

Model X

Trends Impacting the Technology Market

Model X will be developed for three market segments: business executive, college students and perhaps as a replacement for the home desktop. I have observed the following five trends that will impact, influence and drive the world and markets that Dell will be operating in during the years 2004 to 2007: (1) convergence of technology and telecommunication, (2) increasing need for personal security and protection against identity theft, (3) price sensitivity and Moore's Law, (4) Increase in customer mobility, and (5) demand for dependability. They are explained below.

(1) Convergence of technology and telecommunication. Model X would be more attractive to the three market segments.

(2) There is an increasing need for personal security and protection against identity theft in the laptop market. College students and business executives are more exposed to theft because they carry laptops everywhere they go. Home desktops are heavier than laptops but they are more secure. It is harder to steal a desktop.

(3) Price sensitivity and Moore's Law

According to Moore's Law, Processor performance doubles every 18 months. In a few years, the performance will be higher. But it can only get so high. Therefore, performance will be less of a deciding factor and price will take over.

- (4) The increase in customer mobility over the past few years has caused a growing demand for lighter and smaller laptops. Even though it takes more effort to design, smaller products are cheaper to manufacture. Dell's cost would decrease.
- (5) Demand for more dependability. Customers would prefer a computer that would not need customer support. Dell has excellent customer support but Model X will be more reliable and will last longer. Within the three segments, there is a demand for longer lasting, dependable laptops. Similarly, the "Armstrong Comredential (commercial and residential)" explains that people want a laptop to look reliable and at the same time have high performance. There are many laptops that look "cheap" but are extremely reliable. Customers are focusing on performance and aesthetics (Professor Jeff Pinegar).

SWOT Analysis in the Model X Business

SWOT analysis consists of a self analysis and an external analysis.

I. **Dell's Self Analysis** (also called Internal Environmental Analysis) is

internally focused on (a) Strengths and (b) Weaknesses.

(a) The following are Dell's strengths, or core competencies.

(1) Dell's excellent customer support has been very attractive to customers for many years.

(2) Dell's advantage in inventory turnover is extremely profitable. They replenish their inventory in five days. Its competitors do not have the strategy to do so.

(3) Dell's Direct Model goes directly to the customer. As we have seen in the previous case, Dell increased its "retail presence"(Wall Street Journal-online-p.1) by setting up online kiosks in shopping malls. They do not need to integrate vertically because they already go directly to the customer with their Direct Model. Furthermore their suppliers are next door. They have a very small and compact value chain.

(4) Dell has economies of scale because they are producing large quantities of their products.

(b) I have observed the following two weaknesses, despite Dell's tremendous success:

(1) Dell has a low international market share compared to its market share in the U.S. It has not affected the international market as well as the U.S. market.

(2) Dell's success is for the most part due to its Direct Model. This strategy allows them to go directly to the customer. But not all market segments are reachable with this Model. Unfortunately, it is not reaching certain segments.

II. **External Environmental Analysis** is externally focused on (a) Opportunities and (b) Threats.

(a) **Dell's three major opportunities are the following:**

(1) ***Differentiation***

Dell has reliable strengths that its competitors do not have. It can differentiate itself with Model X and not worry about loosing customers in certain segments. Model X would be built on Dell's strengths. The high

intensity of competition in the PC industry is due to the fact that, nowadays, most laptops look the same and are approximately the same price. Offering variety and differentiation is one way to reduce the high intensity.

(2) ***Expansion into the International Market***

There is a big opportunity for Dell to acquire a higher market share in the international market by using its Direct Model and great reputation.

(3) ***Focus on other segments.***

It is obvious that Dell cannot afford to go after smaller markets. But by delivering variety, it could get relatively close to those small markets.

(b) Dell's three major threats are the following:

(1) ***Minor Threat of new entrants.***

New entrants can have major influences on the PC market environment for example market shares, prices of products, and customer loyalty. Dell has economies of scale. Dell has achieved customer loyalty, which serves as a barrier to entry. Forward and backward channel integrations are other barriers of entries.

There has been a recent merge of Compaq and HP. Due to the chaotic nature of merges at first, their integration is very weak at the moment. It could become a huge threat before the year 2007.

(2) ***Dell and Competition***

Dell's competitors within the PC industry are broken into two segments

(a) direct competitors and (b) indirect competitors.

(a) Direct Competitors

For example, Compaq and IBM laptops direct substitutes to Dell laptops. Some of the rivals, such as Compaq, have a higher market shares worldwide than Dell does. The intensity of competition is high in the PC industry because there are many companies that are about the same size as Dell. The price differential between Dell's products and its competitors' products has almost vanished. The threat of competition is very high within the realm of direct competitors because of the very low switching costs. Dell's barriers for exit are really high because of its many fixed costs. This serves as an incentive to be more aggressive in the business.

(b) Indirect Competitors

Mac laptops are indirect substitutes to Dell laptops. Mac users are a smaller threat to Dell because they make up a very small portion of the laptop industry. Due to the high switching costs, the threat of substitutes is smaller within this portion. Apple advertises low switching costs but only for things like Word documents not for everything. Basically, a PC user wanting to purchase a Mac would need expensive technology compatible with Mac's and essentially get rid of the technology compatible with PC's.

On Apple's website, they mention running Windows on a Mac. In this case, Mac's would become one of Dell's direct competitors.

(3) *Business Executive High Bargaining Power*

Dell is focusing on the following three market segments:

(a) business executive, (b) college students, (c) perhaps as a replacement for the home desktop. The first segment has high bargaining power since they buy in large volumes. The other two segments have very low bargaining power because they buy in small quantities. Therefore, the business executive poses more of a threat to Dell.

In conclusion, Dell should pay attention to the trends and use their strengths to market Model X better than its competitors. They do not necessarily need to fix their weaknesses. By using its advantages, such as the Direct Model, Dell will be able to sell Model X as well as they have been doing in the past with its other models.

Work Cited

Kotler, Philip. Marketing Management Eleventh Edition. New Jersey: Prentice Hall, 2003.

Pinegar, Jeff.

Rivkin, Jan W. and Micheal E. Porter. Matching Dell. Boston: Harvard Business School Publishing, 1999.