Dell Computer Corporation
Strategic and Policy Issues

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Agenda

1. Introduction
2. Policy Analysis
3. Strategy Analysis
   - SCM (Supply Chain Management)
   - E-Business
   - Globalization
4. SWOT Analysis
5. Future Outlook
1. Introduction: Historical Summary

Dell’s history so far is characterized by constant growth and success.

- 1983: Michael Dell starts rebuilding and reselling computers from his dorm room at the University of Texas at Austin
- 1984: May 3, Dell Computer Corporation founded
- 1988: Dell goes public
- 1990: Manufacturing center in Limerick, Ireland founded
- 1991: First PC manufacturer to offer free installation of application software
- 1995: Construction of Asia Pacific Customer Center in Penang, Malaysia
- 1998: Dell opens production and customer center in Xiamen, China
- 2001: Dell ranks No.1 in global market share
2. Policy Analysis: Status

The term „Business Policy“ lacks a generally accepted definition.

- It has certain attributes of a buzzword

- Term „Business Policy“ used in **different** and **inconsistent** ways:
  - „Terms & Condition“
  - Collection of Rules and Regulations
  - Corporate Values
  - Business Policy = Business Strategy
  - Corporate Vision

- **Original meaning** of „policy“:
  „A set of interrelated and consistent objectives, plans and decision rules.“ (Keeling)
Before analysing „Policy Issues“, the term „Policy“ has to be defined clearly.

- **Our definition:**
  „Fundamental role and decision guidelines to which a company commits itself concerning the four dimensions market, culture, society and environment.“

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**Corporate Policy = Driving force for business strategies and operational actions**

**Represents self-understanding of a company**
2. Policy Analysis: Market Dimension

Regarding the Market Dimension, Dell puts the focus on customer-satisfaction.

**Market Dimension**

- „Best-in-class service and support“ is part of Dell's mission
- No technology leader, but always latest technology on offer
- No low-cost manufacturer, but lowest prices in its category
- Dell Direct Model
- Large-Volume Customers: Customized services and individually trained staff
- Market-driven decisions
2. Policy Analysis: Cultural Dimension

Regarding the Cultural Dimension, Dell keeps it „direct“.

- Meritocracy, yet teamwork („foster a winning culture“)
- Diversity: Internationally active → Diverse „workforce“
- Direct relationships, open communication, few bureaucracy and hierarchy

Cultural Dimension

- Market Dimension
- Social Dimension
- Environmental Dimension

DELL
2. Policy Analysis: Social Dimension

Regarding the Social Dimension, Dell takes on an active role.

- „Global Citizenship“
- Community volunteerism at Dell sites
- Strategic community partnerships (e.g. sponsorship)
- Fund-raising activities in the US/EU
- The Dell Foundation: Support for Organizations aiding children in Texas and Tennessee (e.g. education)
2. Policy Analysis: Environmental Dimension

Regarding the Environmental Dimension, Dell wants to be a „good“ player.

- Waste minimization, recycling, reuse programs (→ Direct Model)
- Product Design must meet environmental requirements (e.g. low energy consumption, avoiding hazardous materials)
- Communication through Environmental Reports

With its Dell Direct Model, Dell is building the „Business Model of the 21st century“.

- The value of the inventory is being replaced by the value of information
- Physical assets are being traded for intellectual assets
- Closed business systems are giving way to collaborative relationships
- The vertical integration will be substituted by virtual integration
Dell puts a strong emphasis on the principle of the so-called „Virtual Integration“.

- “It will be possible to revolutionize processes in a way that blurs traditional boundaries between supplier and manufacturer, and manufacturer and customer. This is already becoming evident through time and distance these medians” (Michael Dell’s world congress speech, 1998)
- Principle of Virtual Integration
  - First, seek to establish direct relationships that close the gap between customers, manufacturer and supplier
  - Second, create partnerships for capital intensive services, and keep your own focus on doing what you are doing best
  - Third, choose the best partners and allow them to be a part of your business. Hold them to the same performance standard quality metrics that you employ on your business
  - Finally, think of the internet not as an add-on to business, but as an integrated part of your company’s strategy

Among other benefits, Supply Chain Management first of all increases Dell’s margins.

- Crucial issue in high-tech industries: Manage inventory and keep it low
- The more effective a company’s supply chain is, the lower inventory it will need
- Material cost in computer industry is decreased 1% per week, Dell has three or four weeks of inventory in that sales channel.
- “Automatically, we have a 4 or 5 percent margin more advantage than IBM, HP and Gateway”
- Benefits of good Supply Chain Management:
  - Improved customer satisfaction and loyalty
  - Differentiated response to customers
  - Increased throughput and better product mix
  - Fewer stock shortages
  - Reduced inventory and obsolescence
  - Reduced warehousing, transportation, and return costs
Dell's Supply Chain Management system can be illustrated as below.

