Case dell

She was responsible for buying PCs for her company's employees as well as servers and networking equipment. Kapoor bought most of this equipment fromDell. It provided her with great prices and award-winning products and services (see Exhibit 1 for a list of awards). Now Dell was moving into larger server products for its customers.

Kapoor was happy with her relationship with Dell, and it made sense to her to add its new offerings to her purchasing list. Kapoor did have reservations, however. She wondered if Dell would be able to provide the required service for its new larger products.

For this more expensive equipment, reliability was crucial; if anything did go wrong, topnotch on-site support was essential. Most of Dell's competitors offered on-site service within four hours of reporting a problem with a large server, which was comforting since these systems constituted the backbone of Kapoor's technology system. Kapoor's concern was that Dell's focus on low inventory and lean production would make it improbable that Dell would expend the resources to provide the same level of service as it entered the market for larger systems.

She wondered aloud, " Would it make more sense to buy the larger quipment from one of Dell's competitors instead? " 1 Larry Greenemeier, " Dell Branches Out," InformationWeek, August 26, 2002. Professors Frances X. Frei and Amy C. Edmondson and Research Associate Corey Hajim prepared this case. This case was developed from published sources. Certain details have been disguised.

HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

This document is authorized for use only in Operations Management I by Fran? ois Collet at ESADE from December 2013 to January 2014. 03-067 Dell Computers (A): Field Service for Corporate Clients Dell Strategy Dell Direct Dell pioneered a new sales model in the computer manufacturing industry. In 1984, it created an innovative way to do business, cutting out the intermediary and selling computers directly to customers. This was aptly named the " Dell Direct" model. The idea was to interact directly, allowing Dell to gather pertinent information about its customers and therefore to offer more appropriate service and support. In Michael Dell's own words: " A direct connection with our customers isn't Just our tagline or our gimmick.

It's everything. Without direct, there's no Dell, and we take that relationship with our customers very seriously. We work very hard to get it established, and then e work even harder to maintain it. " 2 Inventory Control Dell viewed inventory not only as an unnecessary cost but also as a sign of a problem within the product and service delivery system. Michael Dell elucidated: I

believe there's an inverse correlation between the quality of information you have and the amount of inventory you need. Most businesses tie up a tremendous amount of [their] assets anticipating things that may not actually happen.

If they had a system that was customer demand driven, they would be much more efficient in their assets. In other words, physical assets are being replaced by intellectual assets. Low-Cost Competitor Another mainstay of the Dell strategy was to focus on low-cost production and low prices, undercutting the competition. Dell did not use proprietary technology to build its computers but rather assembled components bought from other companies. " As a small start-up," Michael Dell recalled, " Dell couldn't afford to create every piece of the value chain. But more to the point, why should we want to?

We concluded that we'd be better off leveraging the investments others have made and focusing on delivering solutions and systems to customers.

4 Dell was the driving force behind many price cuts in the industry, and there was no turning back. A reporter for BusinessWeek wrote: To make its market share gains so staggering fast, Dell depth-charged prices, dropping gross margins from 21. 3% in October [2000] to 17. 5% in July [2001]. Only by to get harder to do.

With PC revenues pegged to fall 10. 8% this year [2001]" the first annual drop ever" price wars are expected to take profits even lower.

Not even a rebound promises relief. History has 2 Michael Dell, remarks at Bain-Fulbright dinner, London, England, January 31, 2001. 3 Michael Dell, " Building a Competitive Advantage in an Internet Economy," address to the Detroit Economic Club, November 1, 1999. 4 Joan Magretta, " The Power of Virtual Integration: An Interview with Dell Computer's Michael Dell," Harvard Business Review, March-April 1998, p.

74. 2 shown that PC makers don't hike prices on buyers who have grown accustomed to evercheaper technology. 5 Innovation was not the goal.

Dell instead strived to deliver to customers what they wanted inexpensively and efficiently. Wired magazine described Michael Dell's strategy: Almost uniquely among high-tech firms, Dell orbids internal subsidies.

No loss leaders, no prolonged grace periods, no long bets on trends yet to emerge. Michael Dell is too smart to think he's smart enough to predict the future; he assumes that the world of IT increasingly resembles a global financial market, where the aggregate knowledge of all participants exceeds that of any particular player.

Let others dream up products never before imagined and risk their futures on that vision. Dell is content to ask consumers what they want and then sell it to them. 6 Corporate Customers Business clients comprised 90% of Dell's customers, with PC sales representing the argest category of sales (see Exhibits 2-6 for market share data across product types). Dell provided Premier Pages, a service in which Dell created customized Web pages for corporate clients.

Premier Pages were accessible to a client's employees for easy ordering and support.

Standard technical support information was available to help employees through the process. Michael Dell described this feature: We've developed customized intranet sites called Premier Pages for well over 200 of our largest global customers. These exist securely behind customers' firewalls, and hey give them direct access to purchasing and technical information about the specific confgurations they buy from us. One of our customers, for example, allows its 50, 000 employees to view and select products online.