

Exploring the resources and capabilities of dell



This essay will be based on Dell Inc and how the topic resources and capabilities are used as a strategy throughout the company. The topic will be explored to identify how it applies to Dells strategy and how they use it within the company. The essay will identify the different types of strategy's which are used to help them sustain competitive advantage. During the essay theoretical concepts will be used and applied to Dell in order to analyse the organisation. The theoretical concepts which will be used will be concepts from the module, these concepts will help draw conclusions from the essay and help identify why Dell continually sustain a competitive advantage.

Dell was founded in 1984 by Michael Dell in his university dorm in Texas using his last \$1000. With this money he created a company called PC's Limited. Within a year Michael Dell had turned his \$1000 into \$6 million in sales. He managed to do this by borrowing \$300, 000 from his family and upgrading computers for local firm from their existing software to IBM. By 1986 the company was producing sales of \$60 million; this was due to dell starting their own assembly lines. 4 years later Dell's sales had increased vastly to \$500 million, because they had now created a wide line of products. By 1996 Dell launched their products online, this gave them \$1 million in sales a day boosting their annual sales to an astonishing \$5. 3 billion, increasing to \$7. 8 billion the following year. The sales had risen 50% and tripled to making sales of \$3 million a day in sales. By 2005 Dell's sales had risen to \$49. 2 billion, showing how the company has become one of the most successful companies within recent times by being a fortune company while only being around for 14 years. Also during 2005 Dell was ranked 28th

biggest company in America by revenue. In 2006 Dell was looked at as one of the most admired companies in America. Their sales for 2009 were \$61. 1 billion, simply showing why they were nominated a top 200 fortune. They are the highest earning company within the computer industry. Dell employs over 75, 000 employees across the world, due to having to serve customers in over 170 countries. Dell took over as leaders in their market from their biggest and most successful competitors Hewlett Packard, whilst also staying ahead of rivals such as IBM and Apple computers who are the only other alternative substitute for a PC. Dell now offer a range of products and services, including computing software, computing systems, computing peripherals, consulting and IT services. Dell have gone a long way from upgrading computers for local businesses to offering products such as televisions, printers, peripherals, netbooks, notebooks, servers, scanners and their main product computers. In 2007 Michael Dell returned to the company as a CEO to help improve its financial performance by bringing new plans in for the company.

Key Success Factors

In the ever maturing PC industry it is very important for any company wishing to be competitive to meet the industries key success factors (KSF). In order to succeed, certain KSF's must be incorporated into their business model. Specific KSF include:

Competitive prices

Excellent relationships with suppliers

Product customisation

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Excellent customer services

Superior cost structure

Dell has continued to perform well, through incorporating many of these factors into their business model. Dells customer centric approach with a closely managed supply chain and cash flow process has seen them succeed in the mature PC industry.

Key Competencies

Customer focus- Dell has a thorough understanding of their consumer's needs and wants and it serves them very effectively. The custom build business model that Dell adopts accommodates the ever changing needs and wants of consumers. This model is very effective as it allows Dell to offer the latest technologies at competitive prices in a timely manner. This is exactly what customers demand in a hyper competitive market.

Manufacturing Processes- Dell benefited greatly from the first mover advantage, through adopting the direct selling business model which was unique to the industry, aided by the boom of the internet.

Supply Chain Management- The direct selling business model employed by Dell is run by an i2 technology supply chain management (SCM) system. Every 20 sec the software aggregates orders, analyzes material requirements, compares Dell's on-hand inventory with its suppliers' inventory and then creates a supplier bill of material to meet its order needs. SCM is particularly important as improving it by 0. 1% has greater impact than improving manufacturing process by 10%. This system allowed Dell to

go beyond a simple value chain model, into a more complex value web model.

Customer Selection, Acquisition and Retention- Dell also employ a state of the art IT and customer relationship management (CRM) system. Through efficiently targeting customers they are able to keep costs to a minimum which suit consumer's budgets. Consumers are very price sensitive in the PC industry as there are many substitutes.

Customer Service- Dell offers a complete range of services, including, technical support through internet and global call centres. For additional fees Dell offers extended service and support plans. Dells customer service was considered to be the best in the industry. However after recently outsourcing this, their reputation is beginning to fall, after repeated poor treatment of cases.

Porters value chain

By identifying Dells value chain and network it will allow us to identify how Dell value their customers and how it is created.

FIRM INFRASTRUCTURE

Dell has a very strong and organised stock management. Dell sells straight through their website cutting out intermediaries. They sell through a direct model. Dell receives payments normally immediately as customers generally use credit cards online. Once the orders have been placed and paid the customers products are ordered from the suppliers, this is so Dell only has stock in which is being used to build products from orders they have received reducing excess stock.

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OPERATIONS

Dell deal with a few operations, they deal with the most important one in their opinion, being the final configuration of customer products. Dell outsources operations such as the assemblies of motherboards and most of the production chain for all of their notebook computers.

INBOUND LOGISTICS

As dell allows customers to build their own products and order the products when needed using just in time, it allows deal not to buy an overload of stock they just pay for what they need from the order made. Dells direct model in which they sell their products to their consumers they depend on time management, so that all the components they need arrive at the time they are need to produce the product for their customers.

