

Dell Computer Corporation Strategic Planning Gap

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BUS 347 A
February 11, 2003

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Introduction

As the brainchild of founder and CEO Michael Dell, the Dell Computer Corporation has grown from nothing to over \$31 billion in sales since its conception in 1983. Using the Dell Direct Model, a process focusing on low costs, virtual integration, and direct customer relationships, the company adopted a unique build-to-order manufacturing system through which buyers can customize their own computers. This cost-efficient, fast, and customer friendly operation has thrust Dell to the top of the computer industry all over the world.

Now, despite the general slow-down in the growth of the computer industry, Michael Dell has set lofty goals for his company. By the year 2007 Dell wants to grow to \$60 billion, nearly twice it's current revenue. Although this creates a strategic planning gap of almost \$30 billion, the goal is not unattainable. Using a strategy primarily made up of intensive growth, Dell can reach its goal of \$60 billion by 2007 without making any major changes to the very model that helped the company grow to where they are today.

Dell, 2007

Given the current conditions in the computer industry for each of its four major product lines, Dell should reach nearly \$50 billion in revenue simply through market growth by 2007. If, for PC's, workstations, servers, and storage alike, Dell continues to own its current market share, produces roughly the same number of units as it is currently, and the market growth rates remain stable, then Dell will reach \$49.76 billion without changing its current strategy (see Appendix A). That is, if all the variables

remain constant, Dell could continue with business as usual and still make up over \$17.5 billion of the \$28.12 billion strategic planning gap. This leaves roughly \$10.24 billion to be made through intensive, integrative, and diversification growth. However, the most effective way for Dell to reach their \$60 billion goal is through primarily intensive growth.

Intensive Growth

Intensive growth is probably the best way for Dell to fill the strategic gap for one simple reason. Through various initiatives in intensive growth, Dell can add the revenue needed to attain its goal without changing the Dell Direct Model. That is, the Direct Model, the very reason for Dell's success, would not need to be altered at all.

Personal Computers

As of 2001, Personal Computer sales accounted for 75% of Dell's total revenue. This is an area in which Dell's Direct Model of production is one of the primary reasons for success. In Table 1 we see that, as the largest generator of revenue for Dell, Personal Computers brought in \$23.91 billion in sales. This division is broken down into two main categories, laptops and desktops, both of which account for roughly half of total PC revenue. As shown in Table 1 below, the market for laptop computers is expected to grow at an annual rate of approximately 15%, while the market for desktop computers is expected to slow to an annual rate of only 5%. Given these numbers, we can calculate that under Dell's current strategy, the PC division will probably grow to \$39.34 billion by

2007 without any changes. Through some simple initiatives, however, Dell could try to increase its global market share in an effort to generate even more revenue.

Table 1 - Personal Computers	Laptops	Desktops	Total
Dell Worldwide Market Share	13.9%	13.3%	13.4%
Current Revenue from PC's	\$12.00	\$11.91	\$23.91
Expected Growth Rate	15%	5%	
Expected Revenue from PC's 2007			\$39.34
Expected Increase in Sales			15%
Total Revenue from PC's 2007			\$45.24

* All calculations use simple mathematics based on both Appendix A and numbers from the case.

Dell's current strategy for its personal computer market is to target "educated buyers." That is, Dell wants to sell to people who have already had computers and have an idea of what they want. This is one way in which the company has cut down on "hand-holding" in the buying process and, likewise, customer service costs. While this strategy has worked for the company, there is still a huge market that Dell is missing out on: first-time buyers. Roughly 53% of U.S. homes have PC's, and even less internationally (Dell Case, page 2). This leaves the vast majority of the worldwide market in the category of potential first-time buyers. Dell's reason's for initially choosing not to sell to this market was a good one. It cut down on service costs, and worked well with the Dell Direct model. However, now that the company has grown, they clearly have the resources to sell PC's to less educated consumers. Most likely, the revenues generated from this market would far outweigh the associated costs. And, more importantly, the Dell Direct Model would remain intact. Only a few more customer service and marketing costs would be incurred.

If the current variables remain stable, such as expected growth rate of laptops and desktops and their respective shares of Dell's PC business, increasing market share

through first-time buyers could yield a great increase in revenue. Dell currently owns 13.4% of the total combined PC market, and through such an initiative they could probably increase their market share rather easily. Even a minimal increase in PC market share would result in a significant increase in revenue. As we see in Table 1, if the new market proved to give Dell a 15% increase in sales, the additional revenue generated could be as much as \$5.9 billion. With such great potential in a growing market, Dell would be mistaken to not pursue this opportunity.

