

SWOT Analysis

Founded in 1984, Dell has been a leader in the PC industry as it achieved “phenomenal records in sales and profit growth” (Rangan and Bell, 1). Its target market consists of large corporate accounts, medium and small businesses, and the consumer business. Dell has set out to satisfy each different customer segment through its Direct Model, “the engine of [its] success” (Rangan and Bell, 5). The Dell Direct Model focused on low-cost, direct customer relationships and virtual integration (Rangan and Bell, 5). In order to continue being successful, Dell has to make sure that it produces the right PCs that would be satisfying to customers, and take advantage of the opportunities that are available. Focusing on the laptop industry, if Dell wants to produce a next generation laptop platform that will carry its business from 2004-2007, it should look at today’s trends and how they could impact the next generation laptop. Below is a list of trends along with their implications on the next generation of laptops, along with a SWOT analysis of Dell’s position in this laptop business.

Trends and Implications on Laptops

- *Mobility* – Mobility is increasingly influencing the world and markets that Dell will be operating in. As people are becoming more and more active, they are also searching for mobile products that will be smaller and lighter, that they can carry with them. Therefore, the implication associated with this trend is that the laptop that Dell would produce should be lighter, smaller, with a longer battery life.

- *Internet* – The internet is becoming a necessity in people’s everyday life (Article: *Internet Use Continues to Climb in Most Markets*). People use the internet almost everyday for a broad range of reasons, from checking their mail, to shopping on the World Wide Web. Because of this trend, and the impact of mobility at the same time, wireless internet would be a potential demand. Therefore, Dell should include a wireless option (airport) with their laptops.
- *Moore’s Law* – It has been observed that laptops and PCs in general are becoming cheaper, smaller and faster, with CPU performance doubling every 18 months. This is an effect of people’s demand for continuous improvement and innovation. The new generation laptops would need to have four times the performance we have today in terms of speed, memory space, quality of image, modem speed, hard drive space, and software systems.
- *People today are using their computers for a broad range of activities* – People today can open up many applications at the same time. As the world becomes more and more digitized (digital cameras, MP3 players, music, DVDs, etc...), people use their PCs for a variety of reasons the same time. Therefore, they demand more storage capacity, and at the same time greater speed that will allow them to work faster and more efficiently. The next generation laptop needs to have more storage space, along with memory which will allow it to be faster and keep up with customer demand.
- *Growing economy* – The growth in the economy has been observed on a worldwide scale. The growth in the economy increases demand for productivity, therefore impacting continuous improvements in technology. Companies today

invest more on PCs and they drive demand for innovation. Dell should make sure it continues to satisfy all its customers, and to that it should produce better performing laptops, that will keep up with the various business activities today.

- *Customers are searching for cheaper laptops* – PCs are becoming more of a necessity today, and differentiation within the PC industry is becoming more minimal. As a result, customers (especially first time buyers) make decisions mainly based on price—and therefore search for cheaper products. Therefore, one of the features the next generation laptop would have is that it would be cheaper relative to what it provides.

To summarize, based on the above trends, the next generation laptop platform that must carry Dell's laptop business from 2004 to 2007 should have the following features: It should be cheaper, smaller, faster, and lighter, with a better overall performance.

SWOT Analysis

Strengths

- Direct Model – The Dell Direct model was the “engine of Dell's success” (Rangan and Bell, 5). It gave it an advantage over its competitors as it was very hard to duplicate. The Dell direct model was about “low cost, direct customer relationships and virtual integration” (Rangan and Bell, 5). It was an efficient distribution system “characterized by build-to-order manufacturing, and products and services targeted at specific market segments” (Rangan and Bell, 5). Basically, this model allowed customers to call Dell directly and order exactly

what they wanted in a PC (i.e., they could customize their PCs). It was only after the order was made that the PC was assembled and shipped to the customer in a relatively short amount of time. This Direct Model led to some other strengths Dell was known to have.

- Differentiated Products – Because of its Direct model, Dell was able to be described as having a differentiated product. Every PC assembled would be somewhat different from the previous based on customer order. This was an advantage for Dell since it enabled it to differentiate itself from its rivals and gain relatively more supplier power.
- Customer Service – After sale customer service was another one of Dell's strengths. A customer with a problem could reach a technical support staff through a "hotline that was manned 24 hours a day" ("Matching Dell," 9). After receiving a call, support personnel would retrieve the file that contained details of the customer's computer, and could help the customer solve their problem. In approximately 90% of the cases, the customer and support specialist could resolve the problem over the telephone using the "diagnostic software installed in the factory" (Matching Dell, 9). Customers were very satisfied with Dell and "rated Dell's sales, products, and services highly relative to the competition" (Matching Dell, 9).
- JIT – Dell's Direct Model allowed Dell to manufacture machines that were "tailored to customer needs" and based on Just-in-Time inventory (Matching Dell, 7). The company assembled computers based on customer orders and "held no finished goods inventory of standardized machines" (Matching Dell, 7). Holding

no inventory allowed Dell to reduce its costs and have a competitive advantage over its rivals.

