of its quarters.

Industry Driving Forces

Though the industry possesses many driving forces, three come to mind as being most prevalent. For one, increasing globalization plays a big role in analyzing company size and strength. Outsourcing processes to many different countries leads to cheaper manufacturing costs across the entire value chain. India, for example, is a common location for technical support call centers. As the world grows smaller, having a well established brand name in multiple markets will keep top competitors successful.

A second driving force is the diffusion of technical know-how across more companies and more countries. Just like in increasing globalization, outsourcing helps to locate the best R&D opportunities in the least expensive country. The more minds there are on a project, the more opportunities there are for innovation. As a result, emerging countries may have different thought processes and needs compared to developed economies, so new ideas may be generated.

A third driving force is changes in cost and efficiency. As mentioned earlier, it is imperative for companies in this industry to master the " Just in Time" strategy. Computer components are decreasing in price weekly and are becoming more energy efficient. These changes ultimately lead to newer and better products than those of three months ago.

Key Success Factors

Just like the driving forces, there are many key success factors that relate to this industry. For one, top competitors most certainly have an expertise in a particular technology or specific research (in this case, computer designing). They hand select the best components (or cheapest depending on the business model) for customers to choose from. After all, the quality of components defines the quality of the computer.

A second key success factor is the proven ability to improve production processes. This includes the aforementioned industry-wide decrease in days of inventory holdings, and lessening vertical integration improves competitiveness. As computer components become cheaper to manufacture, the prices decrease. As a result, computer prices fall. Improving production processes are effective methods of keeping profitability high.

A third key success factor is quality control know-how. No matter what the problem is with one’s computer, it is always the fault of the manufacturer. If HP or Dell builds unreliable computers, buyers will simply switch to another brand with little hesitation. Therefore, it is imperative for the top competitors to maintain their quality control in the factories. If a certain component of the computer keeps failing, then it is likely the fault of the component manufacturer, and not the “ brand name” computer creator.

Other key success factors include product performance, reputation/image, and customer service capabilities

PORTER’S FIVE FORCES MODEL OF COMPETITION

Dell has been able to remain innovative in their approach to building computers. They proved throughout their years of existence that providing differentiated, customizable computers with exceptional customer service at reasonable prices is possible. During the early years, Dell was able to undercut the competition by substantial margins. When they developed their strategic plans to sell computers internationally, they were quickly able to capture some of the market share once held by super-giant IBM. As a result, in 2007 International sales accounted for over 41% of Dell’s sales. To expand upon their business model, they diversified their product offerings to include Dell branded speakers, printers, and ink cartridges. Though not all diversification efforts were successful, Dell proved they could be innovative in their approaches to reaching customers. Michael Dell knew exactly what he wanted to do with his business when he first started his venture, and sticking to that vision has created one of the most successful computer ventures ever.

Rivalry Among Competing Sellers

Dell's rivals include more than PC manufacturers. They compete and tally revenues in the following product categories: desktop PCs, mobility products (laptop PCs and workstations), software and peripherals (printers, monitors, TVs, projectors, ink and toner cartridges), servers and networking hardware, consulting and enhanced services, and storage products. Principal competitors amongst these categories include HP, Lenovo/IBM, Apple, Acer, Toshiba, Sony, Fujitsu-Siemens, Sun Microsystems, EMC, Hitachi, Cisco, Broadcom, Enterasys, Nortel, 3Com, Airespace, Proxim, Lexmark, Canon, Epson, Accenture, and EDS.

Rivalry among competitors is fierce. If one company falters even the slightest bit anywhere along the value chain, other competing companies will enter and capitalize on the transfer of market share. For example, in the first quarter of 2008, Dell had 15. 7% of the total global market share, which is up from 14. 8% in the fourth quarter of 2007. The rest of the competition outside of the top five competitors (HP, Dell, Acer, Lenovo, and Toshiba) lost 5% of the total market share. These numbers vary from quarter to quarter, but when the top five competitors see increases in market share, it is clear who dominates.

Dell happens to offer a highly differentiated product. They pride themselves on providing high quality computers at better prices points than the competition as a result of directly selling to customers. Prior to Dell, no company successfully offered such a business concept. Sales and promotions are targeted toward special bundle packages (like monitor, printer, and computer in one purchase) and slightly dated computer designs. With Dell's premier account, for example, businesses and schools are encouraged to buy specially configured computers (which can be further customized). Savings tend to be larger when consumers purchase computers bundled with an anti-virus package, and Dell warranty, and interest free payments for six months if customers own a Dell premier credit card. Though competitors like Sony offer similar incentive programs, none of them can match Dell.

