Dell's direct sales model essay sample

Countries, China

Case 11. 1: The direct sales model or a ‘ dual system’ model: Dell’s distribution strategy in China. 1. What are Dell’s FSAs? What are the macro-level requirements for the direct sales model to be successful? What are the major advantages of the direct model, compared with the tradi tional channel strategy in the computer business?

Dell’s main FSA is its well designed and integrated supply chain based on its direct sales model. Dell successfully controls its own distribution, bypassing conventional distribution channels and selling directly to consumers. By bypassing the retailers, Dell could sell PCs at lower prices, and because of its direct contact with it customers they are also able to better understand customers’ needs and forthcoming customize its products, creating big purchasing advantages compared to the traditional model.

Dell could benefit to large extent of its direct sales model, because of the availability of large macro-level opportunities beneficial for Dell. In the 1980s, corporate customers and individuals were becoming very sophisticated and experienced technology users. Because they knew exactly what they wanted, they did not necessarily need intense personal selling. They could buy directly from Dell and benefit from their low prices. This macro-level sociological trend was thus beneficial for Dell. The other macro level trend is a technological one because of the standardization of components in the computer industry. This made mass customization viable and because Dell used the built -by-order concept, they were better capable to meet the customization requirements of consumers compared to the traditional model with retailers with more standardized PCs in stock.

Compared to the traditional supply chain, the direct model had two major advantages . First, the closeness to end users helped Dell better understand users’ needs, forecast demand more accurately and build long -term relationships with end users. Second, the elimination of distributors helped Dell reduce not only its selling cost, but also its inventory through both accurate forecasting and integration with component suppliers.

2. How did Dell treat its distributors in China during its re -entry into China in 1995? Was there a vicious cycle of bounded reliability involved? Who should be blame d for Dell’s initial failure? When Dell re-entered China in 1995, they imported PC’s from other countries and then sold PCs through distributors. Dell used four first-tier distributors located in strategic geographical areas, second -tier resellers and third-tier resellers. Dell’s representative office in China formulated the sales plan, designed promotion strategies and coordinated the relationships among the distributors. Because of this, distributors had almost no influence in the strategy process.

There was a vicious cycle of bounded reliability, because Dell had no intention of creating a long -term relationship with their distributors. Dell was waiting for the right time to apply its direct sales model and therefore didn’t want to put much ef fort in building a relationship with their distributors. On the other hand these distributors didn’t want to invest much in this market either, knowing that Dell wanted to change its distribution channel.

Dell can be blamed for the initial failure, becaus e it lacked investing in its distributors. When you decide to invest in a distributor, you can build on a certain relationship with that distributor. Not investing in a partner means that you have no confidence in the way things are running at that moment, causing a downward vicious circle.

Page 2 van 5

Strategy & International Process

Assignment 4: Case 12. 1 & 13. 1 | 12 October 2012

3. With the changing market situation after 2004, what new location -bound FSAs should Dell develop to cater to retail buyers in China? Or, alternatively, what complementary capabilities should Dell expect from its distributors?

Dell needs to create an FSA that focusses on the low-end consumers. As described in the case, end users in rural areas had less savings to spend, knew less about computers, preferred to receive advice from retailers before they made the important decision to buy a computer, and required convenient technical service after bringing the PC back home.

After 2004, Dell did not sell their products in stores, but in our opinion Dell needs to start selling PCs through retail stores. For example Dell shop-in-shops in large consumer electronic malls. These shops have cheap and standardized PCs in stock which are accessible to almost all consumers in these markets. Consumers now can see the products before they buy them and Dell creates more presence ‘ on the street’. If someone needs to have a customized model, they can also get advice and order it at this store. The employees in this shop can also help if after sales is needed. This makes it possible for Dell to stick to its own golden rules to always listen to the customer and never sell indirect. Dell still can offer cheap prices because costs of rent and stock can be replaced by the costs of transportation to the individual customer.

Case 14. 1: AIG: Filling the institutional voids in China

4. What, if any, were the institutional voids in China relevant to the insurance industry in which AIG operates?

Until 1978 there was no need to insure anything because everything was government owned. In these years, China basically had no domestic general insurance or life insurance business. We can discuss to what extent this can be called an institutional void. If there is no market, how can it fail? After the growth of the GDP per capita passed the threshold of $ 1, 000 – $ 1, 300 US in some Chinese cities and provinces, the Chines market became very interesting for AIG to invest in because the (life) insurance industry typically gradually improved. But the next void appears when the Chinese government started to introduce new laws to govern domestic economic activities, including insurance industries. This resulted in a huge threshold for AIG to start in China. Only by good relationship building with local and central government s it was possible to start building a business in China.

