

# **Case Analysis of Dell: Goals and Strategies for China**

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## Industry Analysis

The PC industry is one of the strangest in the world. There is probably no other type of product that is so technologically sophisticated, sells for so much money, and yet is sold by so many companies for so little profit. Dell, Gateway, IBM, Compaq and HP (one entity), and Apple are the main rivals in this industry, and the competition is fierce. Dell and Gateway have been the most innovative by including the “just-in-time” manufacturing to meet consumers specific needs, and all of these computers are hard to decipher because of there high compatibility with each other (not Apple). The only thing that really sets them apart is their prices and reputation. The PC industry is a complex network of companies involved in different industry segments, from microprocessors and other components to complete systems to operating systems and applications. Depending upon the industry segment, these firms specialize in different activities, from R&D to design, manufacturing, assembly, logistics, distribution, sales, marketing, service, and support.

Dell Computer Corporation is the focus of the case. The time of the Dell case is from 1994 to 1999. Michael Dell established Dell Computers in 1984, which captured a unique position in the personal computer (PC) industry. The company introduced the concepts of selling PCs directly to customers; offering custom configuration to all customers; and providing direct, toll-free technical support and next-day, on-site service. Dell’s SIC code is 3571. SIC 3571 establishments, such as Dell, primarily engage in manufacturing electronic computers. Electronic computers are machines which: (1) store the processing program or programs and the data immediately necessary for execution of the program; (2) can be freely programmed in accordance with the requirements of the user; (3) perform arithmetical computations specified by the user; and (4) execute, without human intervention, a processing program which requires them to modify their execution by logical decision during the processing run. Included in this industry are digital computers, analog computers, and hybrid digital/analog computers. Establishments primarily engaged in manufacturing machinery or equipment that incorporates computers or a central processing unit for performing functions such as measuring, displaying, or controlling process variables classify by the manufactured product. The four main computer types produced in SIC 3571 are mainframe computers,

microcomputers, minicomputers, and personal computers. Dell also sells computer peripherals, which SIC 3577 encompasses. The description for SIC #3577 is establishments primarily engaged in manufacturing computer peripheral equipment such as including printers, plotters, and graphic displays.

During the time of the Dell Case, which is from 1995 to 1999, are some major trends occurring in the PC industry. By the mid-1990s, a relatively mature global industry structure was in place, with the U.S. specializing in design, advanced components such as microprocessors, software, and services, Asia providing much of the hardware manufacturing, and Europe mostly producing hardware, software, and services for its own markets.

The industry was changing, however, as new competitive forces emerged, including shorter clock speeds, mass customization, electronic commerce, and globalization. Shorter PC product cycles have enhanced the importance of depreciation and time-to-market considerations in determining location decisions. In the words of a Taiwanese PC executive, “Even if you manufacture a machine at very low cost in Asia and save 5% on the manufacturing cost, by the time it gets shipped to the U.S.; the price erosion is 10%.” The build-to-order strategies of PC makers such as Dell and Gateway have segmented the PC market into individual customers, creating a demand for more customized PC configurations. This puts greater pressure on the entire supply chain to respond quickly to shifts in demand for particular components, peripherals and software, rather than just general product lines. Some PC companies have long outsourced much of the production process, relying on contract manufacturers (CMs) to produce subassemblies and complete products. Other companies such as Compaq, IBM, Apple, and Toshiba relied more on in-house production, including motherboard assembly (motherboard production often is the dividing line between manufacturing and simple assembly in PCs). In recent years, however, these PC makers have sold off board assembly plants to CMs, turned notebook PC production over to Taiwanese suppliers and even turned to outside suppliers for design, engineering, and logistics services. PC makers still do much of their own final assembly for desktop and laptop PCs, especially for more complex build-to-order models, but manufactures are outsourcing even final assembly in some cases.

Internet usage as a part of people's everyday lives is increasing abroad around the world; e-commerce is more than ever a part. Selling directly on the Internet has accelerated the industry's clock speed by shortening the distance between the PC vendor and end customer. It also has further increased the demand for customization as customers can easily configure products and compare prices online. On the other hand, e-commerce and the Internet have made it easier for PC makers to respond to the pressures of clock speed and customization. Online configuration systems replace telephone sales representatives, online support replaces call centers, and e-commerce technologies link PC makers with suppliers and service partners in real time. Supply chain integration through electronic commerce responds to the industry's product cycle and customization trends. The rapid adoption of Internet-based electronic commerce has major impacts on the way companies do business worldwide. These include changes in the internal organization of firms, helping to link all of the firm's activities and allowing for better communication, sharing of information, and coordination of activities within the firm. The expected impacts also include changes in the external organization of economic activities. As companies apply IT internally, they have also developed electronic linkages with suppliers, customers, and business partners to pursue similar improvements in performance in the entire value chain. The personal computer industry because it is a leading-edge user of e-commerce for business and consumer transactions and because it represents the cutting edge of a time-oriented business model that might have implications for other industry sectors. It is also a very homogeneous industry, with companies producing similar products based on common technology standards and components for a well-defined market of consumers and organizations. This helps to reduce the variance caused by environmental factors and allows close analysis of the interaction of firms' business strategies, e-commerce strategies, and execution of those strategies, and the resulting performance outcomes.

PC makers are having tendencies towards the integration across borders of markets for labor, capital, goods and services and the emergence in all of these markets of a common set of factors. PC makers are using globalization to enter unsaturated markets, for cheaper production costs, faster growth, low labor costs, and overall need to stay ahead of competition. Most major corporations in this industries reach across

national borders. International sales normally account for a large percentage of most hardware companies' bottom line and India, Japan, China, and Ireland are hotbeds of hardware manufacturing due to cheap labor, large untapped markets, and the need to stay ahead of the competition.

There are some key factors in the electronic computer manufacturing industry a company needs to have in order to be successful and remain competitive. A company needs to establish its brand name in order to gain a reputation in the industry. In addition, a company needs to have effective cost controls due to the competitiveness of the industry. A company in the electronic computer manufacturing industry must have available to them the latest innovations and technology in order to have products with a large demand from consumers.

## **Current Status**

### ***Current Situation***

### **Performance**

Dell has performed extremely well since its inception in 1984. At the time of this case, in 2000, Dell realized \$25 billion in gross revenue and \$1.86 billion in net income. One can appreciate the magnitude of its continual growth through the fact Dell had a four-year average (1997-2000) growth rate of 63.76%. With a current ratio of 1.48, Dell maintains enough liquidity to repay its current liabilities. Dell's equities are growth stocks; Dell has never paid a dividend to shareholders. Its strong returns have prompted investors to trust and invest in the company regularly over the years, and therefore Dell has not had to utilize long-term debt as a primary capital-financing tool. Dell has rewarded its investors with a stable stock, with a split history of 3-to-2 in April 1992, 2-to-1 in October 1995, 2-to-1 in December 1996, 2-to-1 in July 1997, 2-to-1 in March 1998, 2-to-1 in September 1998, and most recently 2-to-1 in March 1999. Dell's return on equity, a measure of shareholder's return on investment, was 0.52 in 2000.