MARKETING SALES

Dell using the direct selling model it has taken out all intermediaries. Normally the intermediaries would want to take about 20 to 30%. Dell managed to cut out intermediaries as they align their value chain and supply chain very closely, and also their assembly factories and order taking systems. Dell has incorporated their direct selling model with their supply chain. Dell put together 80, 000 PC's daily, but they do not own their own warehouse as they only order components they need to assemble products within a few days as they only hold stock for a maximum of two days.

TECHNOLOGY DEVELOPMENT

Dell spend a tiny amount on technology research compared to their biggest rivals HP. Dell spend around \$400 million which is a small margin of HP's \$4

billion. Yet Dell has near perfect assembly chain along with very efficient assembly operations. Dell have a unique way to identify if an employee is a fault for a product as a single product is made by a single employee making them accountable if it faulty.

Value Web Model

Dell moved beyond the simple value chain into a more effective value web organism. This positively impacted Dells just-in-time manufacturing and the inventory management systems. Dell relies on big players to provide their high-tech components. E. g. Microprocessors-Intel, Software- Microsoft. Dell rely on smaller multiple players to provide low-tech components. These low-tech, low- differentiation component manufacturers compete fiercely on price and availability.

Dell Has one of the latest SCM systems, which is unmatched by competitors. This system enables Dell's factories to have only 7 hours worth of inventory, whereas most of the industry holds a 10 day inventory. It also helps that 85% of all their supplies are provided by 15 suppliers. This value web organism has been achieved through careful knowledge management and 15 years of learning. It is a very complex system, and due to this it is inimitable.

Dells Direct Business Model

Unlike their competitors, Dell has adopted a direct selling approach to customers compared to all of their competitors. Dell have cut out all intermediaries meaning customers order straight through their website, this allows Dell to sell directly to them. Due to customer buying straight from Dell

it has given them a great understanding of customer needs. Dells main focus is on their customers which their strategy is based around. The Direct business model also allows customers to customize their products letting them have what they desire rather than a standard product. As customer order a want they want product, it allowed Dell to minimize their stock, as they will order only what they need adopting JIT strategy. This also allows Dell to deliver the newest technology to their customers sustain an edge on their competitors.

Dells Direct Model

Customers

SUPPLIERS

Competitors Model

Dells competitors' model has 2 extra sections, outsourcing and channels. This produces extra cost and it doesn't allow them to have complete customer focus as they don't deal directly with their customers. Their customer buy from channels which are shops taking away customer relation with the company. They also don't get supplies directly from their suppliers as they outsource 1st to other companies. Dells model is a far better strategy and it allows them to have a great focus on their customers. They use their resources and capabilities such as their great product lines to achieve the efficiencies they want to produce.

Activity Mapping

Through conducting detailed research into Dell, a number of conclusions can be drawn. At the core of Dells business strategy and its direct selling model is customer focus. Dells core competencies were developed around their customer centric approach, and its resources and capabilities were placed in a way to best serve their customers. This customer centric approach has enabled them to develop more competencies, including, manufacturing processes, supply chain management, customer selection and service. Within the hyper competitive PC industry it is imperative that companies provide the latest technology in a timely manner. Dell achieved this through adopting the kaizan approach to its supply chain. To compliment the increased efficiencies of the supply chain Dell also improved their manufacturing processes. A key advantage for Dell is that they have one of the best SCM systems in the world. This is complimented by the fact that 95% of their suppliers are located near to their assembly plants making coordination easier. Holding only a 7 hour inventory, instead of the industries norm of around 10 days is another advantage. Holding such a short inventory means they do not have socks of slow selling products leading to poor cash flow. Dell aim to deliver the custom product within 36 hours of an order being placed, which competitors just can't match. Dell constantly operates with a negative cash flow conversion cycle as they only pay their suppliers once the customer has paid them. Building these strong relationships with suppliers has taken years and combined with Dell's complex supply chain is inimitable and leads to a sustainable competitive advantage.

Through the careful selection, training and retention of its workforce that could develop and evolve as Dell grows, they were able to manage knowledge, encourage honesty, loyalty and learning over time. Through employing the best Dell become more effective in recognising, acquiring and retaining customers through providing them with their needs and wants at competitive prices and in a timely manner.

Through aligning their core competencies with the industry KSF's, Dell were able to perform favourable in an ever maturing market. Dells differentiation comes from process innovation. Through capturing the value of its suppliers and partners Dell has capitalised on their technology innovation. This enabled Dell to minimise their research and development spend and improve their cost structure. This strategy has yet to match by any of their major competitors in the industry, leading to a sustainable competitive advantage.

Ultimately in order to sustain competitive advantage Dell need to continue to outdo their competitors. By adopting the direct business model and adopting their customer centric approach they have achieved competitive advantage. In order to ensure the sustainability of this they need to evolve as consumer demands change. Through their direct business model and their superior relationships with suppliers they have developed core competencies which align with the industry KSF's and are also difficult for the competition to imitate. Factors which will provide sustained competitive advantage include:

Online custom build of each computer.

Minimisation of working capital in the production process

High manufacture and distribution quality- latest technology, timely manner, competitively priced, reliable products

The careful management of their resources and capabilities make all this possible.