**Case study: Dell—Distribution and supply chain innovation for PCs**

1983, 18-year-old Michael Dell left college to work full-time for the company he founded as a freshman, providing hard-drive upgrades to corporate customers. In a year’s time, Dell’s venture had $6 million in annual sales. **In 1985, Dell changed his strategy to begin offering built-to-order computers. That year, the company generated $70 million in sales**. Five years later, revenues had climbed to $500 million, and by the end of 2000, Dell’s revenues had topped an astounding $25 billion. **The meteoric rise of Dell Computers was largely due to innovations in supply chain and manufacturing, but also due to the implementation of a novel distribution strategy. By carefully analyzing and making strategic changes in the personal computer value chain, and by seizing on emerging market trends, Dell Inc. grew to dominate the PC market in less time.**

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**Dell’s success is a combination of:**

* **Direct Sales.**
* **Inventory Management**
* ***Supplier Integration***

Together these allow for maximum effectiveness with minimum cost.

**Core elements of Dell’s Strategy:**

* **Mass customization (end result: Delivers**

**exactly what the customer wants)**

* **Partnerships with suppliers**
* **Just-in-time components inventories (Quick**

**Introduction of Latest Technology)**

* **Direct sales**
* **Market segmentation**
* **Customer service**
* **Extensive data and information sharing with both supply partners and customers.**

**Reasons behind success:**

* **No more middleman:** Dell started out as a direct seller, first using a mail-order system, and then taking advantage of the Internet to develop an online sales platform. Well before use of the Internet went mainstream, Dell had begun integrating online order status updates and technical support into their customer-facing operations. By 1997, Dell’s Internet sales had reached an average of $4 million *per day*. While most other PCs were sold preconfigured and pre-assembled in retail stores, Dell offered superior customer choice in system configuration at a deeply discounted price, due to the cost-savings associated with cutting out the retail middleman. This move away from the traditional distribution model for PC sales played a large role in Dell’s formidable early growth. Additionally, an important side-benefit of the Internet-based direct sales model was that it generated a wealth of market data the company used to efficiently forecast demand trends and carry out effective segmentation strategies. This data drove the company’s product development efforts and allowed Dell to profit from information on the value drivers in each of its key customer segments.
* **Virtual integration:** On the manufacturing side, the company pursued an aggressive strategy of “virtual integration.” Dell required a highly reliable supply of top-quality PC components, but management did not want to integrate backward to become its own parts manufacturer. Instead, the company sought to develop long-term relationships with select, name-brand PC component manufacturers. Dell also required its key suppliers to establish inventory hubs near Its Own Assembly Plants. This Allowed The Company To Communicate With Supplier Inventory hubs in real time for the delivery of a precise number of required components on short notice. This “just-in-time,” low-inventory strategy reduced the time it took for Dell to bring new PC models to market and resulted in significant cost advantages over the traditional stored-inventory method. This was particularly powerful in a market where old inventory quickly fell into obsolescence. Dell openly *shared its production schedules, sales forecasts and plans for new products with its suppliers. This strategic closeness with supplier partners allowed Dell to reap the benefits of vertical integration, without requiring the company to invest billions setting up its own manufacturing operations in-house.*
* ***Innovation on the assembly floor:*** *In 1997, Dell reorganized* its assembly processes. Rather than having long assembly lines with each worker repeatedly performing a single task, Dell instituted “manufacturing cells.” These “cells” grouped workers together around a workstation where they assembled entire PCs according to customer specifications. **Cell manufacturing doubled the company’s manufacturing productivity per square foot of assembly space, and reduced assembly times by 75%.**

**Key inspirational point to others:**

Dell combined operational and process innovation with a revolutionary distribution model to generate tremendous cost-savings and unprecedented customer value in the PC market.

The following are some key lessons from the story of Dell’s incredible rise:

**1. Disintermediation (cutting out the middleman):** Deleting a player in the distribution chain is a risky move, but can result in a substantial reduction in operating costs and dramatically improved margins. Some companies that have surged ahead after they eliminated an element in the traditional industry distribution chain include:

* Expedia (the online travel site that can beat the rates of almost any travel agency, while giving customers more choice and more detailed information on their vacation destination)
* ModCloth (a trendy virtual boutique with no bricks-and-mortar retail outlets to drive up costs)
* PropertyGuys.com (offers a DIY kit for homeowners who want to sell their houses themselves)
* iTunes (an online music purchasing platform that won’t have you sifting through a jumble of jewel cases at your local HMV)
* Amazon.com (an online sales platform that allows small-scale buyers and sellers to access a broad audience without the need for an expensive storefront or a custom website)

**2. Enhancing customer value:** Forgoing the retail route allowed Dell to simultaneously improve margins while offering consumers a better price on their PCs. This move also gave customers a chance to configure PCs according to their specific computing needs. The dramatic improvement in customer value that resulted from Dell’s unique distribution strategy propelled the company to a leading market position.

**3. Process and operations innovation:** Michael Dell recognized that “the way things had always been done” wasn’t the best or most efficient way to run things at his company. There are countless examples where someone took a new look at a company process and realized that there was a much better way to get things done. It is always worth re-examining process-based work to see if a change could improve efficiency. This is equally true whether you’re a company of five or 500.

**4. Let data do the driving:** Harnessing the easily accessible sales and customer feedback data that resulted from online sales allowed Dell to stay ahead of the demand curve in the rapidly evolving PC market. Similarly, sales and feedback data were helpful in discovering new ways to enhance customer value in each of Dell’s key customer segments. Whether your company is large or small, it is essential to keep tabs on metrics that could reveal emerging trends, changing attitudes, and other important opportunities for your company.

**SWOT Analysis:**

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| **Strength:**  1. Direct Model Approach, it provides Dell a way to interact to customers directly  2. Customization of products  3. Reliability, Service and Support  4. Latest Technology | **Weakness:**  1.Market share growth is slow due to competition; Fake products/ imitations affect sales  2. Overdependence on Suppliers.  3.  Lack of Dell Stores, can be an issue for some customers. |
| **Opportunity:**  1. With increase in e-commerce the online retail stores of Dell provide them better framework to tap new business  2. The Direct approach Model of Dell would help them there existing to sell the other IT products, so new product development opportunity is for Dell  3. Tablet and Smart phone Market. | **Threats:**  1. With the increase in innovation in the market the computer systems are becoming outdated, so Dell should constantly come out with new products 2. People need the quality products at low price which was Dell strength due to it’s customize solution, but now its competitors are coming up with products in same price range |