

Dusk at dell



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Executive Summary This case analysis report focuses on the declining market share faced by Dell, Inc. (“Dell”, the “Company”) and recommendations are given as to where the Company needs to alter its strategy at a business level as well as a corporate level. Broad recommendations include foraying into the retail space at a more aggressive pace, laying greater impetus in fast emerging markets such as China and India, and focusing more on R&D efforts in order to ensure that higher levels of innovation are achieved by the Company.

Introduction

Dell, Inc. (“Dell”, the “Company”) is a multinational company that specializes in the development, manufacture, marketing and servicing of computers and computer related products. Dell has been one of the most successful firms in the computer industry, having achieved supernormal revenue growth and above average returns for several years pning the mid 1990’s to the mid 2000’s. This was mainly due to their prowess in customizing products as per customer requirements, coupled with effective manufacturing and supply chain processes.

The Company encourages little or no intervention from distributors and middlemen, and majority of all sales are based on a direct customer relationship business model. The firm’s resources focused on supply chain capabilities, with frequent inventory turnover and direct delivery emerging as Dell’s core competencies. At the time when Dell established these core competencies, they were valuable, rare and were not easy to imitate, therefore allowing the Company to build a sustainable competitive advantage.

More recently, industry dynamics have rapidly changed and competitive rivalry has also intensified to a very large extent. The external environment has changed significantly and demographic factors, coupled with economic indicators such as large disposable incomes that is now available to a greater number of people in emerging countries has transformed the way that Companies formulate their strategies within the computer industry. Dell's strategy has not changed in tandem with the external environment, and as a result, the Company has been losing market share in the last few years.

The computer industry is characterized by standard cycle to fast cycle markets, and constant innovation is required to ensure that firms continue to earn above average returns. This case study analysis report will outline Dell's existing strategy and will then explore the new strategic options that are desirable for the Company. As Dell is a global player and has operations all over the world, specific strategies will be formulated from a region wise perspective. The product categories that are proving to be winners for the Company will also be considered and analysed in depth.

Specifically, this report will be presented in the following format:

- Dell will be analysed in relation to its two biggest competitors i. e. Hewlett-Packard (HP) and Lenovo, and suggestions will be given as to where Dell will need to place strategic thrust in the future.
- The three major geographic segments in which the Company is present viz. The Americas; Europe, Middle East and Africa (EMEA); and Asia Pacific Japan (APJ) will be analysed in depth and relevant business strategies and diversification strategies will be expounded upon.

The future course of action the Company should undertake will be presented.

- The report will use the above analyses to provide recommendations to the Company in terms of product categories that are most desirable, regions that need to be focused on in the future, what new core competencies the Company should develop, and the overall direction that strategic leadership needs to take in the future. Competitor Analysis Dell's major competition comes from two other computer related behemoths i. e. HP and Lenovo. Dell is no longer the market leader as it had once been.

HP has overtaken Dell as the largest PC manufacturer in the world. HP achieved this distinction from Q3 2006, and in 2007 had 18. 8 percent global shipments for that year. All three Companies have a market share in similar regions and competitive rivalry and dynamics are based on the actions and responses initiated by each other. The following table presents a snapshot of product categories, market share, main customer segments, and product innovations of the world's major players in the computer industry: Table 1: Competitor Analysis of Dell, HP, IBM, Lenovo and Others

Category	Dell	HP	IBM	Lenovo	Others
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Product Categories	Dell is present in all the computer related categories from desktops to PC's and servers. The original leader in printers and scanners, HP is the world's largest computer manufacturer After its sale of its Laptop and PC division IBM, concentrates on its server market and providing IT solutions After its purchase of IBM, Lenovo has become one of the world largest PC manufacturers. This compromises of Acer who is a large player and other large as well as smaller companies within similar segments.				
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Market Share worldwide Dell fell to 14. 6% during Q3 2007 19. % as on third

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quarter 2007 IBM is now in the server marketLenovo at 8. 1% Acer at 7. 9%
Main Customer SegmentsDell targets large corporates and now needs a retail pushHP has its share across the whole spectrum of customers and thus has the lead it enjoys. IBM concentrates on the server segments and is still behind HP in terms of overall volumesLenovo targets corporate and retail segments and has seen successful in the retail segment due to strong brand value and recall of “ Thinkpad” brand Acer is a pc and laptop manufacturer concentrating on corporate and retail segments.

Product InnovationWill be explained belowHP has made strides in its targeting specific segments with innovative products. Its recent campaign for corporates stresses lighter and more powerful laptops, better battery life etc. For retail and home consumers it stresses media features andfamilyfriendly options. IBM is a server market leader and targets the segment accordingly. Lenovo has been trying similar strategies like HP in creating different products for the two segments of corporates and home users. Acer and other similar brands follow a customised strategy as well.