Dell's ample cash supply prevents the company from having to incur any short-term debt, of which it had none in 2000. Dell's debt ratio, an indication of Dell's ability

to sell assets if necessary to cover its creditor's risk, was only 0.04 in 2000, as it had only \$508 million in long-term debt compared to over \$11 billion in total assets. Dell's debt-to-equity ratio, an indication as to the extent the firm has financially leveraged itself, was 0.14 in 2000.

## **Missions, Objectives, and Strategies**

Dell's mission is "to be the most successful computer company in the world at delivering the best customer experience in markets we serve. In doing so, Dell will meet customer expectations of: highest quality, leading technology, competitive pricing, individual and company accountability, best-in-class service and support, flexible customization capability, superior corporate citizenship, financial stability." (Dell)

Dell's global sales objective is to penetrate the lucrative Chinese market. Specifically, Dell desires to achieve approximately 10 percent of its global sales through the China market by 2002, which would secure Dell as the second largest computer manufacturer in the country. Dell secondly wanted to expand the importance of its online direct selling model so that 50% of sales were from the Internet.

Dell's corporate-level strategy is one of growth. Dell's own corporate website defines its global strategy, as "Our global strategy is to be the premier provider of products and services, including those that customers require to build their information-technology and Internet infrastructures." (Dell) With a documented record of outstanding success, customer support, and quality, Dell has identified new markets to serve and products and services to provide, leading them to a moderate level of diversification. Most of Dell's revenue comes from its dominant business, that is all businesses share many product technologies, knowledge bases, and distribution linkages. Dell has remained focused on its core competencies and builds upon those to offer related services.

Dell therefore demonstrates related constrained diversification to maximize its value. Diversification for Dell means increasing revenues through the delivery of new products to existing markets, increasing market power in existing markets, and identifying new markets to serve. Diversification strategies are not guarantees of success; in fact, diversification must relate to existing business units, and some are

raising questions as to the viability of unrelated diversification strategies. [Textbook, p186] Dell's relatedness in diversification manifests itself in corporate relatedness. Dell often introduces new products that while consumer electronics or computing devices, may not share production resources. Instead, the knowledge about these various products and services is very similar, and workers can transfer it across the corporation.

A firm can best implement an integrated cost leadership/differentiation business-level strategy when a company can "adapt quickly to environmental changes, learn new skills and technologies more quickly, and effectively leverage its core competencies while competing against rivals". Dell has successfully meets all three of these criteria. Dell's direct model allows it to communicate directly with customers, which eliminates intermediaries and provides Dell with real-time feedback and market information. This rich information allows Dell to respond quickly to changes in consumer demand or overall market conditions. A successful pioneer of mass customization of computer manufacturing, Dell has quickly demonstrated its ability to learn new technologies and successfully apply them in its manufacturing system. Dell has leveraged this core competency to provide a low-cost, highly customized product to end users. To maintain this strategy, Dell must be continuously adaptive and demonstrate strategic flexibility, quickly responding to opportunities to reduce cost or increase differentiation. One example of how Dell has managed to maintain strategic flexibility is through the tight integration between its online e-commerce consumer-direct website and its flexible manufacturing system. The flexible manufacturing system in itself allows Dell offer mass customized products that exactly match customer specifications. This degree of customization distinctly differentiates Dell from other batch-process manufacturers, but can be a costly system to maintain. By streamlining its production procedures by connecting consumers to warehouse assembly workers, Dell has reduced the overhead a flexible manufacturing system can introduce, and it increases customer satisfaction as well as opens new opportunities for new sales.

With the introduction of an online purchasing system, Dell also created 'Premier Pages' that integrated into corporate intranets. This innovative approach capitalized on an already existing resource, its online system, and flexible manufacturing system, to offer tailored hardware to corporate IT departments. In addition, as corporations choose

to integrate Premier Pages into their intranets, they essentially lock into a future of Dell as their vendor. Dell has essentially provided an integrated toolbox that provides timesaving benefits for firms and continuing revenue for Dell; this toolbox combined with excellent manufacturing techniques and customer support have become core competencies for Dell. Dell has thus far introduced its toolbox of technologies and services internationally, and continued to see double-digit growth, an indication this business-level strategy has been both congruent and successful in meeting the corporate level strategy.

### ***Significant Issues and Problems***

Dell's most significant issue is the continuation and expansion of its direct model selling method and the application of this particular method, in which it excels, in foreign markets. The opportunities and threats portion of this case analysis discusses these factors in detail. Dell faces a number of problems as it seeks entrance into the Chinese market, most notably government regulations on manufacturing, consumer access to its online selling system upon which Dell relies, and nationalized competitors. To successfully enter and compete in this market, Dell must make concessions to the Chinese government, most notably in location of production facilities, and tailor their direct selling method for a culturally different consumer audience.

Domestically, Dell also seeks growth in its online direct selling method, but faces increased competition from "copy-cats", IBM and Compaq. Both retailers are learning from Dell and are implementing Dell's direct model in their own venues. If Dell wishes to see 50% of revenues come from online sales, it must realize it is losing this competitive advantage because now competitors can duplicate portions of it. Dell must find ways to significantly improve or differentiate its direct model further if it wishes to maintain a competitive advantage in direct online sales domestically.

## **Analysis of Strategic Factors**

### ***Strategic Managers***

Dell's separates its Board of Directors into three classes, and the directors in each class serve three-year terms. The terms of the Class I directors expire at the next annual meeting of stockholders (currently scheduled for July 17, 1998), the terms of the Class II directors expire at the annual meeting of stockholders to be held in 1999 and the terms of the Class III directors expire at the annual meeting of stockholders to be held in 2000. The following is a list of the persons who, as of April 1, 1998, constituted the Company's Board of Directors and their ages, director class designation and committee assignments as of that date.

Michael S. Dell is the chairperson and chief executive officer of Dell, the company he founded in 1984 with \$1,000 and an unprecedented idea in the computer industry: sell computer systems directly to customers. By using this innovative direct-marketing approach and by pioneering the industry's first service and support programs, Dell has established itself as the world's most preferred computer systems company and is a premier provider of products and services required for customers to build their information-technology and Internet infrastructures. In 18 years, the company's sales have grown from \$6 million to \$35.4 billion during the past four quarters. Dell led commercial migration to the Internet, launching [www.dell.com](http://www.dell.com) in 1994 and adding e-commerce capability in 1996. The following year, Dell became the first company to record \$1 million in online sales. Since its first international subsidiary opened in the United Kingdom in 1987, Dell has opened sales offices worldwide and its approximately 39,100 employees serve customers around the globe.

