Case 1 – Dell Computers
2/8/03
Marketing

Dell Must Push Internationally

The majority of Dell's sales (75%) are comprised of US buyers (pg 11). This market is highly saturated with 53% of all homeowners already owning a computer, and these buyers are holding onto their computers for longer than before. Plus most businesses have computer systems in place (pg. 2). Thus the opportunity to grow in the US is limited. With growth rates in 2001 declining by 10% for both laptops and desktops (pg. 11), it is hard to imagine by conducting business as usual Dell will hit the $60B target in 5 years. On top of this factor, the industry's "hyper-growth" was driven by several factors not applicable in today's environment: namely Y2K, boom in tech companies and increased service providers (pg. 1). Thus I believe it would be hard to grow at the 25%-30% growth they have been experiencing, settling more in the 8% range over the course of the next five years in my opinion looking at the slower growth trends. The current recession, continuing technological advancements making computers cheaper, more powerful and computer's longer lifespan will limit sales in 2007 to $48.7B. Currently PCs dominate their sales, but I believe with the growth slowing down in the PC industry; servers and storage systems will begin to account for more of Dell's sales. The server and storage system industries will help to carry the slumping PC and workstation industries. An expansion into international markets will help maintain a high-level of overall PC growth. Asia appears destined to become the new "hot" zone with Dell's recent plant openings in Asia; Dell appears ready to take advantage of the staggering growth. Workstations will comprise relatively the same percent of sales as the downturn in the market is counteracted by Dell's increasing market share.

Dell has three aspects of their business which I identify they can focus on to drive their sales projections. The one I believe to have the largest impact will be their increase in sales outside of the US, particularly to Asia and even more specific China. The new plant that Dell constructed in China will help drive the company's growth. The sheer size of the market offers Dell a great opportunity to grow intensively. From '98-'00 sales in Asia/Pacific and Japan PC sales have nearly doubled. I see no reason to believe as China and ASEAN countries continue to modernize that the demand and size of the PC market will increase. Dell seems situated to take advantage of this, and I believe could increase their market share to closer what they have in Europe with now about 10%. Just imagine the unit sales of China if 53% percent of the households owned a PC. Dell could also have a greater opportunity to gain higher shares of the market share of the Asia PC industry. Dell's market share I estimate could get as high as 9% considering the rapid increase in their market share since '96 (180% growth, pg. 23). This said I estimate the total impact of a focus on Asian markets can generate revenues close to $8B (a $6.1B increase from 2002) [1]. The new Apple computers' advertisement demonstrates the focus of computer firms to Asia/China. Recent Apple spots feature Houston Rocket's Yao Ming, a Chinese basketball star. This demonstrates a dramatic shift in the marketing approach of computer firms. Dell can exploit this approach easily.

Europe I do not envision as having the same impact on sales, because the market isn't growing as much (only 26% compared to the same two year period above). Also Dell already has

[1] 2001 sales=$2618M* 75% (percent of revenues comprised of PC sales)= $1964M * 2/3 (close to two-thirds of sales come from Japan and other Asian countries, p.23)=$1309M. Estimate 17.5% growth in Asia/Pacific and Japan= total market for Asia (assuming Dell holds same share from 2000 to 2001)= $1309M/3.9% (their share of the combined markets)=$33,564M*17.5% growth= total market in 2007= $88328M*9% market share= 2007 revenue= $7949M-$1832.6M (Estimated 2002 figures, based on sales growth from 2000 to 2001)= growth in revenues= $6.1B

a large share of the market. Dell should strive to reach Compaq-type numbers in Europe increasing their share of the market closer to 14%. If they do so, sales would increase in the Europe market by 2007 to $12.1B[2]. Ultimately, the likely way to accomplish both strategies in Europe and Asia is to keep the same direct-sales method and remain the cost leaders, delivering their product at the lowest possible price. Plus Dell must continue to expand and ensure Dell can deliver their products in the various markets. In addition Dell has to continue to coordinate the service centers and increase manufacturing plants to aid in their market emergence.

In terms of integrative growth, I do not view it to be an intelligent means of revenue growth. Vertical integration, which hopes to increase efficiency, reduce inventory and delivery times appears unfeasible, because Dell is already a model of efficiency. They demolish their competition in most aspects of manufacturing. I assert most firms emulate their efficiency. Horizontal integration is something also difficult because most of the PC industry's firms have different manufacturing processes than Dell. In the end, horizontal integration would hurt Dell's direct sales method and there are several better options that they could employ. One possible option that Dell could utilize, partnering up with several firms to offer products and services currently not done by Dell. The marketing alliance formed with EMC is one example of possible link-ups (pg.15). It may not be the best example of integrative growth, but forming partnerships is the best and most viable for Dell. With such moves Dell is able to reduce R&D costs and also keep customers satisfied with bigger and better selection and service. I estimate $1.5B increase in revenues from partnerships (out of the $5B total storage system growth discussed on the next page) formed and the resulting increase in business as a result.

