

# Dell Computer Corporation

## Strategic and Policy Issues

### Team members:

Hongyi Chen

David Loewi

Dulyapun Buranawit

Matthias Woehrle

Oliver Baumann

- 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
- 1996: Dell opens Internet computer store, [www.dell.com](http://www.dell.com)
- 1998: Dell opens production and customer center in Xiamen, China
- 2001: Dell ranks No.1 in global market share

## 2. Policy Analysis: Status

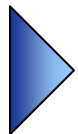
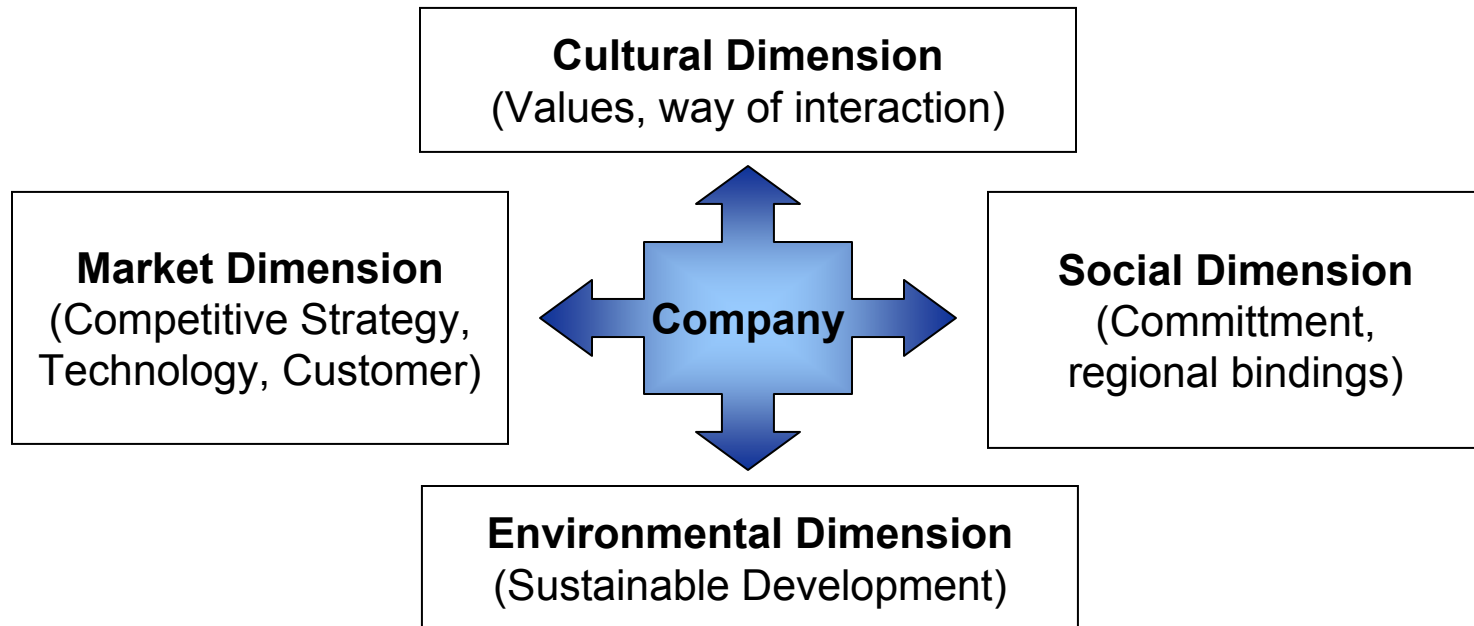
▶ The term „Business Policy“ lacks a generally accepted definition.

- 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)*

## 2. Policy Analysis: Definition

▶ 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.“



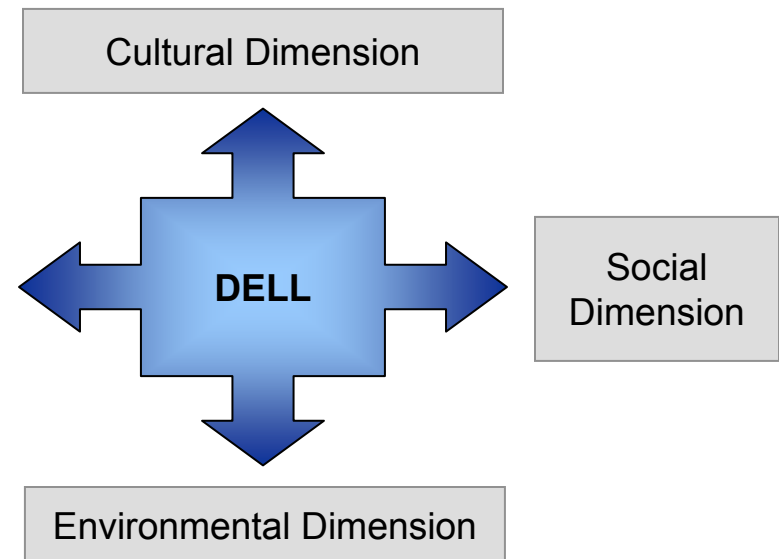
**Corporate Policy = Driving force for business strategies and operational actions**  
**Represents self-understanding of a company**