A third void is the low rate of acceptance of certain insurances. Many Chinese customers view life i nsurances as bringing bad luck.

The fourth logical void at that time was the lack of experienced personnel in the insurance industry. If there is a new market for insurances, it is logical that these countries do not have enough specialized personnel to cope with this emerging market. That is also the reason why the government of China decided to open this market to some extent to both foreign and domestic companies. These companies could give Chinese personnel the necessary education.

Page 3 van 5

Strategy & International Process

Assignment 5: Case 11. 1 & 14. 1 | 15 October 2012

5. Based on the framework developed by Khanna et al. (see Chapter 14), what types of strategies shoul d foreign insurance companies pursue? What did AIG do to cope with the institutional voids? Khanna et al discusses three options in which a MNE needs to choose to enter in an emergent economies context. The first option is for the MNE to adapt its busine ss model to the host country while keeping its core dominant logic constant. The second option available to MNEs is to change the emerging economies institutional context (e. g., to create more efficient markets).

The third is to stay out of emerging econom ies where the requirements for new FSA development are too high. Foreign insurance companies in this case should pursue the first option; to adapt their business model to the host country while keeping its core dominant logic constant. In most cases a company should ad apt its model to the host country. Being active in different countries means that you need to have several different approaches, because you cannot use the same approach for different markets. You need to pay special attention to filling the key institutional voids that make ' business as usual' a non-starter. The third option is not applicable for AIG, but it is for other insurance companies. Until 2005, only a few insurance companies were able to sell insurances without the need to set up joi nt ventures. Foreign insurance companies need to set up a joint venture in order to become active in the Chinese market. In order to be successful companies that do enter de Chinese market need to create new LB FSAs.

As described in question 4 there are several institutional voids. One of this is when the Chinese government started to introduce new laws. AIG responded to this by good relationship building with local and central governments. Another example is the low rate of acceptance of certain insurance s. E. g. many Chinese customers view life insurances as bringing bad luck. Because of this AIG designed endowment policies for Chinese customers and marketed these policies as savings instruments rather than insurance products. The last void is the lack of experienced personnel. AIG simply coped with this void by making substantial investment in training its agents.

6. What were AIG's FSAs developed in China? What non -location bound FSAs had been transferred to China? What first-mover advantages did AIG reap in China? One of the key FSAs AIG has developed in China was a strong relationship and network with key persons in China such as State Council members and deputy prime ministers. A said in part 4 of this case, the Chinese government protected domestic economic activities, including insurance activities, by introducing new laws. But because these regulations were rudimentary, and enforced patchy, a good relationship with key players was crucial for doing business in China. With the opening of an infrastru cture fund AIG showed commitment to Chinese regulators, and by bringing back some important Chinese relics from Paris, AIG showed that they were

willing to invest in China. This resulted in a 1992 with a license for AIG to enter China. Because this process had taken 17 years of AIG’s CEO Greenberg, this FSA almost impossible for other foreign firms to copy in the short term, giving AIG a strong first-mover advantage.

Second, competition in these markets was less fierce than in the US or Europe, so AIG cou ld dominate niche markets. Even if competitors did enter later, AIG had by then already established its brand and it could also apply so-called grand- fathering provisions to protect its existing rights, a locally developed FSA. For example, other foreign insurance companies were required by the Chinese government to set up joint ventures with local Chinese firms, but AIG was given permission to set up two new wholly owned branches.

Page 4 van 5

Strategy & International Process

Assignment 4: Case 12. 1 & 13. 1 | 12 October 2012

Third, AIG was able to reach a minimum efficient size quickly and then compete with latecomers from that lowcost position. With low overhead costs in these markets and low operating costs through a centralized command system, AIG was able to reach its minimum efficient size quickly. AIG also brought a non-location bound FSA to the Chinese market by introducing the agency distribution system to China. AIG only paid commission to its agents, not a basic salary. In this way, AIG realized not only a strong commitment of its agents to sell, nut also huge savings.

References

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Page 5 van 5

Strategy & International Process

Assignment 5: Case 11. 1 & 14. 1 | 15 October 2012