Set forth below is biographical information about each of the Company's directors for the year ending February 1, 1998:

## Board of Directors

<u>NAME</u>	<u>AGE</u>	<u>CLASS</u>	<u>COMMITTEES</u>
Michael S. Dell	33	II	CEO and Chairman
Donald J. Carty	51	I	Audit, Finance (Chairman), Nominating
Paul O. Hirschbiel, Jr.	45	I	Compensation, Finance
Michael H. Jordan	61	II	Compensation, Nominating (Chairman)
Thomas W. Luce III	57	I	Finance
Klaus S. Luft	56	I	Audit, Finance
Claudine B. Malone	61	III	Audit (Chairman)
Alex J. Mandl	54	III	Compensation
Michael A Miles	58	III	Compensation (Chairman), Nominating

## Biographies

Michael S. Dell -- Mr. Dell has been Chairman of the Board, Chief Executive Officer and a director of the Company since May 1984. Mr. Dell founded the Company in 1984 while attending the University of Texas at Austin. He is a member of the Board of Directors of the United States Chamber of Commerce and the Computerworld/Smithsonian Awards. Mr. Dell serves on the nominating committee for the National Technology Medal of Honor and is an advisor to the Innovative Technology Management Association at the University of Texas at Austin.

Donald J. Carty -- Mr. Carty has been a director of the Company since December 1992. Mr. Carty is President of American Airlines, Inc., a subsidiary of AMR Corporation, and President of AMR Airline Group, positions he has held since March 1995. He is also Executive Vice President of AMR Corporation. From October 1989 to March 1995, Mr. Carty held the positions of Chief Financial Officer of AMR Corporation and Executive Vice President, Finance & Planning for AMR Corporation and American Airlines, Inc. He has held senior vice presidential positions with American Airlines, Inc. since 1988. Mr. Carty serves on the Board of Trustees of Queen's University in Kingston, Ontario.

Paul O. Hirschbiel, Jr. -- Mr. Hirschbiel has been a director of the Company since October 1987. Mr. Hirschbiel is a consultant with Cornerstone Equity Investors, L.L.C., where he was Managing Director from December 1996 until January 1998. Before then, Mr. Hirschbiel was a Vice President of Prudential Equity Investors, Inc. and had held the position of Vice President or Director with that firm since September 1983. Mr. Hirschbiel originally became a director of the Company pursuant to the terms of a stock purchase agreement entered into in connection with the issuance by the Company of a series of convertible preferred stock in October 1987. Mr. Hirschbiel received a Bachelor of Arts degree and a Masters of Business Administration degree from the University of North Carolina at Chapel Hill.

Michael H. Jordan -- Mr. Jordan has been a director of the Company since December 1992. Mr. Jordan is Chairman and Chief Executive Officer of CBS Corporation (formerly Westinghouse Electric Corporation), positions he has held since July 1993. Prior to joining Westinghouse, he was a principal with the investment firm of Clayton, Dubilier and Rice from September 1992 through June 1993, Chairman of PepsiCo International from December 1990 through July 1992 and Chairman of PepsiCo World-Wide Foods from December 1986 to December 1990. Mr. Jordan is also a member of the boards of directors of CBS Corporation and Aetna Inc.

Thomas W. Luce III -- Mr. Luce has been a director of the Company since November 1991. Mr. Luce is of counsel with the law firm Hughes & Luce, L.L.P., Dallas, Texas, having co-founded the firm in 1973. From October 1991 through April 1992, Mr. Luce was Chairman of the Board and Chief Executive Officer of First Southwest Company, a Dallas-based investment firm that is a member of the National Association of Securities Dealers, Inc.

Klaus S. Luft -- Mr. Luft has been a director of the Company since March 1995. Mr. Luft is the founder, owner and President of MATCH -- Market Access for Technology Services GmbH, a private company established in 1994 and headquartered in Munich, Germany. MATCH provides sales and marketing services to high technology companies. Since August 1990, Mr. Luft has served and continues to serve as International Advisor to Goldman Sachs Europe Limited. From March 1986 to November 1989, Mr. Luft was Chief Executive Officer of Nixdorf Computer AG, a

manufacturer of computer systems in Paderborn, Germany, where he also held various other executive positions for more than 17 years in marketing, manufacturing, and finance.

Claudine B. Malone -- Ms. Malone has been a director of the Company since February 1993. Ms. Malone is President of Financial & Management Consulting, Inc., a firm she founded in 1982. She has taught at the business schools of the University of Virginia, Harvard University, and Georgetown University. Ms. Malone is a trustee of the Massachusetts Institute of Technology and the Chairman of the Federal Reserve Bank of Richmond. She is also a member of the boards of directors of Hannaford Brothers Co., Hasbro, Inc., Houghton Mifflin Corp., Lafarge Corp., The Limited, Inc., Lowe's Companies, Mallinckrodt Group Inc., SAIC and Union Pacific Corporation.

Alex J. Mandl -- Mr. Mandl has been a director of the Company since November 1997. Since August 1996, Mr. Mandl has been Chairman and Chief Executive Officer of Teligent Inc., a telecommunications company that offers local, long distance, Internet and other advanced communication services directly to business customers. Before joining Teligent, Mr. Mandl was President and Chief Operating Officer of AT&T, where he directed the long distance, wireless and local communications services. During his tenure at AT&T, Mr. Mandl also held the positions of Executive Vice President and Chief Executive Officer of the Communication Services Group, Chief Financial Officer, and Group Executive. Prior to joining AT&T in 1991, Mr. Mandl was Chairman and Chief Executive Officer of Sea-Land Services, Inc., the world's largest ocean transportation company. Mr. Mandl is also a member of the boards of directors of Warner-Lambert Company, Forstmann Little & Co., and General Instruments Corporation.

Michael A. Miles -- Mr. Miles has been a director of the Company since February 1995. He is the former Chairman of the Board and Chief Executive Officer of Philip Morris Companies Inc., having served in that position from September 1991 to July 1994. Prior to assuming that position, Mr. Miles was Vice Chairman and a member of the Board of Directors of Philip Morris Companies Inc. and Chairman and Chief Executive Officer of Kraft General Foods, Inc., positions he held from December 1989. Mr. Miles is a Special Limited Partner in the investment firm of Forstmann Little & Co., and he is the non-executive chairperson of Community Health Systems, a hospital

management company owned by Forstmann Little & Co. He is also a member of the boards of directors of Dean Witter Discover & Co., Sears, Roebuck and Co., Time Warner Inc., and Allstate, Inc. and is a trustee of Northwestern University.