## 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

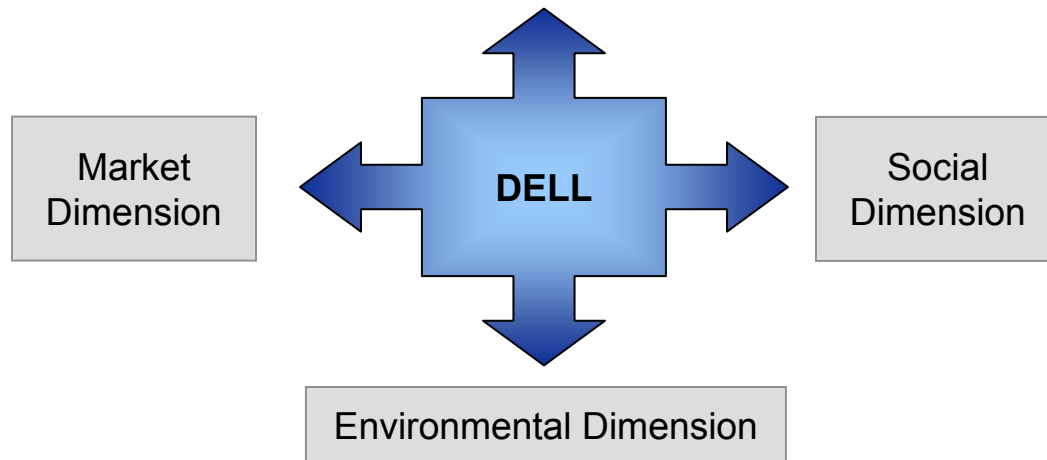


## 2. Policy Analysis: Cultural Dimension

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

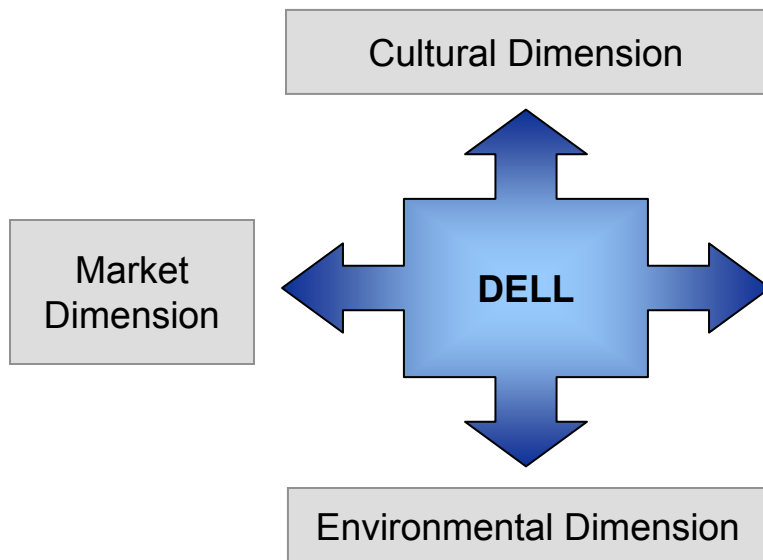
**Cultural Dimension**

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



## 2. Policy Analysis: Social Dimension

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



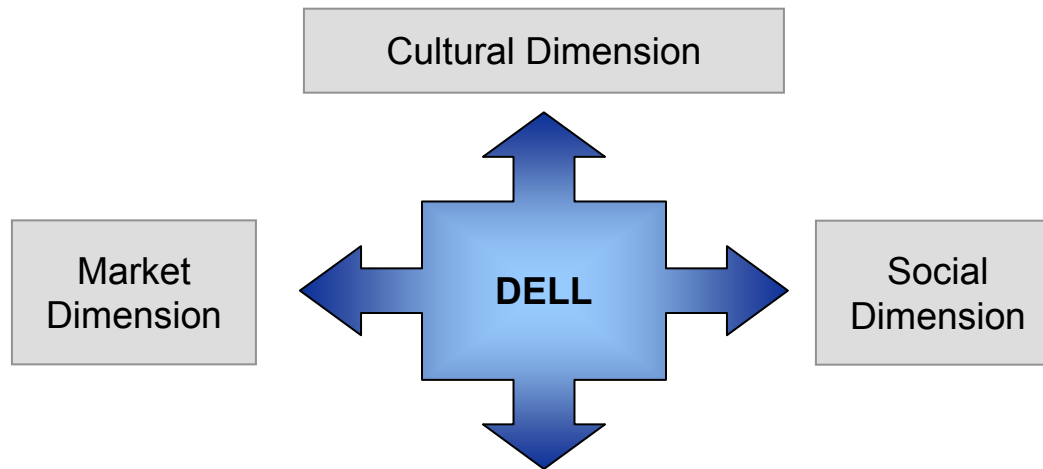
### Social Dimension

- „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.