Workstations

Workstation sales currently make up roughly 9% of Dell's total revenue, having brought in \$2.72 billion in 2001. As of that same year, Dell was the world leader in Workstation sales owning 29.6% of the total market. Although this market is expected to slow, Dell is only making itself available to half of the market for Workstations.

Workstations are currently available in two forms, Windows NT and UNIX. At the present time, each type makes up roughly half of the total Workstation market, although the Windows NT Workstations are growing at a faster rate. Dell is only involved with Windows Workstations and, as shown in Table 2 below, the market for Workstations is contracting. It is expected that by 2007 Dell's Workstation revenue will have decreased by over \$1 billion. However, one specific initiative could greatly minimize the decrease in Workstation sales.

By beginning to offer UNIX Workstations to complement the current Windows NT products, Dell doubles the target market for Workstations. This, like the PC

initiatives, would not tamper with the Direct Model at all. Rather, it would simply create a chance to gain a great share of the market.

Table 2 - Workstations

	<u>Total</u>
Dell Worldwide Market Share	29.60%
Current Revenue from Workstations	\$2.72
Expected Growth Rate	-9.70%
Expected Revenues from Workstations 2007	<u>\$ 1.63</u>
Expected Market for Workstations 2007	\$ 5.52
Increase in Market Share	9.00%
Total Market Share	38.60%
Expected Increase in Sales (UNIX)	<u>30%</u>
Total Revenue from Workstations 2007	<u>\$ 2.12</u>

* All calculations use simple mathematics based on both Appendix A and numbers from the case.

Assuming that all variables remain constant, an increase in market share of 9% would yield a 30% increase in Workstation sales, and add \$.49 billion in expected revenue for 2007, as shown in Table 2. Such an increase would create a total Workstation revenue of \$2.12 billion. This would become quite feasible with the introduction of UNIX to Dell's product line, as it opens the entire market, rather than just the half that Dell targets with Windows NT. While this is still a decrease from current revenues, it would be a favorable number in a quickly contracting market.

Servers

Representing 12% of Dell's total revenue, the Server division has been the company's second most profitable product line in recent years. In 2001, Servers accounted for \$3.83 billion in sales, as Dell owned 5.5% of the \$69 billion worldwide market. Although this is Dell's second largest product line in terms of revenue, the company owns a relatively small portion of the Server market. The reason for this is that two thirds of Dell's Server sales come from the entry-level segment of the market. There

also exist both midrange and high-end servers. Clearly, Dell can increase its Server revenue by refocusing its strategy to target the broader market. In 2007, at current market growth rates, the Server market will be \$96.78 billion. By producing and generating sales from these other types of Servers, Dell should be able to easily increase total Server market share by 2.8%. This small increase in market share would yield a 50% increase in revenue, giving the Server division sales of \$8.05 billion (See Table 3).

Table 3 - Servers

	<u>Total</u>
Dell Worldwide Market Share	5.50%
Current Revenue from Servers	\$3.83
Expected Growth Rate	7%
Expected Revenues from Servers 2007	<u>\$ 5.37</u>
Expected Market for Servers 2007	\$ 96.78
Increase in Market Share	<u>2.80%</u>
Total Market Share	8.30%
Increase in Sales	50%
Total Revenue from Servers 2007	<u><u>\$ 8.05</u></u>

* All calculations use simple mathematics based on both Appendix A and numbers from the case.

Storage

In terms of both revenue and market share, data storage is Dell's most poorly performing division. Its \$1.1 billion in sales makes up 3.4% of the \$32 billion market, and 3% of Dell's total revenue. This is a small portion of Dell's business, and one in which Dell could be better. However, their recent alliance with EMC Corporation, one of the industry's leaders, was probably a good move. Through this marketing alliance, Dell will become a major sales channel for one of EMC's product lines. This makes use of both EMC's industry expertise and Dell's Direct Model of production. With an increase in market share of just 1.8% Dell could increase sales by 50%, generating a total Storage

revenue of \$4.65 billion. Such a possibility is definitely attainable through such a strategic alliance.

Table 4 - Storage

	<u>Total</u>
Dell Worldwide Market Share	3.4%
Current Revenue from Storage	\$1.10
Expected Growth Rate	23%
Expected Revenues from Storage 2007	<u>\$3.10</u>
Expected Market for Servers 2007	\$90.10
Increase in Market Share	1.8%
Total Market Share	5.2%
Expected Increase in Sales	<u>50%</u>
Total Revenue from Storage 2007	<u><u>\$4.65</u></u>

* All calculations use simple mathematics based on both Appendix A and numbers from the case.