## ***Strengths, Weaknesses, Opportunities, and Threats***

### **Internal Environment**

Dell's corporate structure relies on a multidivisional one or better known as 3-M. According to the text, a 3-M structure consists of "operating divisions, each representing a separate business for profit center in which the top corporate officer delegates responsibilities for day-to-day operations and business-unit strategy to division managers." (357) "The benefits of this form first enable corporate officers to more accurately monitor the performance of each business, which simplifies the problem of control. Second, it facilitates comparisons between divisions, which improved the resource allocation process. Lastly, it stimulates managers of poorly performing divisions to look for ways to improving performance." (Hitt, 351-352)

With being a multidivisional firm, Dell implements the Cooperative form of a related-constrained strategy—"Structural integration devices create tight links among all divisions. Corporate office emphasizes centralized strategic planning, human resources and marketing to foster cooperation between divisions. R&D is likely to be centralized. Rewards are subjective and tend to emphasize overall corporate performance in addition to divisional performance. Culture emphasizes cooperative sharing. The sharing of divisional competencies facilitates the corporation's efforts to develop economies of scope." (Hitt, 357)

With Dell's success and achievements, it is hard not to notice that they do have economies of scope as well as economies of scale. Economies of scope are "cost savings that the firm creates by successfully transferring some of its capabilities and competencies that were developed in one of its businesses to another of its businesses. (Hitt, 188) Economies of scale are "the marginal improvements in efficiency that a firm experiences as it incrementally increases its size." (Hitt, 57)

To achieve economies of scope as well as economies of scale, managers must first analyze their internal environment. “The internal environment essentially indicates what a firm can do.” (Hitt, 77) To be able to look analytically into the internal affairs of a firm, one must outline the strengths and weaknesses. Also in some situations, the strengths and weaknesses are the same. According to the text, strengths are internal resources and capabilities that have the potential to be core competencies.

Dell’s core competencies are their cost/differentiation strategy. In consistent to being an integrated cost leader, Dell also produce high quality PCs by using their Direct Business Model approach and sells them directly to the customers. This "Direct Business Model" means low inventory, just-in-time manufacturing, built-to-order products, and direct customer relationship with manufacturer. (Company profile, pg.1) With this innovative process, Dell cuts out the intermediary, excluding the associated cost. “Therefore, as the quantity of a product produced during a given period increases the cost of manufacturing each unit declines.” (Hitt, 357) The only way to keep up with technology is to deal with changing strategically and not just keep up but stay on top of IT.” (Hitt, 76) Of course, this cost saving strategy is the firm’s key strength to stay on top.

Dell’s “Build-To-Customer Order” means to sell personal computers directly to customers. By doing so the company can understand the customer’s needs better and can provide the most effective computing solutions to meet those needs. Dell sold directly to customers, dealt directly with suppliers and communicated directly with employees, all without the unnecessary interference of intermediaries.” (Hitt, C.154) This simple concept made the company sustains their market penetration.

There are three ways that Dell markets and sells their product to their customers-- by Internet, voice-to-voice, and face-to-face. Other marketing methods are through their advertisements, T.V. commercials, magazine ads, newspapers, and through mail, by distributing their own catalog. During the 1990’s—when the boom of the Internet occurred, “in the first quarter of 1997, sales of US\$1 million were reported as the daily on-line sales. For the month of August 1999, daily online sales had reached US\$30 million, translating to US\$11 billion per annum. By the end of 2000, Dell targeted to conduct half of its business in each region on-line.” (Hitt, C.153) "If you're not on the

Web, you literally won't exist as a retailer," declares Laurie Windham, head of San Francisco-based consultancy Cognitiative and author of *The Soul of the New Consumer*. "That's the place where most consumers will be doing the initial phases of shopping, whether it's as basic as price comparison or doing a search of locations in their city that carry the product they want to buy." (Kaihla, pg.1)

In the United States, the Internet has become the new and simpler way of life. According to the International Data Corp. (IDC), the number of Internet users grew from less than 30 million in 1995 to a boomed of over 150 million. (S&P Survey, Feb. 1995) Though many were skeptical when the company began selling computers online, it is now sells \$40 million worth of equipment on the web daily. Because of this way of life, Americans, do not exclusively rely on voice-to-voice or face-to-face communication. Meanwhile, depending on the culture of the country, like China voice-to-voice and face-to-face might be more effective than the Internet. The external environmental analysis will discuss this culture difference in detail.

Secondly, their Just-In-Time (JIT) Inventory allows them to build PCs that the customer wants. With this JIT, Dell produces and provides, with an inventory that is less than five days old. This inventory period allows them to save time and money. Surplus supplies mean no profit and more cost. Because Dell only provides what their customer's need, there is no additional or hidden financial cost to their customers. Furthermore, the company custom designs the computers unique to their customers. Dell records the 'Custom-Designed' computers using a Traveler document. This sheet contains all of the customer's unique configuration information. This sheet travels with the system throughout its assembly & shipping. This sheet of information allows the company to efficiently track and monitor what their customer's want, which will also help future upgrading options and personalizes their relationship with their customers.

Next, this Build-To-Customer Order fourth phase is kitting. "Based on the Traveler, all internal parts and components required to make the system are picked and placed into a tote" for easy access. (Hitt, C.155) In addition, a team of worker uses the kit to assemble and initially test the system. This procurement ability allows for further extensive testing and system integration, where hardware and software is factory installed and tested. When the testing and system integration is complete, the company then

boxes, ship and delivers the build-to-order computer. Because of the Direct Model approach, Dell is a single sourcing company, it means they manufactures and produce their own products. This whole cycle takes less than five hours from start to finish. (Hitt, C.155)

Like every company, Dell also has their weaknesses. Weaknesses have the potential to place a firm at a competitive disadvantage relative to its rivals. (Hitt, C. viii) According to Michael Dell, “No [competitive] advantage and no success are ever permanent. The winners are those who keep moving. The only constant in our business is that everything is changing. We have to be ahead of the game.”

Dell does just that, tries to be ahead of the game. Aside from the explosive growth the company had experienced, they had to change their marketing methods. By 1987, Dell held a dominant position in the mail-order market, but it was clear that the firm had to move beyond mail order if it was to grow. (Lewis, 165) At this point Dell hired the Tandy Team from the Tandy Corp., another maker of low-cost PCs. The new team help raise gross margins to 31 percent--an up from 23 percent a year earlier. (Lewis, 165) The team was a great idea until it became a problem for Michael Dell who believed that they did not fully grasp the idea of direct selling and was trying to create a traditional marketing department with an overly large sales force. Furthermore, the team felt that Dell did not have enough patience to wait for sales force to pay off. By early 1988, management asked most team members to resign.

Despite the misunderstanding with the Tandy Team, Dell had a bigger issue to deal with technological changes and economical changes. At this time, the computer companies began to develop better and faster technological products, realizing that a young company had beaten them to their own game. Dell responded to the increasing competition by increasing the level of technical sophistication in its computers. Half of the sales came from PCs using the Intel Corp.’s 80386 microprocessor. Dell also integrated its file server with the UNIX operating system. The creative changes in the firm came when the company took scientist Glenn Henry away from IBM. Henry built Dell’s R&D staff from almost nothing to 150 engineers, who began working on ways to combine the function of several chips onto one chip. (Lewis, 165) Hiring Henry was definitively the kind of human capital Dell needed to get the ball rolling again.