### Environmental Dimension

- 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

### 3. Strategy Analysis: Supply Chain Management

▶ **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

### 3. Strategy Analysis: Supply Chain Management

▶ **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

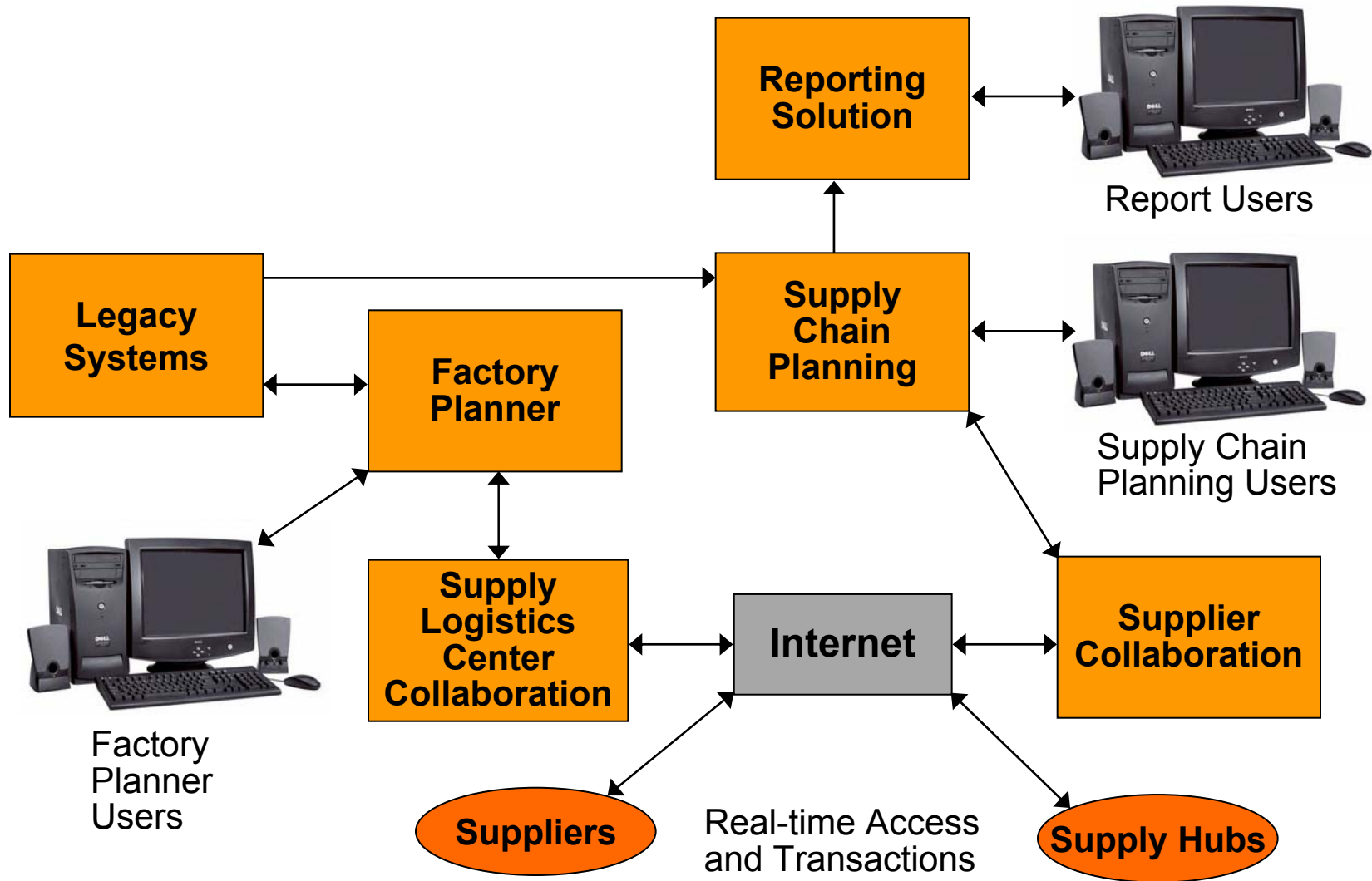
### 3. Strategy Analysis: Supply Chain Management

▶ **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

# 3. Strategy Analysis: Supply Chain Management

▶ 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.**

### 3. Strategy Analysis: E-Business

▶ **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](http://www.dell.com) and added e-commerce capability
- At the same time, both telephone and TV home shopping channels were kept

### 3. Strategy Analysis: E-Business

#### ▶ **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.



### 3. Strategy Analysis: E-Business

- ▶ **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.

### 3. Strategy Analysis: Globalization

▶ 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

▶ **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

▶ **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