- Economies of scale: Dell is the greatest producer of laptops and therefore has economies of scale in the laptop business. In the United States, Dell had the highest market share in the laptop (and PC business overall) with a 24.8% market share, compared to 11.6% for IBM which was the second highest. Economies of scale allow Dell to have more entry barriers, and hence there was less of a threat of new entrants.
- Efficient Assembly Line: Dell's assembly line was quick and efficient. The production process, from the day the order was made, to the shipping date, took only about a day and a half (Matching Dell, 8). This was an advantage for Dell because customers were satisfied with the amount it took for their product to be shipped to them.

Weaknesses:

- Direct Model – Dell's Direct Model could be seen as a weakness from another point of view. Dell assumes that its customers are educated, which is not the case for every customer. Dell does not provide a retail service which allows the customers to see their computers, and purchase them right away (advantage of retail is that it is time efficient from the consumer standpoint). Therefore, the model is limited because it cuts off a substantial part of the consumer market.
- Low market share in the International Market – Compared to its rivals, Dell had a low market share in the international market. In Western Europe, Dell only had less than a 10% market share, and in other parts of the world, Dell had a market

share lower than 5% (Rangan and Bell, 23). This is a weakness because international diversification is very important. Since most of Dell's revenues come from the US market, having a low market share in the international market is more risky today because of the effects of economic downturns.

- Laptop customization was limited – Although Dell had an advantage in allowing customization within its PC industry, there was a limit to how much you could customize your laptop. Therefore, Dell was not much differentiated compared to its rivals within the laptop industry.
- Quality of Display – In my opinion, Dell's laptop has a weakness in its quality of display. The physical aspect of Dell's laptops in general was not as great as Apple laptops for example, or even its rivals within the PC industry.

Opportunities:

- European Market – Dell has an opportunity to increase its market share in the European market. Dell can increase its market share by “providing simpler services to accompany its products” (Article: *Interview: Dell Pres: Phones, Computers to Stay Separate. The Wall Street Journal*, February 18th, 2003). Dell now has approximately 10% of the market share in Europe, and could increase its share to between 20% and 25% (Article: *Interview: Dell Pres: Phones, Computers to Stay Separate. The Wall Street Journal*, February 18th, 2003).
- Internet being indispensable – As I mentioned before when discussing relevant trends to the PC industry, the internet is becoming more and more of a necessity. This could be an opportunity for Dell to include wireless options on its laptops and could also consider incorporating Bluetooth.

- Mobility – Dell could consider focusing on producing more products that allow for mobility. As demand for mobility increases, Dell could take advantage of that to satisfy the customers' demand.
- Growing Economy – Increasing growth in the economy is an opportunity for Dell to increase its market share, and at the same time production as well. Since most of Dell's revenues come from large businesses, a growth in the economy would drive demand for production.

Threats:

- Increasing Demand for Innovation – The threat with performance increasing each year is that there is a physical limit to how far you can go. People will soon be satisfied with the level of performance not to demand anything more, and are going to be more susceptible to other things such as prices, or quality of the product. If Dell only focuses on performance, this trend might be a threat in the future.
- Intensity of Rivalry: As performance increases, differentiation between brand names is going to decrease. Dell's rivals are finding ways to increase their market share by replicating some of Dell's advantages. For example, IBM recognized the advantages of direct distribution and launched initiatives to expand its own direct sales (Matching Dell, 10). Compaq saw the advantage of reducing inventory, and therefore took initiatives to do so. It "moved from a production system in which it built business PCs according to its own forecast to one in which it built according to forecasts made by channel members" (Matching Dell, 11). This change in production allowed Compaq to double its inventory turnover (Matching

Dell, 11). Since its rivals are starting to “copy” its strategies, Dell’s strengths would no longer be advantages if this continues.

- Not being able to keep up with demand for innovation – Consumers are constantly looking for improvements in technology. If Dell fails to keep up with consumer demand, it can make great losses, and could lose a major part of its market segment.
- PDAs replacing laptops – Whether this is a threat or not is still unknown, but there is still a possibility that PDAs will soon replace laptops. Debates are made on whether or not PDAs are complimentary to or substitutes for laptops. If the case was that PDAs substitute laptops, it would be a threat to Dell’s laptop business.

To conclude, in order for Dell to compete efficiently in the laptop industry in the future it needs to take advantage of all of the above opportunities. Consumers are becoming increasingly more demanding and price-sensitive. The next generation laptop must be consistent with the relevant trends affecting the industry today. If Dell succeeds in its attempt to make a product that fits the trends, it will probably still remain in its leading position in the future.