In contrast to the success Henry brought, Dell might not be able to keep up with their competitors when it comes to their R&D budget. The text strongly advises that any company dealing with technology must have their major focus on the Research and Development. (Hitt, C .ix) Dell has a budget of \$7 million, low compared to its primary competitor, IBM, who had hundreds of millions. (Lewis, 166) During this same year, Dell also had a miscalculation. The firm had manufactured too many memory chips and had to abandon a project to start a new line of workstations. This resulted in profits decreased 65 percent to \$5 million, despite the doubling of the firm's sales. (Lewis, 166)

What a better time, than now for the PC market channel to be in flux, when Dell is on their knees. The recession dampened the sales of PCs and the makers are engaged in price wars—resulted in slumping profits nearly across the board. (166) Dell's competitors also felt the pain. IBM, Compaq, and Apple all had profits declined and had to lay off many of their employees. (166) Nevertheless, the economic recession worked well for Dell. While customers had less money, they still needed PCs, and they purchased the least expensive, Dell's--this consequently shot up the annual sales toward \$1 billion. (166)

When the going gets tough, Dell gets tougher. In 1992, sales were under \$1 billion annually; its revenue for 1999 exceeded \$25 billion. Dell started out making desktops and now manufactures a line of desktop computers, notebooks, workstations, and servers. Desktops and notebooks account for 80 percent of this rapidly growing company. Dell sells primarily to medium-and large-sized businesses and government agencies, though the company is targeting the consumer market. The company drives nearly two thirds of its business from large businesses and government entities. Corporate customers include Ford Motor Company, Boeing, and international giant Deutsche Bank. Dell's supply chain had included IBM in 1999; the agreement is to use \$16 Billion worth of IBM technology in its computers-the largest deal of its type ever.

Dell's corporate utilization consists of sharing their human resources, finance, marketing, R&D, manufacturing/service, and information systems. This combination is possible because "Dell pride itself on a 'flat' corporate structure that encourages each worker to contribute "innovative ideas, and its employees say they appreciate this "openness" and "absence of hierarchy." This unstructured, decentralized environment

allows Dell's young energetic employees to gain responsibility quickly and get a chance to prove him or herself. (Company profile, 3) Internally, Dell is very self-critical. Their motto is "very pleased but never satisfied" when things are going well. When it is not going well, we get a lot tougher. Our philosophy is to 'create your own crisis. They cannot sit back and wait. We are never seen as the most likely to succeed. We live in fear. Moreover, our model corrects--we hear very quickly from our customers if we are doing something wrong. We learn from our mistakes. We have a culture that fixes things...there is no "groupthink" here." (Company profile, pg.1)

“Dell considered itself as much a marketing company as a hardware company, and its sales staff played an important role in its successes.” (Lewis, 166) To provide better for their customers Dell wants to not only be considered a low cost leader but one that provides quality. Differentiation is very high in Dell's businesses, the company must be able to respond quickly to the environment, and a matrix structure is the best integrating device. As stated in the text, a company cannot obtain a competitive advantage unless their structure and strategy work well together. (Hitt, 349) In correlation to their cooperative form of the multidivisional structure for implementation of a related-constrained strategy, the company feels that this matrix structure is one of its benefits. “A matrix organization is an organizational structure in which there is a dual structure combining both functional specialization and business product or project specialization.” (Hitt, 357) Built of temporary task forces – where management assigns one member of each function or division to solve a specific problem members also perform many of their normal duties while serving on the task force. Although very hard to do, if successful, this matrix structure can lead to an effective coordination amongst the firm's divisions.

To implement this structure successfully, the company practices a flexible and sharing corporate culture. “Dell trains their personnel for six weeks or more before taking their seats at the phone banks, and along with their managers, they hold weekly meetings to discuss customer's complaints and possible solutions.” These weekly meetings permit communication amongst all their employees. “In addition to fielding questions and taking orders, managers also trained sales staff to promote products”—an example of utilization of human resources and marketing. “They help buyers customize

their orders then sent to nearby factory where Dell fills the order within five days”—building trust and loyalty with their customers. Furthermore, the “telemarketing system also allowed Dell to compile information on its customers, helping the firm spot opportunities and mistakes far more quickly than most other PC companies do”—implementing effective R&D, marketing and information systems (Company profile, pg.2)

Because the company provides a great deal of freedom for their employees it only means that trust is evident. “Dell’s highly qualified and professional employees perform best in autonomous, flexible working conditions,” which as stated in the text as a possible disadvantage of the matrix structure. (Company profile, 2) According to Dell, this is not the case. “Dell prides itself on a "flat" corporate structure that encourages each worker to contribute "innovative ideas, and its employees say they appreciate this "openness" and "absence of hierarchy.” This unstructured, decentralized environment allows Dell’s young energetic employees to gain responsibility quickly and get a chance to prove him or herself.” (Company profile, 3) Also according the company profile, “the specific collection of values and norms that are shared by the people of Dell continues with trying to provide customer service excellence, an enjoyable experience for its customers, virtual integration with its suppliers and customers, and overall operating efficiency. The culture of the firm specifies appropriate and inappropriate behaviors that shape and influence the way Dell employees behave. Dell tries to maintain an entrepreneurial culture to promote growth, original spirit, and creativity. “(Pg. 3)

In order to reward its employees based on their creativity, its managers decide which behaviors to reward. According to the text, implementing this cooperative sharing strategy, “using the reward systems that emphasize overall company performance, not just individual divisions, helps overcome problems.” (Hitt, 357) Dell Individual Reward Systems consist of the following categories: (source: Dell Analysis) each reward plan/system indicates the purpose it is used for, so further explanation of each is not necessary.

1. Piecework Plans for production line plant workers
2. Commission Systems for sales professionals
3. Bonus Plans For Dell’s key managers

4. Promotions For Dell's leaders

For the Group and Organizational Reward Systems categories:

1. Group-based Bonus Systems for project teams
2. Employee Stock Option Plans for all employees
3. Organization Bonus Systems for all employees based on cost savings, quality increases, and production increases

According to the text, using reward systems that emphasize overall company performance, besides outcomes achieved by individual divisions, helps overcome problems associated with the cooperative form. (357)

Dell's reward system proves effective not just in the United States but also internationally. Alongside its reward system, Dell successfully seeks opportunities around the world and though successful wherever they go, the firm's current goal relies on making it big in China.

Hitt states, "The five forces model of competition expands the arena for competitive analysis" (55). The five forces include the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products, and the intensity of rivalry among competitors.

New entrants to a market can threaten the market share of competitors already in the market (Hitt 56). New entrants, such as Dell, are interested in entering the Chinese market to try to gain a large market share from existing competitors in the market. By using the direct model strategy, Dell is using a different approach to catch the eye of Chinese consumers. Dell's Just-In-Time (J-I-T) inventory keeps inventory costs to a minimum. Companies like China's market leader Legend, are beginning to move to Dell's J-I-T model, selling directly to their corporate customers (Chowdhury 6).

