

### Dell

Michael Dell purchased his first computer - an Apple II - in 1980 and immediately took it apart to see how it was built. Only three years later he started a lucrative business selling upgraded PCs and add-on components out of his dormitory room at the University of Texas with capital of only \$1000. Michael registered the name Dell Computer Corporation in 1984 when he decided to leave college and start selling custom-built computers directly to end-users, ignoring the more normal channel of selling mass-produced computers through computer resellers, preferring instead to sell direct to customers. This not only eliminated the substantial middleman mark-up, but also the costly inventories required.



From the start Michael Dell knew what the critical success factor for his business was. He used an expert to build prototype computers whilst he concentrated on finding cheap components. The firm grew at an incredible pace, notching up sales of £3.7 million in the first nine months. The company has gone on to pioneer direct marketing in the industry and, more lately, integrated supply chain management. At all times it has focused clearly on a low-cost/low-price marketing strategy.

'We built the company around a systematic process: give customers the high-quality computers they want at a competitive price as quickly as possible, backed by great service.'

Since then Dell has grown at five times the industry average growth rate to become one of the biggest manufacturers and marketers of PCs in the world. The company's share price has reflected this success increasing 36,000 percent in the last decade. Michael is now CEO and Chairman of a \$18 billion company and is the ninth richest man in the world with a fortune in excess of £12.5 billion.

Dell is a pioneer of e-business. What makes Dell special today is its 'fully integrated value chain' - B2B2C. Suppliers, including many small firms, have real time access to information about customer orders and deliveries via the company's extranet. They organise supplies of hard drives, motherboards, modems etc. on a 'just-in-time' basis so as to keep the production line moving smoothly. From the parts being delivered to the orders being shipped out takes just a few hours. Inventories are minimised and, what is more, the cash is received from the customer before Dell pays its suppliers. These systems and processes are part of Dell's competitive advantage. They help keep Dell's costs low and to build to order. In the 1990s, in order to protect this the company started applying for patents, not for its products, but for different parts of its ordering, building and testing processes. It now holds over 80 such patents.

Dell have created a three way 'information partnership' between itself and its customers and suppliers by treating them as collaborators who together find ways of improving efficiency:



'The best way I know to establish and maintain a healthy, competitive culture is to partner with your people - through shared objectives and common strategies....Dell is very much a relationship orientated company....how we communicate and partner with our employees and customers. But our commitment doesn't stop there. Our willingness and ability to partner to achieve our common goals is perhaps seen in its purest form in

how we forge strong alliances with our suppliers.....Early in Dell's history we had more than 140 different suppliers providing us with component parts....Today our rule is to keep it simple and have as few partners as possible. Fewer than 40 suppliers provide us with about 90 percent of our material needs. Closer partnerships with fewer suppliers is a great way to cut cost and further speed products to market.'

Dell's market place is highly competitive. Dell prides itself on good marketing of quality products but, most important, speedy delivery of customised products – factors it believes are reflected in the Dell brand.

'The idea of building a business solely on cost or price was not a sustainable advantage. There would always be someone with something that was lower in price or cheaper to produce. What was really important was sustaining loyalty among customers and employees, and that could be derived from having the highest level of service and very high performing products.'

Nevertheless, whilst it might not sell the cheapest computers in the market place, the price it asks must always be competitive and that means costs must still be kept as low as possible.

### *Case questions:*

1. How much of a generic product is a Dell computer?
2. What do you think of Dell's marketing strategy?
3. From what you know about the company, is Dell's competitive advantage based solely on its external architecture? What else might contribute to this?