As can be seen from the above table, a lot of Companies provide a host of products and services that are similar in nature. This intensifies the competitive rivalry, and the set of actions and responses taken lead to enhanced competitor dynamics within the industry. Moving forward, it is essential that Dell positions itself as a player that pays attention to the changes in the external environment and builds new core competencies accordingly. For example, the number of computer users in China and India is very low, and these countries are expected to present immense potential to the computer manufacturers.

Furthermore, retail sales can form a major potential client base. As mentioned in our SWOT analysis (Appendix 1), Dell has been traditionally weak in acquiring mass customers in the retail category and moving forward, the Company should consider it to be a key initiative that forms a vital part of its strategic mission and intent in the years to come. The retail model would be to offer the customer the products and showcase the flexibility of Dell's customisation and they can take the order and book the same on their online channels.

Internet accessibility is still limited to millions of Indians, who rely on cyber cafe's for internet access. Additionally, acquiring broadband connectivity in Indian homes is still some distance away. However, recent aggressive pushes by local telecom companies is bringing broadband to homes and is seeing phenomenal success and herein lies Dell's opportunity to capture the segment with an established retail format. It must be noted that the Company has tapped into a retail strategy and has recently been featuring their " Studio" range and " Adamo" Range designs in retail outlets.

As of December 2007, Dell's focus was to open up to 10, 000 retails stores worldwide. This is a required growth strategy and vital to its success. With reference to product categories, it is becoming increasingly apparent that notebook sales are outperforming desktops. This should be aligned with Dell's competitive strategy and strong focus should be on selling notebooks in the international markets. The Company should look at offering the best functionality in this range of products to cater to the rising younger segment that don't shy away from increased features and are ready to pay the price for them.

The Company is realizing that product differentiation is becoming essential and hopes to launch unique products that will create 'product lust' amongst its consumers. A recent product launch includes a new mp3 player called "zing" which Dell wants to focus on and improve growth. The product is expected to compete with Apple's iconic iPod. Although Dell possesses a significant advantage with regard to cost savings because of its direct customer model, it must be aware that its competitors are catching up and the relative gain it had is slowly diminishing.

Region wise and Product Wise Strategic Analysis of Dell Dell's continued success for many years was largely attributable to its Cost Leadership Strategy. The Company's focus was not on R&D and innovation, but instead relied on standards based technologies. Furthermore, the Company does not necessarily look for first mover advantage either. Instead, the strategy has been to wait till the market or product category is ripe for commoditization. Once the innovation is commoditized, the Company offers more cost effective versions, enabled by supplier JIT and customer conjoint.

For example, the customer builds their own computer on the Dell website and thus only pay for what they value, while Dell gets real-time information on consumer demand and preferences. The above mentioned approach has delivered consistent results to Dell both from a strategic as well as a financial perspective. In order to assess whether this approach can continue to yield positive results in the future warrants a region and product wise analysis. The same is as follows. Dell has divided its regions into three distinct parts: •The Americas •EMEA (Europe, Middle East and Africa) APJ (Asia Pacific and Japan) Each of these regions is discussed below: Dell in the

Americas Consumer preferences in the American region are rapidly changing and the computer and technology market is becoming increasingly saturated. Higher levels of product innovation, coupled with sleek designs and efficient performance have become the benchmarks for the players catering to these markets. Customers are showing a higher level of buying power, as many alternatives are available to them (For further details, please refer to the five forces analysis presented in Appendix 2).

Although it was the cost leadership strategy that proved so successful for Dell in the Americas, it's slowly losing ground. In sum, Dell has been so successful in the past because •Of a strong initial lead in cost leadership, and also in quality (e. g. driving down the number of human touches to the computer to drive down defects) and ordering/upgrading convenience, and •It does not rest on its laurels (considering (1) a 'sustainable' competitive advantage), but continues to 'run faster than competitors' on both dimensions.

It must be noted that although Dell largely focused on cost leadership strategy, it employed the differentiation theory as well. The Company did this by better ordering/service, better relations with businesses through open standards that allow easy change and upgrades etc. For players in this region to thrive and sustain a competitive advantage, it's important that no one business level strategy is solely focused upon. For example, a pure differentiator may become unreasonably expensive as the market matures.