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[2] 2001 sold $6,399M * 75% (percent of revenues comprised of PC sales)= $4800M equating to 9.8% of market (assume hold similar share). 4800M/. 098=total market=$48,980MM, estimate drop in growth over next 5 years to 10% (will reflect closer and closer to US's growth pattern)= total market in 2007= $86,771M*14% market share= $12,148M-$5472M (Estimated 2002 figures, based on sales growth from 2000 to 2001)= growth in revenues= 6.7B

Servers and storage-filing systems offer the two best opportunities for Dell to diversify from their PC customers. Servers offer a growing market, 7% in 2000 (p. 12) I suggest Dell continue to expand its position it holds in the entry-level server area since Dell's position has been increasing rapidly since '97 (p.13) and try to get 30%. Adjusting for growth in the different markets Dell could generate sales of $17.7B [3]. In addition, because one of Dell's core competencies is selling entry-level servers Dell will not be deviating from a product they have not manufactured in the past. Dell's marketing strategy will remain consistent and will help promote Dell's emergence as the major player in the entry-level server market.

Storage-filing systems I view as another source to diversify and grow. A Dell senior executive envisions the low-end storage system market to have a great opportunity for growth. The hi-end remains unattainable as EMC are firmly planted on that segment (pg. 14). But due to their marketing partnership with EMC they have potential to increase their sales significantly. In addition the fact that both the market is increasing at huge rates, 23% in 2000 (pg. 13), and Dell's market share held offers great potential to increase sales. Right now Dell generates $1B in storage systems' sales by 2007 I believe Dell could earn as mush as $5B, due in large part due to their partnership with EMC and the industry's rapid growth[4]. The partnership with EMC will also help improve Dell's name. Considering EMC's retention rate (99%) this is a firm who can further exemplify the quality products Dell can offer.

Their service sector offers some potential, but I tie the increase in associated service revenues growth to be a function of the sales of their PCs, servers and storage systems. In 2002, the forecast was for #3B-$5B in service-related revenues. In 2007 considering the growth in their

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[3] Estimating a modest 5% growth of the entry-level total market= $59B*30% market share=$17.7B. Total server revenue=$17.7B.

[4] Currently generate $1B, divide by $32B (2000 total market)= 3% market share. By 2007 market share=6% and total market sales= $85B ($32B with 15% growth rate). $85B*6%= $5B.

core competencies, sales associated with service will reach an estimated $6B ($2B growth based on average of 2002 figures).

One option Dell has pushed is to reach the consumer by offering their product in retail stores and mall kiosks. I do not believe the consumer market is large enough, currently only 5% of total sales (pg. 10), for Dell to significantly increase their total sales. Furthermore, there is evidence to prove of the difficulty to break away from their direct-sales method and sell to consumers as Dell discovered in '94. Their first attempt to reach the consumer was scraped because of its inefficiencies (WSJ article). Another option, Dell to focus on the workstation industry does not offer Dell a chance to increase revenues because of the market's negative growth in 2000 (p.11).

Ultimately, I view international expansion, particularly in Asia as the best opportunities for increasing sales. Dell has already begun to overcome the difficult political climate especially in China and the sheer potential size of this market is what makes it so attractive. I think much like the telecommunications' network, where China has more cell phone subscribers than the US; eventually China too will surpass the US in market size (probably 20 years down the line however). It will be important for Dell to focus on particular growth avenues mentioned above, some opportunities may be easier pull off. International expansion will mean a large investment commitment to build the facilities. However, I still ascertain the number of potential customers possible to attain will ensure Dell continues to deliver PCs, their largest revenue stream. In the end, I would move Dell's focus away from the highly saturated, price-savvy US PC buyer and target other international markets. But Dell should maintain focusing on the expanding storage and server industries market share, because Dell has been increasing their presence in these markets and can continue to do so. The growth opportunities are present.

		Cumm.	Page
2002 Sales (US$)	31.8B		
Baseline Growth			
PCs	7B		
Workstations	2B		
Servers	3.9B		
Service	2.0B		5
Storage	2.0B		
	16.9B	48.7B[5]	1
Intensive Growth			
Asian Expansion	6.1B		2
Europe Expansion	6.7B		3
	12.8B	61.5B	
Integrative Growth			
EMC Partnership	1.5B		3
	1.5B	63B	
Diversification Growth			
Servers	7.2B		4
Storage	4.0B		4
	11.2B	74.2B	
Total		74.2B	

[5] I estimate PC sales as a percentage of revenues will fall closer to 60%, and percentage share servers, storage-filing systems and workstations play are compromised of estimated 8% total growth in sales of Dell and adjusted their share of total revenues accordingly from 2002 figures.