A barrier to entry in China is dealing with the government's political and legal issues. Many foreign firms have to depend on Chinese resellers to make their product available to the public. Foreign companies may need to form joint venture agreements with established Chinese companies. China's regulations state that "if goods were not manufactured in China, they could not be sold directly to the mainland" (Hitt c.165). A problem the popular PC company Legend has is that they "lack Dell's economies of

scale” (Roderick 3). Despite protectionist tariffs on foreign firms, Dell can still undermine Legend’s prices.

The bargaining power of buyers is an important aspect in the computer industry. As pointed out by Hitt, “buyers...want to buy products at the lowest possible price...” (60) The buyer segment is especially powerful in China because computers are so expensive that consumers do everything they can to get the best deal – for the cheapest price. Neel Chowdhury states in “Dell Cracks China... because of the cost savings derived from cutting out the middleman, Dell believes it can sell computers at lower prices that its competitors can...” (2) The bargaining power of suppliers is moderate in the computer industry. Dell Computers is a vertically integrated company.

As stated in Hitt, “Substitute products are goods or services from outside a given industry that perform similar or the same functions as a product that the industry produces” (60). The computer industry has a low to medium threat of substitute products. Alternatives to the PC include written communication, and the typewriter. Calculators can compute numbers. Books are an alternate source of knowledge, but do not have the vast amount of information that is available at the touch of a button like the Internet. The computer is also a form of entertainment. Substitutes for its entertainment value include the radio, television, video games, and movies. All of these substitutes are available, but the PC has the technology to be able to provide all of these in one place.

Competition is intense in the Chinese PC market. Legend, a government backed PC company is the market leader in China. Legend has a domineering presence in Mainland China, with one out of every three PC’s bought carrying the Legend name brand (Roderick 1). Eleven computer researchers from the Chinese Academy of Sciences founded legend back in 1984 (Roderick 2-3). According to Kraemer, Chinese companies, “Founder Group is affiliated with Beijing University, and Great Wall is a spin-off of the Ministry of Electronics Industry” (31). Dell’s direct sales approach has been somewhat successful and has gotten the attention of its competitors. “Yes, we’re using Dell’s direct selling model when we target Chinese government companies or multinationals in China,” states Mary Na, CFO of Legend (Hitt c. 169). Legend is adopting the J-I-T model to sell directly to its customers. Unlike Dell, Legend is a well-known brand name in China (Roderick 1).

According to Kraemer, “China invited foreign computer makers to help develop its industry, often requiring them to transfer technology and form alliances with domestic companies in return for production licenses and market access” (30). Other foreign firms competing in China include IBM Hewitt-Packard, and Compaq. Kraemer states, “Success requires foreign companies to partner with Chinese companies to gain distribution-channel and market access while they also operate their own independent subsidiaries” (34). Unlike Dell, these companies thought that it was best to opt for joint ventures with local Chinese companies and gain access to local distribution channels (Kraemer 30). Dell is forging ahead without an in-country partner, and so far, Dell is doing well. Dell is reaping all of the profits from its sales, instead of having to share them with a Chinese company.

## **External Environment**

The external environment of a company consists of outside conditions that affect a firm’s performance. An analysis of this external environment allows a firm to identify key conditions that are beyond its direct control and those elements on which it can have an affect. According to *Strategic Management: Competitiveness and Globalization*, “The general environment is composed of dimensions in the broader society that influence an industry and the firms within it” (41). There are six areas that make up the general environment: technology, demographic trends, economic trends, the political/legal environment, the sociocultural environment, and the global environment. Analyzing these six areas of the external environment help Dell identify the opportunities and threats in the computer industry in China.

The first element in general environment is technology. According to Hitt, “The technological segment includes the institutions and activities involved with creating new knowledge into new outputs, products, processes, and materials” (52). In the computer industry, technology continues to be smaller and faster than ever. According to “Enter the Dragon: China’s Computer Industry,” Kenneth L. Kraemer’s article, “Providing access to technologies developed by state R&D institutions has proven a key government resource” (31). Hitt states, “By the year 2000, mainland China’s annual PC production

would reach 7.6 million making it the third largest in the world, after the U.S. and Japan” (Hitt c. 162).

The internet is a great opportunity for companies to get their name into the public domain as well as a fast way to tailor services to its customer segments. Dell achieves this by having “customer specific Premier Pages within [www.dell.com](http://www.dell.com)” (Hitt c. 161). These Premier Pages offer Dell’s special customers exclusive discounts on many of their packaged systems and individual products that are available over the internet. The customer segment that can access Premier Pages includes large corporate accounts in China. Large companies, as opposed to small and home businesses prefer to buy online due to convenience (c. 167).

A threat in the technological segment to Dell’s business in China is that access to the Internet is expensive. Top executives of firms are able to have access and use of the net, but most people do not. China has a strong internal technological base. Four of China’s largest PC makers include Legend, Founder, Stone, and Great Wall. These companies are much more familiar to the average Chinese person than Dell is and the average person does not have access to the internet where they might find a better deal at Dell.

Demographics are the second area of the general environment. The demographics of mainland China include a population of 1.2 billion people. According to the article, “For Whom the Dell Tolls” by Daffyd Roderick, “China represents one of the planet’s last great IT sales opportunities” (1). Markets in developed countries are becoming saturated (1). Because of this, American companies want to take advantage of China’s large population. Companies see China as billions of potential customers (McCollum 1). However, in “Dell Looks to China for New PC Customers,” Scott McCollum states, “Just because a nation has 1.2 billion people, does not always mean they have 1.2 billion paying customers” (2). Primarily, the middle class (people who can afford to buy personal computers) in China live in one of four heavily populated areas: Beijing, Guangzhou, Hong Kong, and Shanghai. The lower classes, “peasants”, live outside of these four cities and consist of about one billion people (McCollum 2).

China is the fifth largest personal computer market as of 1999, behind countries such as the United States, Japan, Germany, and Britain. Dell Computers divides the

Chinese population into three consumer segments: Large Corporate Accounts, Preferred Accounts Division, and Home and Small Businesses.

Xiamen, a city where Dell has set up a factory, is a great location for the computer company, which is halfway between Shanghai and Hong Kong on the Southeastern coast of China (Chowdhury, 1). According to Kraemer, "...having manufacturing capabilities inside China is vital, both to avoid tariffs and the value-added tax and to show a commitment to the Chinese market" (35). Not only does Xiamen have a prosperous economy, but also it is a quickly growing city with a modern infrastructure. Both direct sales and technical support reside in nine areas of China, including Beijing, Shanghai, Guangzhou, and Xiamen (Hitt c. 165). Since economic trends make up the third area of the general environment, it is a great opportunity for Dell to have its factory in Xiamen, between two of the most populous cities in China.

According to Hitt, "The economic environment refers to the nature and direction of the economy in which a firm competes or may compete" (48). A primary threat that computer companies encounter in China is the problem of software piracy. One way that Dell is trying to decrease piracy of its products is that the company controls the process from beginning to end (Chowdhury 6). Dell's factories stress quality control (6). The threat of piracy shows that computer companies are having problems competing on price with smaller shops that sell PC's with bootleg software (6).

