

Dell Computer –a Case Study on Business Models



Michael Dell

- Born February 23, 1965 in Houston, Texas
- Mom, Dad, and two brothers
- In his early teens, he invested his earnings from part-time jobs in stocks and precious metals
- Today: *He was ranked the 41st richest person in the world on 2012 Forbes list of billionaires, with a net worth of US \$15.9 billion as of March 2012 -wikipedia*



College Plans

- Plans and parents expectations intervened
- Left with three computers in the back of his car
- Parents show up on surprise visit; caught red-handed
- Dell said his life goal: to compete with IBM



First Company: PC Limited -became Dell in 1984



- While a freshman pre-med student at the University of Texas, Dell started an informal business putting together and selling upgrade kits for personal computers[10] in Room 2713 of the Dobie Center residential building. He then applied for a vendor license to bid on contracts for the State of Texas, winning bids by not having the overhead of a computer store.[11][12][13]
- In January 1984, Dell banked on his conviction that the potential cost savings of a manufacturer selling PCs directly had enormous advantages over the conventional indirect retail channel. In January 1984, Dell registered his company as "PC's Limited". Operating out of a condominium, the business sold between \$50,000 and \$80,000 in upgraded PCs, kits, and add-on components. In May, Dell incorporated the company as "Dell Computer Corporation" and relocated it to a business center in North Austin. The company employed a few order takers, a few more people to fulfill them, and, as Dell recalled, a manufacturing staff "consisting of three guys with screwdrivers sitting at six-foot tables". The venture's capitalization cost was \$1,000.[14][15]
- In 1992, aged 27, he became the youngest CEO of a company ranked in Fortune magazine's list of the top 500 corporations.[16] In 1996, Dell started selling computers over the Web, the same year his company launched its first servers. Dell Inc. soon reported about \$1 million in sales per day from dell.com.[17] In the first quarter of 2001, Dell Inc. reached a world market share of 12.8 percent, passing Compaq to become the world's largest PC maker. The metric marked the first time the rankings had shifted over the previous seven years. The company's combined shipments of desktops, notebooks and servers grew 34.3 percent worldwide and 30.7 percent in the United States at a time when competitors' sales were shrinking.[18]
 - http://en.wikipedia.org/wiki/Michael_Dell

Business Model

- Sell directly to the consumer -eliminating the retailer
- Keep inventory low and build to order
- *"I was quite excited about the possibilities for personal computers and how they could change society. Meanwhile, as a customer, I was disappointed that when I went to a computer store, the salespeople didn't really know about computers. I had this idea to sell the products directly to the user over the phone and the Internet."* -Michael Dell

Dell Computer Corporation

- Founded a week before finals with \$1,000
 - Took finals and then dropped out
- Business Model worked!
 - Three years into business; Sales=\$150Million
 - age 22
- Dell's IPO was on June 22, 1988
- Goes private again: Oct. 29, 2013, Dell acquired by Michael Dell
- *"I learned by doing and by making mistakes. And I got smart people to help."* –Michael Dell

Business Model Comparison

Traditional PC (HP or Lenovo)

1. Forecast demand
2. Obtain subcomponents from suppliers
3. Make basic components
4. Assemble Complete PC
5. Inventory
6. Ship to retailer
7. Retail inventory/display
8. Consumer

Dell

1. Customer Places Order by phone or web
2. Suppliers see order and ship components
3. Dell assembles computer
4. Maintains Customer relationship
5. Ship to customer via UPS/FedEx

Changes

- *"The Direct Model has been a revolution, but it is not a religion."*
 - Michael Dell
- From 1988 to 2007 the business model did not change.
- In 2007 they switched to a hybrid model and began to sell through BestBuy, Staples, Walmart and others.
- Shifting from a business target to business, consumer, and international.
- Inventory Turnover : 2004=107.1; 2006=88.8; 2008=53.8; 2012=40.1
 - HP=14.6 and S&P 500 average=11.8

Improvements needed?

- Overseas emerging markets:
 - BRIC Countries Brazil, Russia, India and China
 - Eastern Europe: Poland
- Customer Support: DellConnect
 - <http://support.dell.com/support/topics/global.aspx/support/dellconnect/dellconnect>
- IdeaStorm: <http://www.ideastorm.com/>
- Healthcare: <http://www.dell.com/learn/us/en/70/healthcare>
- Dell Ventures launched V.C. fund to invest in start-up working in data storage



The screenshot shows the top navigation bar of the Dell website with the Dell logo and links for Shop, Support, and Community. Below this is a dark blue banner for IdeaStorm with the text: "IdeaStorm can help take your idea and turn it into reality." At the bottom of the banner, it states: "OVER 21,515 IDEAS SUBMITTED. 745,108+ VOTES. 101,019+ COMMENTS. 548+ IDEAS IMPLEMENTED."

Questions:

- Why did Dell's competitors have difficulty in matching the efficiencies of Dell's Business Model?
- Was Dell's switch to the hybrid sales model a good move? What were the pluses and minuses?
 - What about its switch to targeting consumers?
- Describe the type of market in 1988 when Dell started?
 - What about today?
- What do you think of Dell's long term prospects?