On the flipside, too much emphasis on cost leadership will allow for other Companies to capture market share through innovation. Furthermore, the

emergence of low cost regions such as China and India may prove to be a hindrance to a Company striving to be a cost leader in the Americas. In lieu of this, it's advisable that Dell adopts an Integrated Cost Leadership/Differentiation strategy for this region. This is a hybrid strategy that is becoming more important as competition intensifies. Through this strategy, firms are able to improve their ability to:

- Adapt quickly to environmental changes. Learn new skills and technologies fast.
- More effectively leverage core competencies across business units and product lines.
- Produce products with differentiated features that customer's value and provide these differentiated products at a low cost.

In terms of product focus, Dell has to continue its focus on XPS PC to effectively conquer competition. It's now become inevitable that Dell should spend significant amount on R&D to stay ahead in the game. The other change should be the move to laptop segment and offer differentiation there. That's where the future growth exists in this region for Dell.

The corporate growth depends strongly on the server, storage and networking segment. The corporate customers too want more for less and therefore the IT Services and solution segment needs to be exceptionally strong for Dell. The Company must also give increased importance to staying ahead of competitors in terms of the product cycle. Historically, Dell's presence especially in the PC market has been from the growth stage till the maturity phase and it's reaped the benefits. However, the PC market is on its decline and there are serious alternatives that need to be considered.

Dell now has to keep abreast of market developments to ensure that it participates in a product lifecycle from Introduction stage. From a

diversification perspective, it can be seen that Dell is a very well known brand in the Americas and it enjoys tremendous recall and brand equity. Keeping this in mind, it might be desirable for the Company to undertake unrelated diversification in this region. Dell might benefit from moving into other sectors within the same macro industry. Examples could include digital content, other areas of media and entertainment etc. Dell in the APJ region

The Asia Pacific area forms a powerful region for Dell's growth. It's been projected that a significant part of Dell's growth story in the 21st century would be attributed to its presence in this region. Currently, Dell is already said to be as big as a Fortune 300 Company in this region alone. The APJ region is divided in three parts as follows: •One is the Pacific Rim which includes Australia, NZ and based in Singapore. This also covers the area of Southeast Asia. •The other big propellant of growth is China and India. •The third part is Japan (including Korea).

The strategic thrust to be given by the Company cannot be the same for the entire region. Each sub region will have its own specific strategy that is best suited for it. While Japan, Australia, NZ (Including Singapore) are mature markets for Dell, China and India are the upcoming markets for the company. The strategy used and recommended for the Americas would work well for Dell in Japan, Australia, NZ and Singapore area given it's existent base in the region. The strategy in China and India has to be different. Here the customer is still very cost conscious. As the statistics show that in China there are only 5. computers per 100 inhabitants and in India there are 1. 4 computers per 100 inhabitants. Clearly, combined, this will be the biggest computer market in the world in time to come; any company can't afford to

call itself a global player without having a significant presence in this region. We recommend Focused Cost Leadership strategy for Dell in this region and do believe that it'd do well by reaching out to the customers by opening retail outlets across the region for the following reasons:

- Usage of credit cards is still extremely low in this region.
- People prefer to get the touch and feel of the product before buying it. Confidence on internet buying is not high.
- Internet itself is not widespread in the region therefore can't become a powerful sales channel in the short term.

In terms of product, Dell would still do well by focusing on elementary PC products and laptop products in this region. Although there will be a niche number of customers in the high end segments, the masses are not yet ready to embrace products like the XPS, in China and India. The threat Dell faces is from a number of local players, there are a lot of players here who can do what Dell did in 1984 i. e. create a new PC through reverse engineering processes. Dell has to find a way to match the prices through its JIT, supply chain and process improvements. From a diversification perspective, Dell would do well by focusing on related diversification – A strategy in which an organization operates in several different businesses, industries or markets that are somehow linked. This is already apparent in the current business mix of the Company, and the revenue growth in the segments such as IT services and storage services stand testimony to the fact that related diversification is desirable.

Dell's in the EMEA region Dell's presence in Europe too dates back to over 15 years. Dell set up its first manufacturing plant in Ireland in 1990 and later created another unit in Poland in 2006. EMEA, because of various languages,

cultures and profiles is a very complex region to manage. Each country/ sub region is at a different stage of maturity and therefore it's recommended that Dell goes with Integrated cost leadership/ differentiation strategy in this region too. Dell is synonymous to cost leadership strategy in the computer industry and therefore it simply can't afford to lose that advantage.

What's needed is additional focus on quality and R&D to deliver differentiation for customers and to stay ahead in the game. On the product front, quite like in the America's, Dell must start focusing on Data Centre Solution division set to simplify IT complexities and address needs of an emerging cloud computing market. It must be noted that Dell in 2008 announced the expansion of the data centre solutions business unit in EMEA, further developing the company's solutions and services capabilities in the region.