China has a shortage of skilled labor, even though the country has many economic opportunities. Computer companies have to acknowledge that "the average consumer could not afford the [computer] investment, and very few had a bank account, let alone a credit card" (Hitt c. 166). Dell is aware that Chinese customers "go for the cheapest system" (McCollum 2). Chinese consumers prefer the cheapest system because two years of a person's savings is equal to the price of a personal computer.

One of Dell's and other foreign company's biggest threats is involving the fourth element of the external environment, the political/legal environment. "The political/legal segment is the arena in which organizations and interest groups compete for attention, resources, and a voice of overseeing the body of laws and regulations guiding the interactions among nations" (48). Foreign companies were able to set up PC production in China in the 1990's. China has very nationalistic politics, which make US companies

vulnerable. The Chinese government prefers to promote national PC vendors to foreign companies. Kraemer states, “High tariffs combined with government regulations to prohibit foreign companies from trading directly with the Chinese companies” (32). According to the case, there is a lot of “red tape involved in securing government contracts” (Hitt c.165). The Chinese government not only favors local firms, but local companies also “benefit from their intimate knowledge of the market” (Kraemer 34). In addition, another threat in doing business in China is that according to Chinese regulations, firms must manufacture goods in China in order to sell them directly on the Mainland.

Government control of internet usage in China is another threat to the growth of the internet. Internet users in China are required to register with the police when they open an account. This fuels the belief that the Chinese government monitors the user activity of the Internet. Those that have internet access may be afraid of retribution from the government if the government discovers they bought a PC from a foreign company over the internet.

“The sociocultural segment is concerned with a society’s attitudes and cultural values” according to Hitt (49). The potential for Internet growth is huge in China, giving foreign computer companies, such as Dell the opportunities to expand into a new market. Chinese internet usage is increasing, as shown between 1997 and 1998, in which the number of internet users increased by 71% to more than two million people (Hitt c. 165). Computer companies have to acknowledge that in the Chinese culture, people are still unsure about credit card sales because of the huge expense of computers in China. Customers prefer to view high-ticket items before buying them, which is a threat to internet sales.

China’s culture expects companies to sell their product face-to-face. In the Chinese culture, a person’s word means more than a contract. By doing this type of selling, Dell does have to put more effort, time, and money towards it, but in the end, the firm hopes that by gaining this loyalty and respect from the people in China, their Internet sales will go up. Maybe, one day, those that they had personal contact with, will create a ripple effect. They will tell their friends, family members, and so on. Companies, such

as Dell, then have to invest in door-to-door or face-to-face operations, initially, to gain consumers' faith and consumer's trust in the company and product.

The final part of the external environment in which companies must operate is the global environment. "The global environment includes relevant new global markets, existing markets that are changing, important international political events, and critical cultural and institutional characteristics of global markets" (Hitt 53). Because China is becoming such a large PC market, it is difficult for Dell, or any other company to ignore it (Chowdhury 1-2). At the beginning of the 21<sup>st</sup> century, analysts predict China will contribute the largest internet growth.

## ***Evaluation of Strategic Factors***

### **Key Factors in Industry Analysis**

There are some key factors in the electronic computer manufacturing industry a company needs to have in order to be successful and remain competitive. A company needs to establish its brand name in order to gain a reputation in the industry. In addition, a company needs to have effective cost controls due to the competitiveness of the industry. A company in the electronic computer manufacturing industry must have available to them the latest innovations and technology in order to have products with a large demand from consumers.

### **Key SWOT Factors**

Dell's "Direct Business Model" is an innovative concept that utilizes J-I-T inventory and customizing orders. The strength of Dell's "Build to Customer Order" identifies the customer's needs and can provide the most effective computing solutions to meet those needs. The Internet is a current weakness in China. Because of their culture and values, Dell might not be able to achieve their goals in the near future. A key opportunity

Dell has is the opening of the factory in Xiamen, China. Xiamen is a great economic opportunity for Dell because it is a growing city, positioned between two of China's largest cities. The political and legal segment in China is a threat to Dell and

other foreign companies. The Chinese government favors local companies over foreign companies, and has many regulations and protectionist tariffs on foreign goods.

## **Competitive Position of Organization**

Dell understands that their growth relies on keeping their customers satisfied, by meeting all of their needs, when it comes to PCs. Because of this relationship with the customers, it allows the company to have an easier time to collect information. The results of this closeness allow for better market segmentation, for better forecasting, and for better value to the customers.

Dell's most competitive force is The Direct-Model concept, which has helped them to reach above-average returns and still in business today. Though many competitors have tried to copy this concept, it does not seem to be working as well for them as it did Dell. By now, customers have developed a brand-name loyalty to Dell because of their low cost differentiation strategy.

Secondly, Dell's culture is never to be satisfied, just happy when the firm does well. As Michael Dell has mentioned before, "to be competitive, a firm must stay ahead of the game." To stay ahead of their competitors, this company always kept aware of what is happening externally. They understand that running an IT company, a firm must focus on research and development,—in which Dell is proudly doing.

Finally, looking at the SWOT analysis of the company, it is evident that Dell does still hold a very strong competitive position. The strength of the company consists of single sourcing, efficiency, and relationship with customers and partners, after sales service, Internet leveraging, and product quality. Their weaknesses are single sourcing; new product market has hurt entry, and reliance on corporate clients. Dell has many opportunities, such as Potential growth in overseas markets, the industry is still in a growth phase, and entering into new product markets (i.e. printers and PDAs). Meanwhile, the threats are technological changes that are expected since technology can only get better. Next, global economy and increased competition--both comes with any business threats—in which Dell's financial ratios clearly identifies that they are no match for their competitors.

## ***Identification of Strategic Alternatives***

One alternative that Dell has held back in pursuing is merging with other companies. Currently with their China market, their competitors such as IBM and Compaq have merged with other local businesses. The benefit from merging with the locals will have a business that has been in the country longer than they have. According to the Chinese culture, familiarity is an added incentive for trust and brand name loyalty. Furthermore, Dell would not have to spend so much money and time trying to develop this face-to-face or voice-to-voice communications, if the local business is already well known. According to cost saving benefits--the company will not have to spend any extra money for R&D or product development if it is already developed. In addition, it will be easier for the merged company to cut down on the staffs and be able to keep the key players. Along with cutting back on the staff, the two companies can right size and develop a competitive advantage over their competitors. Furthermore, there will be plenty of joint financial support. If there is synergy between the two companies, their market penetration will be that much easier to achieve.