Though Dell was strictly direct-to-consumer oriented for the longest time, they were losing significant market share to Apple as a result of not offering their computers in stores. As a result, they agreed to a contract with Best Buy and Wal-Mart. Though customers would technically pay for the markup at Best Buy or Wal-Mart for the same computer they could purchase through Dell, this tactic helped to keep Dell from losing market share to HP and Apple. In addition, Dell began offering white-box PC solutions in 2003 which helped them achieve an additional $380 million in revenues. Though critics were skeptical of the decision to move into this segment, most saw it as an effort to take on white box dealers in China.

Potential New Entrants

The threat of potential new entrants is minimal if even possible. There is a considerable presence of sizable economies of scale in production and other areas of the operation include the following: a substantial amount of marketing and advertising that goes into Dell's products and the ability to outsource areas of the business they cannot make profitable by locating in the US. In addition, Dell is the industry leader in minimizing inventory on hand.

In addition to the economies of scale, the learning and experience effects curves have to be taken into consideration. Dell has followed the simple model of " learn by doing". As a result, they have been improving efficiencies in their business model for the past eighteen and a half years (as of 2008). The competition cannot match Dell.

As with any industry that has been defined for decades, there is a strong brand preference and somewhat high degrees of customer loyalty. Because Dell is focused on being the lost-cost leader in the industry, they need not worry about customers switching purely on price. Customers want an established brand name that has the proven ability to withstand the test of time. As a result, HP, Dell, Acer, Lenovo, and Toshiba will remain the top competitive global competitors for the years to come. Though Apple is a leader in the US, they will not be able to compete in price conscious countries. Because the market share is dominated by the big five, any completion will fight for the remaining half that is crowded with hundreds and thousands of un-established brands.

As with most industries that have long been established, there would be extensive capital requirements for a new company. Entry would likely cost millions, is not billions of dollars. As a result, the same brand names have existed for decades. On top of that, striking deals with distributors and retail stores would prove to be difficult. What basis would new consumers have for trusting a brand new computer company? That is why Insignia failed. Assuming the company has these issues sorted out, they would still have to deal with restrictive regulatory policies and tariffs and international trade restrictions. A new threat will only exist if the company can figure out how to succeed at every one of these difficult situations.

Substitute Products

Substitute products are becoming an issue within the industry. As technology progresses the products of yesterday become obsolete. The smart phone is becoming the biggest threat to the personal computer. Though they are much smaller and fit in the palm of the customer’s hand, they are capable of doing many of the tasks that a computer can do. For users that compute on larger scales such as film makers, musicians, and reporters, the computer can never be replaced. As a result of the smart phone’s popularity, computer companies are now competing in this segment.

Supplier Bargaining Power

The supplier bargaining power through Dell is mainly weak, though there is some slight flexibility. For example, Dell cycles through the top two CPU suppliers (Intel and AMD). Because they are in fierce competition, they continue to make quality products and are normally differentiated only by price. When Dell switched to AMD in 2006, they switched because AMD was able to provide Dell with a better performing chip for a better price. Similar situations occur with peripherals like printers (switch from HP to Lexmark then Dell branded), several speaker offerings from Altec Lansing and Dell branded, and different suppliers for the motherboard. Dell will switch to the best supplier for the best price as long as component quality does not suffer.

Buyer Bargaining Power

Buyer bargaining power, on the other hand, is high. There are a variety of products to choose from at lower price points than the competition. Purchasing items in bundles leads to greater saving, especially if customers have a Dell premier account. In addition, refurbished or customer-returned computers are offered at even greater discounts. Because technology continually evolves, buyer preferences change, ultimately leading to product adaptations. Customers demand the best product at a better price than the competition. If Dell fails at their own mission statement, they will lose the market share they currently possess.

INTERNAL ANALYSIS: SWOT

STRATEGIC COST ANALYSIS

Value Chain Analysis

Dell aims to provide low prices on a diversified line of customizable personal computing solutions by selling direct to customers. In addition, they have an efficient supply chain and manufacturing process that allows them to maintain a leadership position in the industry. As a result, they can sell premium quality products at price points their customers can afford. Just recently to compete with Apple, they have extended their product offerings into retail stores like Best Buy and Wal-Mart.

When surveys were conducted in 2008, Dell was found to be deficient in the laptop market segment. As a result, they began contracting part of their assembly process to manufacturing facilities in Asia. Once the basic assembly was completed in the Asian facilities, the half built computers were sent back to the US for final product completion. The problem was that this incurred more costs than if they outsourced the entire operation. As a result, laptops became 100% built overseas. Other cost reduction techniques include minimizing the number of days of stocked inventory. By 2002, Dell was able to minimizes their supplies to anywhere between 2. 7 and 4 days. These low stocking days in addition to their purchasing model put Dell at a great advantage.