Dell’s e-business strategy.

Easy as Dell

Buy online or call 1-800-www-dell.

With the rise of the internet, Dell expanded its Direct Sales Model to this new channel.

- At age 12, Michael Dell started his own auction of stamps, and made $2,000

- 1984, as a University of Texas student with $1,000 in hand, he began assembling PCs in his Austin dorm room. Computers were ordered by telephone

- In 1994, the direct sales model transferred its focus on Internet-associated business — e-business

- In 1996, Dell Computer Corporation launched www.dell.com and added e-commerce capability

- At the same time, both telephone and TV home shopping channels were kept

Dell's second web revolution began in 1999

- Before the second web revolution
  - a little secret behind Dell’s e-business
  - Each page of the 50,000 company-customized Web sites had to be created and maintained by a Dell sales rep. Changes of customers’ were manually made by the rep.

- After the second web revolution
  - Since June 2000, the company has reinvented its procurement and manufacturing processes, and could complete 90% of its purchases entirely online in September
  - On the supply side: Suppliers are electronically told what to deliver and are able to be more accurately forecast and produce for Dell
  - On the sales side: Dell updated the program to allow customers to make changes themselves--leaving the reps free to go out and chase more business.

- Success data:
  - 113,000 business and institutional customers worldwide use Dell’s Premier Dell.com web pages to do business with the company online.
  - Receives 750 million page requests per quarter at 80 country sites in 27 languages/ dialects and 40 currencies
  - Uses multiple media as education and healthcare division’s “Funnel Project” to drive prospects to one central information-gathering place – its website
    Exp. Universities’ websites offer direct links to Dell.

The competitive advantages from the e-business approach.

- What does the e-business bring to the customers?
  - Review and configure the price systems within Dell’s entire product line
  - Order systems online
  - Track orders from manufacturing through shipping

- What does the e-business bring to Dell?
  - Low prices possible
  - Better understanding of its customers
    “Internet is not a tool for pushing products to customers but to better understand the customers and create strong ties with them“
  - Excellence in consumer service

- Right sales model on right products.

Starting from the southwestern U.S., Dell is now doing business on a global scale.

- Corporate headquarter - Austin, Texas
- Dell Americas (U.S., Canada and Latin America) – Round Rock, Texas. #1* in US
- Europe, Middle East and Africa - Bracknell, England #2* in Europe #3 Germany
- Asia-Pacific - Singapore #4* In A/P
- Japanese market - Kawasaki, Japan. #5* in Japan
- Dell manufactures its computer systems in six locations:  
  - Austin, Texas  
  - Nashville, Tennessee  
  - Eldorado do Sul, Brazil  
  - Limerick, Ireland  
  - Penang, Malaysia and  
  - Xiamen, China

- Market position based on Q3CY02 IDC data
4. SWOT Analysis

Despite obvious important strengths, several possible weaknesses can be identified.

- **Strengths:**
  - Great supply chain and low inventory
  - Successful direct model
  - High-quality low-cost provider
    - Not discount trader
    - “Cut cost, not productivity!”
  - Great reputation (quality and price)
  - “Customer Experience” - knowledge management

- **Weaknesses:**
  - Low-tech, commodity product
  - Low innovation strategy (R&D 1.3% of net revenue) (Big Bang vs. Small Quick Hit)
  - Supplier-dependent (vice-versa), close ties
4. SWOT Analysis

The future will show if Dell takes on its opportunities and if possible threats come true.

- **Opportunities:**
  - Failing competitors (Compaq, IBM, HP)
  - Financial strength ($33.7G in net revenue - 02/02)
  - Flexibility
  - Diversification ⇒ “complete” product portfolio incl. service
  - Globalization

- **Threats:**
  - Stagnation of the market
  - Strong competition, HP-Compaq merger
  - Reusing their model for other product lines (printers, PDA’s)
  - Emerging technologies
5. Future Outlook

Regarding its future strategic orientation, Dell considers several options.

- Comfortable in being low-cost provider
  - Successful even without market growth
- Customer Experience
  - Market Pull
- Concentrating on corporate customers
  - Customer-specific service - premier pages
- Expanding the successful model to global markets (Europe, Japan, China)
  - Opportunity China - fastest growing market
- Diversification around core competencies and capabilities
  - Printer, PDA (Axim), digital projector
  - Wireless & security
- Alliances and not mergers
  - Organic growth - Plural
  - Red Hat, Oracle - Enterprise Linux
  - EMC
- Dell Professional Services
  - Services in corporate/organizational environment, from SW/HW implementations to full responsibility