The downside to this is that merging goes against Dell's culture and vision, "I believe we have the right business model for the Internet Age...also to build better computers than IBM, and become number one in the industry." (Hitt, C.153) There are also many factors from merging like conflict with the corporate cultures, lost of competitive forces, and a threat of a possible acquisition or worst a complete takeover by the partnering company. Dell has run into some rough corners before but at the end have resulted as a 'lessons learned' for the young company. In his own words, Michael Dell confesses to the struggles, "Our success was, in fact something of a crisis point." (Hitt, C.156)

After comparing the pros and cons of our alternative, Dell current position will be sufficient to sustain a competitive advantage in China. They realized that adjusting to the culture and values of China will benefit them in the end.

## **Recommendations**

We recommend Dell continue its foray in to the Chinese market by building a production facility in mainland China. This initial capital expenditure will both grant

entrance into the Chinese market as well as solve some logistics problems of producing custom orders outside of China and then shipping them in quickly to customers. In addition, the lower labor costs will allow Dell to compete more effectively with nationalized computer manufactures, which also benefit from the low labor costs.

## ***Implementation***

To accomplish this end, Dell needs to listen closely to the Chinese consumers it targets. Its marketing department must segment the Chinese consumer base based on technology need and income levels, as these vary widely from rural to urban China. Dell's multidivisional structure fits well with this strategy, as strategic business units can align on product lines or geography to be congruent to the Chinese segmentation. The executive class, which has frequent internet access, higher demands for technology, and more disposable income, will be the best candidates for extending Dell's present online model.

Teenage progeny of executives are typically highly technical in urbanized areas and invest heavily into the video game and interactive entertainment market. Dell will find it difficult to target gamers, as a number of Chinese substitutes already exist in the form of Sony (Playstation), Nintendo (Game cube), and Microsoft (X-box). Gaming consoles these firms produce do not have all the functionality of a more general-purpose computing device, such as Dell's desktops; however, these firms have optimized these specialized console systems for graphic intensive operations that require a substantial amount of computing and display power. Comparable specifications in a general computing device are typically much more expensive than these consoles cost. If such console systems already exist in the houses of executives Dell targets, the existence of such consoles will be one less incentive to purchase a Dell.

Dell will have to adopt a much different strategy for the rest of China that remains unconnected to the Internet. Without the infrastructure in place to facilitate Dell's direct selling model, the firm has three primary options. Dell could choose a different selling model to adopt for these consumers, it could wait to target these users until the infrastructure is in place, or it could identify strategic partnerships to sell units through a different distribution channel.

Dell has been very successful with the direct model, but would likely not be well suited to engage in large marketing campaigns for suburban or rural Chinese simply because the retail support for individuals to purchase computers locally does not exist. Of course, this option would likely be much more expensive and high risk in the end for Dell, as it would be difficult to compete with nationalized firms that do have the distribution channels to sell systems at local retail outlets and are far more familiar with the cultural differences and demographics of various regions.

While Dell could choose not to pursue these emerging markets at this time, this would likely become a missed opportunity once these markets do develop. Local firms such as Legend that are aware of Dell's capabilities and desire for increased market share may seek to gain footholds in regions not yet fully connected to the Internet, hurting Dell's short-term chances for market penetration. Instead, Dell should consider a strategy Microsoft adopted in the US education system. Microsoft formed strategic alliances with domestic manufacturers and service firms to supply software at discounted rates to rural school districts. In return, Microsoft made sales they would have otherwise would not have made, and though they realized a lower profit margin on those sales, it secures an upgrade path for other Microsoft products in the future. Dell may consider collaborating with telecommunications firms or other government institutions, such as schools, to implement a similar strategy. By targeting households on the border of internet connectivity, offering discounted systems in partnership with internet service providers (ISP's) may create enough demand for ISPs to connect regions to the countries Internet infrastructure.

### ***Evaluation and Control Procedures***

Since Dell's objective is one of market share, the measures of performance should be very empirical and quantitative in nature. Specifically, Dell must develop realistic, monthly growth targets for market penetration, revenue, and net income. Dell must frame capital investments, such as new production facilities, and investments to create strategic alliances within a payback period context, and consistently focus on cost. Entering a new market with established competitors makes this a high-risk project, particularly because of the cultural considerations with which Dell may be unfamiliar.

Therefore, Dell must be aware of the benefits they wish to realize, how they will be realized, and ensure they only invest appropriate amounts of resources to obtain those benefits.

Dell relies heavily on reputation in the US market: a reputation of award-winning service and a high-quality product. Customer satisfaction and consumer awareness surveys should be conducted at least quarterly to ensure the image Dell creates for itself within a culture it has not existed in before is a positive one.

## **Updated Position of Company**

Dell has seen remarkable success and growth in the Chinese market. In 2001, Dell shipped 9 million units to China. This increased 22% to 11 million units in 2002. Dell has approximately 5% of the Chinese market, and seeks for 2003 to grow by 50%, controlling 7.7% of the overall market. Dell's bullish forecast means it plans to outperform the industry, predicted to grow only 17% this year. (Reuters) Dell is already poised to overtake China's second-largest manufacturer, Founder, but remains well behind Legend Group Ltd., which still controls 27% of the Chinese market. Costs have been a concern for Dell, and their margins for China are below their company-wide average for other regions. However, Dell is moving forward with plans to expand further its Xiamen plant it built in south China so that it becomes the primary distribution point for all of north Asia – this investment has paid off well for Dell.

Though Dell is a large, multinational company with billions of dollars of annual revenue, an updated look at its financial situation may be cause for concern. Its current ratio fell from 1.48 in 2000 to 1.05 in 2002, meaning it had less in current assets as compared to current liabilities. Its return on assets decreased from 0.17 to 0.13 from 2001 to 2002, return on equity decreased from 0.52 in 2001 to 0.48 in 2002, and return on investment decreased from 0.45 in 2001 to 0.29 in 2002. While September 11, 2001 has affected the computer industry as well as the overall economy, Dell actually saw an increase in revenue to the tune of \$4 billion and a 19.21% increase in net revenue because it has such a large price advantage over its competitors in the United States.

What explains this slightly worrisome present situation for Dell? Current and total assets increases have leveled off from their double-digit growth percentages, and

long-term debt increased last fiscal year by \$11 million (a 2.16% increase). However, it is important to note Dell seemingly has confidence from its investors for continued growth. Its debt-to-equity ratio is changing, indicating equity sales, which have increased 56.43% in just the past two year, almost completely fund the firm. Dell has made very bullish predictions for its business units across the globe for this quarter. While some may question whether it can meet its predictions this quarter, its record of accomplishment for unprecedented growth even in tepid economic conditions seems to indicate it can. With a price-to-earning ratio of 69.07 last year, investors believe them.

Dell is a corporation that has a legacy of tremendous and aggressive growth. Many firms fail to achieve international expansion goals or maintain market position and revenues in the midst of a recession; however, Dell seems almost immune to some of the environmental conditions that can severely affect firms. Dell is not immune to its environment, though: no company is. Dell's success stems not from an ethereal quality, but from careful planning, strong development of core competencies and competitive advantages, and shrewd execution of corporate objectives.

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