When customers configure their computers online or at the kiosks, they are required to pay in full before their computer can be built. This puts Dell at a great advantage because they have the money for the computer (or other products) before the customer even has the tangible product. They also offer special deals for professional organizations, schools, and other “ preferred” Dell account members. Because they keep a close relationship with their customers, they can create value in other areas like expanded product offerings and 24/7 customer service. Additionally, Dell runs several tests throughout the build process of the computers. Multiple levels of testing reduce the number of manufacturing errors, which furthers their cost reduction efforts. By the end of the manufacturing process, the computers are pre-loaded with an operating system and several programs to enhance buyer value. In short, when the customer receives their computer, they simply have to turn on the unit to begin use. Dell believes that maintaining close relationships with their suppliers leads to better computers, which will improve customer satisfaction and keep costs low. Once customer satisfaction is high, they will likely buy additional products from Dell such as printers. Further, by providing twenty-four hour technical support, Dell can continue to emphasize the importance of their customers in their eyes.

By outsourcing operations like laptop manufacturing and customer service call centers, Dell has found ways to produce products at better price points. Similarly, if Dell produced their own PC components, they would never be able to maintain their competitive edge. Costs for R&D and production capacity would eliminate profit margins, even possibly putting Dell into a troubling situation financially. Updates to current model offerings are employed every couple of months. They include improved performance, new input device technologies (like eSata and USB 3. 0) and increase energy efficiency.

Benchmarking Activities

In most industries, Benchmarking tends to have at least some importance in creating better products and improving efficiencies. In any technology driven industry, however, it is essential in order to survive. Dell’s goal is simple; they keep prices low by allowing customers to create a complete personalized computer according to pre-defined specifications. Doing this enables Dell to avoid carrying pre-configured computers in inventory. Though they do offer refurbished models for discounts, it is not a substantial part of the business. Because their business model is so unique, they can provide customizable solutions that minimize costs, eliminates much of the need for inventory carry-over, and requires customers to prepay (or set up a preferred payment account) before receiving the computer. By cutting out the middleman, Dell can pass on savings to the customer. In addition, by continually searching for ways to improve the manufacturing process, how customer orders are filled and shipped, and how employees are trained, Dell can retain its competitive edge.

Activity Based Costing

Dell breaks down its individual activities of the value chain into several components that will provide cost estimates and capital requirements. Categories include advertising, researching, development, technical support (hardware and software related), selling, general, and administration, engineering, and logistics. When one activity is altered, its effects can be felt through the other activities throughout the chain. Once Dell establishes their cost estimates, they can analyze their competitiveness with companies like HP, Lenovo, and Acer. From there, they can make the necessary adjustments to maintain success.

Competitive Strength Assessment

Analyzing Dell for the competitive strength assessment is analyzed over two criteria. First, how does Dell rank relative to competitors on each of the important key success factors that determine market success? The second, does Dell have a net competitive advantage or disadvantage versus major competitors?

Dell understands that in order to remain competitive, they must not lose sight of their business model. The continually search for ways to reduce costs along every aspect of the value chain. As a result, they fair well in the competitive strength assessment. They continue to satisfy their customers by providing total computing solutions. This assessment includes the comparison of the pre-defined industry key success factors against the top competitors: expertise in a particular technology or in scientific research, proven ability to improve production processes, and quality control know how to other competitors. In addition, other strength measures will be weighted. Included measures are product performance, reputation/image, and customer service capabilities.

Once the key success factors are reviewed, the weighted overall strength rating will be determined. Weightings rank from highest (strongest) to lowest (weakest). This assessment helps pinpoint which areas Dell excels. Similarly, it also illustrates where they should improve.

As illustrated by the competitive strength assessment, Dell still remains stronger than HP, but not Apple. But just because Apple ranks higher does not mean they sell more units. In 2007, Dell shipped (US) 19, 645, 000 units whereas Apple shipped 4, 081. On a worldwide outlook, Apple is not ranked whereas HP shipped 50, 526, 000 and Dell shipped 39, 993, 000. Apple's product line, however, is priced higher overall than the competition. Their theory is that extensive R&D must be made to determine which parts work best together. Apple spends a great deal of time researching components to find out which ones " talk best" to each other. Their customers believe Apple computers tend to be more stable and last longer than the competition.

Whether this is purely an advertising gimmick or legitimate fact has not been proven, but customers seem to believe this is the case.