This has to be the next step in Dell's strategy for the fast emerging cloud computing market following the successful launch and subsequent customer adoption of DCS last year. On the product front, it is advisable that Dell's strategy focuses on differentiation. It is especially relevant for the Company to focus on the corporate segment of customers and give impetus to its IT services and solutions. On the diversification front, for a complex market like EMEA we recommend Related – Constraint Diversification.

Moderate to high level of diversification is when the firm generates less than 70% of its sales revenue from its core business and when the businesses have products, technological or distribution linkages. Recommendations This next section of the report will focus on the above presented analyses, and

recommendations will be given to Dell. The recommendations will provide feasible suggestions that can be used by the Company in the future. The recommendations are as follows: •The Company should look to aggressively pursue and build upon its existing retailing strategy.

They can do this by collaborating with both bricks and mortar retailers as well as internet based e-tailers. Furthermore, the Company can also look at diversifying into retail and setting up their own single brand stores. Bricks and mortar stores will be especially relevant in India and China, where online retailing is still at a nascent stage. Dell has already initiated its retail strategy in India where its products are showcased in the “Croma” store as one example. More such initiatives need to develop for the Company to be able to penetrate the masses. The “touch and feel” aspect is very important to customers in India and China and is an integral part of their buying process. A slightly different strategy is proposed to attract customers in these regions. Dell customers can enter a Dell store, customise their products with a Dell representative who would be connected to Dell’s systems, and work with the customer to arrive at a personalised and tailored product. This will keep in line with Dell’s strong manufacturing chain and the order can be closed within the store itself. Additionally, credit card penetration and internet access is low in developing countries.

In physical retail stores, Dell can accept cash and close the sale, as this will be more beneficial to customers who prefer to transact with cash as opposed to credit cards. •The Company needs to provide new products with differentiating factors. Standards based technology is not the order of the day anymore. Dell needs to focus on more scanning, monitoring, forecasting

and assessing of the external environment so that they are able to spot new trends and capitalize on it. The deterministic component of the external environment has also changed, and Dell needs to keep the larger general framework in mind.

The Company needs to look to make changes within its internal environment as well. Resources need to be mobilized to build up R&D capabilities.

Innovation has proven to be a core competency for other major players such as HP, and Dell needs to respond by launching large R&D initiatives so that they can innovate as well. This is especially relevant in developed countries, where standards based technology is getting increasingly saturated. Dell can perhaps look to spend at least 5% of their revenues on R&D expenditure (In 2006, it was just 0. 8% compared to HP's 3. % and Apple's 3. 7%). •Dell needs to focus more on marketing initiatives to reach out to the younger generation of customers. This segment presents immense potential that the Company is currently not tapping. A dedicated sales and marketing team needs to be established, and there is a need for a Chief Marketing Officer as well. •Dell could establish extensive CRM programs, where the customers get quick and timely feedback in relation to a problem. Don't compromise on the training of the workers that are honed in order to handle queries and complaints.

The Company must make sure each query is handled by skilled personnel who are well aware of the nature of the problems. •The Company could concentrate more on product categories that are growing fast and capitalize on these. For example, Dell needs to pay attention to the storage and IT service categories because they offer promising growth in the future,

although they don't make up a bulk of the revenues right now. As IT services are the fastest growing revenue earner for the Company, Dell might choose to diversify or expand in this area and go beyond just IT infrastructure. The Company can look to expand its footprint by continuing to acquire companies that form a part of their strategic agenda. Synergistic fits can be exploited and tapped, and strategic acquisitions, joint ventures and other alliances will give Dell the opportunity to pursue aggressive growth through inorganic means. •Dell should look at going beyond the metros and major cities in China and India. There are hundreds of secondary cities within these two countries that present immense potential that must be tapped. The Company should aim to focus more on the masses, as opposed to large businesses and SOE's. Providing strategic leadership is extremely imperative for Dell if it's to continue on its quest in sustaining competitive advantage. The Company should look to boost employee morale by focusing on more HRM practices. More initiatives like Tell Dell need to be incorporated. The organizational culture needs to be nurtured so that employees feel motivated to work in the Company. Conclusion: Dell has been a major force to reckon with and has established a position of leadership in the computer industry because of its inherent advantages in supply chain management, effective distribution systems, and lean manufacturing processes.

The Company is now looking to take its sustained competitive advantage to the next level. However, in order to do so, there are certain strategic adjustments that the Company must consider to avoid becoming a laggard. The key to ensuring that the Company will continue to lead the way in the industry is for it to conduct a thorough analysis of the external as well as

internal environment and see where the strategic intent has to change. This report outlines the areas in which the Company needs to focus on to consolidate and continue earning above average returns.