Conclusions

Through these simple yet effective initiatives, Dell can reach its goal of \$60 billion in revenue by 2007 (see Appendix C for total numbers). This plan of intensive growth allows Dell to increase sales and revenue merely by opening itself to new target markets. Most importantly, none of the initiatives discussed would interfere with the Dell Direct Model, the very reason for the company's past success. While either integrative or diversification growth could yield similar financial results, it would be difficult to do so without changing the day to day business and infrastructure of the Dell Computer Corporation. Integrating into the value chain or diversifying into new products would entail a great deal of both change and effort. For this reason, intensive growth through the above initiatives would likely be the easiest and most rewarding option.

Dell Revenue 2001

* Dollar Values in Billions

Personal Computers

	<u>Laptops</u>	<u>Desktops</u>	<u>Total</u>	
Percent of Dell Revenue			75%	11
Dell's PC revenue			\$23.91	
Units (millions)	24.8	24.6	49.4	11
Percent of PC Sales	50%	50%		
Revenue from PC's	\$12.00	\$11.91	\$23.91	
Future Growth Rate	15%	5%		11
Incremental Future Sales	\$1.80	\$0.60	\$2.40	
Compounded Growth through 2007	\$24.14	\$15.20		
Total Revenue from PC Sales 2007			<u>\$39.34</u>	

Workstations

	<u>World Market</u>	<u>Dell Total</u>	
Worldwide Workstation Sales	\$9.20		11
Dell's Share of Workstation Market	29.60%		12
Dell's Workstation Revenue		\$2.72	
Percent of Dell Revenue		9%	
Future Growth Rate		-9.70%	11
Incremental Future Sales		\$ (0.26)	
Compounded Growth through 2007		\$ 1.63	
Total Revenue from Workstation Sales 2007		<u>\$ 1.63</u>	

Servers

	<u>World Market</u>	<u>Dell Total</u>	
Worldwide Server Market	\$69		12
Dell's Total Market Share	5.50%		
Percent of Dell Revenue		12%	12
Dell's Server Revenue		\$3.83	
Future Growth Rate		7%	12
Incremental Future Sales		\$0.27	
Compounded Growth through 2007		\$ 5.37	
Total Revenue from Server Sales 2007		<u>\$ 5.37</u>	

Storage

	<u>World Market</u>	<u>Dell Total</u>	
Worldwide Storage Market	\$32		13
Dell's Total Market Share	3.40%		
Percent of Dell Revenue		3%	
Dell's Server Revenue		\$1.10	13
Future Growth Rate		23%	13
Incremental Future Sales		\$0.25	
Compounded Growth through 2007		\$3.10	
Total Revenue from Storage Sales 2007		<u>\$3.10</u>	

Projected Dell Revenue 2007**\$49.76**

Appendix B

Table 1 - Personal Computers

	<u>Laptops</u>	<u>Desktops</u>	<u>Total</u>	<u>Page</u>
Dell Worldwide Market Share			13.90%	11
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Table 2 - Workstations

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Current Revenue from Workstations	\$2.72	
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Expected Revenues from Workstations 2007	\$ 1.63	
Expected Market for Workstations 2007	\$ 5.52	
Increase in Market Share	9.00%	
Total Market Share	38.60%	
Expected Increase in Sales (UNIX)	30%	
Total Revenue from Workstations 2007	<u>\$ 2.12</u>	

Table 3 - Servers

	<u>Total</u>	
Dell Worldwide Market Share	5.50%	
Current Revenue from Servers	\$3.83	
Expected Growth Rate	7%	12
Expected Revenues from Servers 2007	\$ 5.37	
Expected Market for Servers 2007	\$ 96.78	
Increase in Market Share	<u>2.80%</u>	
Total Market Share	8.30%	
Increase in Sales	50%	
Total Revenue from Servers 2007	<u>\$ 8.05</u>	

Table 4 - Storage

	<u>Total</u>	
Dell Worldwide Market Share	3.4%	
Current Revenue from Storage	\$1.10	13
Expected Growth Rate	23%	13
Expected Revenues from Storage 2007	<u>\$3.10</u>	
Expected Market for Servers 2007	\$90.10	

Increase in Market Share	1.8%
Total Market Share	5.2%
Expected Increase in Sales	50%
Total Revenue from Storage 2007	<u>\$4.65</u>

Appendix C

Total Dell Revenue 2007

		<u>Cumulative</u>	<u>Page</u>
Current Dell Revenue		\$31.88	
Baseline Growth			
Personal Computers	\$ 15.43		4
Workstations	\$ (1.09)		6
Servers	\$ 1.54		7
Storage	\$ 2.00		8
	<u>\$ 17.88</u>	\$49.76	
Intensive Growth			
Personal Computers	\$5.90		4
Workstations	\$ 0.49		6
Servers	\$ 2.68		7
Storage	\$1.55		8
	<u>\$10.62</u>	<u>\$60.38</u>	
Total		<u>\$60.38</u>	