FINANCIAL ANALYSIS

BUSINESS STRATEGY ANALYSIS: PORTER'S GENERIC STRATEGIES

Best-Cost Provider Strategy

By late 1997, it was clear that Dell was defining their position in the market. They had become a low-cost leader that was discovering new ways to harness efficiencies from their direct sales business model. They wanted to provide quality computers at price points lower than the competition, and they succeeded. This strategy gave them the upper hand in the industry, and as a result, they are a top competitor with a high percentage of the overall market share. Dell achieved their best-cost status from the ability to provide customers with customizable computing solutions at lower than expected prices by cutting out the middleman. By employing this strategy over multiple product offerings, they were able to target a wide range of computer users from the business end to personal home users. Owner Michael Dell achieved this status by constantly benchmarking company performance. He continually searched for ways to improve all aspects of the business, which includes ongoing improvements in the assembly efficiency, improved quality control, enhancing partnerships with suppliers, adopting just-in-time inventory practices, website rebuild, customer service/technical support improvements, and placing Dell computers in retail stores. As a way to enhance value, Dell held forums that gave senior management the opportunity to listen to their best customers for determining future needs and expectations of buyers. In 2007, Dell began enhancing customer value through IdeaStorm, a website that allows customers to post suggestions for ways to improve the company. Improvements yield great reward, as Dell was rated number one (in 2005) for providing exceptional customer service to large enterprises.

Vertical Integration

When the industry was relatively new, it was essential for a PC manufacturer to be at least partially integrated. If they were not, customers did not receive their product well. That logic shifted over time, however, to the point where being vertically integrated would be detrimental to long-term company success. To not be vertically integrated is the best way for Dell to mass-produce computers. Today, Dell has an arm’s-length relationship between specialist suppliers, manufacturer/assemblers, and end users. It is unlikely for Dell to ever revert back and become even partially integrated, as the industry as a whole is becoming less integrated daily.

Transaction Cost Economics

Dell aims to keep transaction costs low and continually searches for ways to save. There are no surprises for customers when they visit the Dell website, unless medications have been made to the layout. Customers expect low prices for quality computers, and that is what they receive. Improving bargaining power between suppliers is highly unlikely, due to the fact that discounts on technology can only go so far. They are typically regulated and controlled, and have even been scrutinized for selling components for more than they are worth. Dell accepts PayPal, MasterCard, Visa, American Express and Discover credit cards in addition to their own premier account credit card. They believe that having multiple payment methods encourages customers to purchase more goods. In addition, other typical transaction cost economics include the time it takes to configure a computer online (or at one of the newly introduced kiosks), the time it takes to research what components fit customer needs the best, the time it takes to actually place an order, and the time it would take if customer service/technical support is needed.

Cooperative Strategies

Michael Dell believed that partnerships with suppliers would be better for the company than if it were to integrated backwards and manufacturer its own components. As a result, they have relationships with processor manufacturers Intel and AMD, hard disk drives manufacturers Seagate and Western Digital, speaker manufacturers Altec Lansing (often rebranded as Dell), and multimedia component manufacturers creative technology ltd. Other suppliers for parts like RAM, motherboards, fans, and DVD drives change depending on who supplies parts for the least amount of money. When Dell agrees to purchase components from suppliers, they are required to purchase a certain percentage of stock per order. As a result, Dell is able to demand products when needed. They can expect timely shipping and service from the suppliers as well. Suppliers often have locations within close proximity to Dell's manufacturing facilities. In addition, these suppliers are often treated as Dell family members. Finally, these partnerships help drive down costs.

Offensive Strategies

Dell's suppliers act offensively daily. They have to in order to keep up with changing technology. Coming from Dell's perspective, they too act offensively. Though they are not necessarily pioneering new and better technologies, they demand the latest and great from suppliers at the quickest rate possible. They refresh their product line every few months to make it seem as though they are revamping their product line often. In addition, if there are new technologies that exist for determining ways to lower costs along the assembly line, they investigate and incorporate. They have been the leader in direct-marketing of computers and will likely remain at the top so long as they remain offensive. After all, they are the low-cost leader.

Defensive Strategies

Though Dell's attempts at defensive strategies have not always been positive, they nevertheless attempted to fill a void in their product line. Responses to the changing marketplace include Dell televisions and Mp3 players. Though these products were highly competitive, they were never able to reach customers hands the way existing products could. This is one instance where Dell's direct selling strategy proved to hurt their business model. A positive defensive strategy, however, was the release of the Inspiron notebook. Dell began outsourcing their entire laptop manufacturing operation to cut costs and maximize efficiencies. As a result, they were able to remain competitive and increase the market share that had began to lose. The global recession has also affected Dell, but most businesses have seen some sort of negative change from it anyway.

First-Mover Advantages

In 1984, Michael Dell began his journey of creating custom built computers sold directly to customers. This, in itself, is the first-mover advantage of the entire industry. No competitor has been able to match the success of Dell in terms of direct selling to consumers. They have had far more years of experience operating in this manner than any of the other competitors. It is for this reason Dell will likely remain the top competitor in direct-to-consumer computer sales.

CORPORATE STRATEGIES: DIVERSIFICATION

Beca