Dell followed a hybrid focus strategy commerce essay

Porter's theory of generic strategies, the Ansoff Matrix, the strategy clock and the TOWS Matrix are the important tools that are needed to produce strategic options (Proctor, 2000, p 37) (Williamson, et al, 2003, p 78)

Based on Porter's generic strategies, it can be said that Dell followed a hybrid focus strategy. A hybrid strategy is a combination of both differentiation and cost leadership strategy (Johnson et al, 2008, p. 230). Dell is constantly structuring its business to be seen more than a PC business and is focusing on different areas of business such as security, business logistics and applications as well as minimising on its costs as far as possible. Based on the Ansoff matrix, Dell can be said to have adopted market development mainly to encourage growth. Selling directly to customers enable dell to enter market development phase by selling new products through new distribution channels. The strategy is based on selling existing products in new markets by reaping the majority of market share. The Ansoff's will be used to suggest the strategic direction for Dell.

By investing in R&D can be beneficial to Dell as it can continuously develop new products with the latest technology on the market before its competitors, thereby benefitting from first mover advantage. Its strong brand name can enable Dell to impose insurmountable barriers to its competitors. Moreover, it can expand its customer base and retain its customers. As discussed above, people also want the latest technology, thus there is high opportunity of growth in this market. However, focussing on R&D will mean diverging from the direct sales model as innovative products necessitate various channels of distribution to ensure speedy delivery. As a result, R&D can move Dell away from its mass customisation which is one of its core competencies.

Dell can move into business consulting which may be a good source of revenue streams. The biggest opportunity which Dell can leverage is its efficient value chain. Its efficient value chain enabled it to achieve lot of success and therefore by moving into consulting can further strengthen its reputation. By entering into consulting, it will enter a new market and reach new customers which will help it expand its customer base. However, Dell only has specific knowledge but it is not equipped with the necessary expertise to enter into consulting and serve the market profitably which can tarnish the image of the business in the future.

This strategy encourages Dell to return to its core competencies and calls for the company to ‘ get back to basics.’ It pushes the company to improve upon those competencies. The strategic direction can be market development and method here can be strategic alliance and joint ventures. The company can form alliances with consulting companies. This method is good in the sense that it does not require much investment.

Dell can reinvigorate on its core competencies and further integrate in the market. Dell can strengthen its core competencies further by including more suppliers, improving its customer service, engaging in more marketing and promotion initiatives and expanding the turnkey solutions. By adopting this strategy, dell can improve its value chain, concentrate on the existing market and expand its customer base. Moreover, this strategy do not require much investment as Dell does not have to reinvent itself and product new products.

Dell is dependent on Intel processor gives it limited choice to satisfy all its customers. Therefore, by adding more suppliers, Dell can offer more configuration choices to its customers.

The growth of enterprise solutions and service businesses has led to a change in the revenue stream of the business in 2010. Dell therefore can leverage on that important asset by providing more predictable solutions to customers and hence strengthen its position in the market.

By following this strategy, dell can continue to maintain its position in the market as a pioneer and differentiate itself from its competitors.

The proposed method here can be Strategic Alliances and Organic Development. Therefore, by engaging into alliances, Dell can make use of the resources of its alliances to provide new goods and services to its customers more easily. Using strategic alliances in the existing market will enable Dell to improve and increase its retailing of products.

Financial position

Dell's financial position shows a stellar performance which can be shown by its ratios. Revenues in May 2012 fell below the forecast due to high fall in sales as new technologies tablets and iPad have taken a larger share of the market. Therefore to overcome this gloomy outlook, Dell is diversifying into other line of business so as to remain competitive in the market. This clearly explains its recent waves of international mergers and acquisitions it has taken over the last two years (The New York Times, 2012). Dell's profits slid by 47% in the third quarter of 2012. This is because Dell's business is considered to be a static one which is tied to the sale of PCs, while consumers want the latest technology. This has led to the continuous increase in demand for tablets and smartphones which have spurred growth in the market (Bloomberg businessweek, 2012). Dell has recently adopted storage as part of its business. Coupled with that, it is now aligning its storage portfolio to provide non-stop, " fluid" data solutions.

There was an increase in revenue of 16% from 2010 to 2011 mainly due to an improvement in the economy. During a recession, people usually decrease their demand for luxury goods which clearly shows the decline for 2009. The growth of enterprise solutions and service businesses has led to a change in the revenue stream of the business in 2010. There was an increase in revenue from 14. 3% in 2009 to 18. 7% in 2011.

Compared to the poor net income performance in 2010 due to a big fall in revenue, that of 2011 was pretty good. There has been an increase of 84% in net income in 2011 from 2010. This resulted from an increase of 1. 6% and 2. 5% in profit margin and ROA respectively. The improvement in growth can also be attributed to the increase involvement of Dell in service operation. As a result, Dell continues to invest a lot in its service aspect of business (Part 2, Item 7, Form 10-K, Dell Inc. 2011). Dell has touted an increase in growth mainly from its acquisitions.

There was an increase in current assets by $4, 776 billion from 2010. This resulted mainly from due to an increase in cash and cash equivalents which represented 4. 4% of total assets. Cash and cash equivalents rose mainly due to an increase in revenue and a decrease in cash in investing activities.

There was an improvement in fixed asset turnover from 24. 3 times in 2010 to 31. 5 times in 2011 which shows clearly that Dell has used its fixed assets more effectively to generate revenue. This represents a shift in their revenue streams (Part 1 & 2, Item 2 & 8, Form 10-K, Dell Inc. 2011).

Both current ratio and quick ratio improved from 2010 to 2011 which shows that Dell managed its assets efficiently so as to maintain a good liquidity position.

Due to a rise in retained profits in 2011, equity rise to $2billion. Equity rose from 28. 9% in fiscal 2010 to 39. 3% in fiscal 2011 mainly due to the purchase of shares and stock price variations. (Part 2, Item 8, Form 10-K, Dell Inc. 2011)

Based on the BCG matrix, Dell’s PC can be classified as a cash cow. Its market continues to expand. To maintain its position as a cash cow, Dell has to come up with products to meet the needs and provide value to its customers. The star can be its server business and needs to be upgraded continuously so as to maintain its position. The question mark can be its service business and to turn it into a star, Dell’s has to increase its market share in that sector.

GE matrix- dell PC can be said in the high segment as it has earned high growth in both the US and other countries by now. Its server business also has earned consistent growth till now. The service business is growing but not as much as that of server and PC business. This sector needs to be developed more so as to have a greater portion of its portfolio. Dell’s peripheral business which includes printers has significant growth in sales but is facing competition from its competitors hence placing it in the medium growth segment.

Evaluating strategic options

Strategic options can be evaluated by using assessment of Johnson & Scholes (1999) who had put forward three criteria mainly suitability, feasibility and acceptability. Suitability takes into consideration whether the strategic direction chosen by the organisation fit the issues in which the organisation is operating and its appropriateness to the strategic positioning of the organisation, (Johnson & Scholes, 2008).

To evaluate the feasibility of the strategy, it is necessary to assess the capability of the business in terms of competencies.

Concerning the market penetration, it can be said the strategy is feasible in terms of resource deployment. This is because Dell is not doing anything new. It already has a high market share in the industry and is just expanding its customer base. Thus, it does not need extra manpower. Also, by engaging into alliances it has the possibility to use the resources of its alliance.

Product development- Focussing on R&D to produce new innovative products require a lot of investment and new competencies. This can prove to be costly in the long run.

Market development- Dell will have to hire more resources and even employ more staff to monitor the new business and also recruit expertise in this field. As a result, it can be costly.

ACCEPTABILITY

It is concerned with the future outcomes and it can be measured in terms of risk and return and impact on shareholders.

After analysing the financial position of the company, it can be said that Dell has a good performance and though the market and product development needs sufficient investment, the company is well placed to undertake the option.

Market penetration- Dell has a high position in the market and thus by adopting this strategy will not need much investment in terms of financial and human resources.

After analysing Dell's strengths and opportunities, it is found that Dell can adopt this strategy without much risk and can use the resources of its alliances to serve the new market

Product development can be quite risky for Dell as it has to invest a lot on R&D and also its competitors have already move ahead with innovative products. Hence, its products can fail thereby tarnish its image.

Dell's return on investment (5 yr avg) is 18. 64 compared to that of the industry which is 14. 96 (Reuters, 2012). This shows