

Student Name  
4/8/03

BUS341A  
Dell Case #3

To Michael Dell:

In light of my research on our laptop's situation, I suggest pursuing Option1: to continue with the proven battery technology, NiHi. My suggestion is based on both strategic and financial analysis, given Dell's past and current success and position in the laptop market.

From the strategic point of view, a SWOT analysis reports no doubt that Dell has been a very successful company, and continues to be. This success branches from embracing our strengths and following your executive decisions to seize numerous opportunities. However, just as we are in a leadership position in providing superior online sales, customization, business relationships, and elimination of inventory, we must also recognize that our reputation as leaders in the laptop industry has not been proportionally high. Dell has, therefore, been threatened by the leaders of the laptop market. Rumors of inadequate technology in 1992 and occasionally questionable forecasting effects have also worked against our line of laptops from the start. (p.8) This unfortunate laptop situation has, in turn, become a weakness of ours. So, we must work on a way to bring Dell's laptop reputation up to that of its PCs, networks, and workstations.

That is to say, we must simply be more careful with the risks we take on our laptop platform. This is why I believe we should build a strong foundation for our laptops (as we have for our other products) using the proven NiHi battery. Because our research has shown consumers reluctant to invest in our laptops in the past (Exhibit A), it is important to prove our laptops a sure purchase by launching a product of which we are

certain. This puts our platform as subject to consumer evaluation of the laptop itself, rather than of the laptop's technologically innovative battery. Since our technological engineers affirm that they are only 60% sure of the success of the LiOn battery, (p.21) I do not see this risk as advantageous to Dell's reputation in the laptop industry. Of course, there is a chance this technology will succeed, but I would not be willing to bet an uncertain innovation on a 60% chance of success, in addition to a possible detrimental confirmation of Dell's image as incapable of providing a reliable laptop.

Besides, we must also consider today's rapid technological innovation, education and ongoing globalization when determining our position in the laptop market. Realizing that we have a number of aggressive competitors in the laptop industry, it cannot be denied that while we are leaders in other dimensions, we do not lead the laptop market. If we, therefore, launch a new laptop on a gamble of its success, we are admitting to ourselves that the use of the LiOn battery is not yet perfected. For the very reason that we do not lead the laptop market, other companies will have the immediate advantage of reworking our original idea to make the LiOn battery work to its highest potential. This event would allow them to associate themselves with the success of this new battery, and by extension put our original product in second place. Not only is the pace of laptop innovation constantly increasing on a local scale, but the effect of globalization is multiplying the factor by which technological innovations can be acquired and mastered. Therefore, I strongly believe that Dell should stay conservative in its laptop platform and contain its ambition by perfecting the NiHi battery model, so as to secure Dell's position in the laptop market.

After all, we have already established Dell's strong target market as the relatively technologically savvy relationship business. As one of our strengths, dedication to this

market segment is instrumental in the success of a new laptop. While the established relationships are tight and well kept, we cannot afford to disappoint those to whom we owe our greatest business. Providing an entire business with a less than certain technology would most likely cause a rift in the relationship, not to mention that recalling a product from several companies would not live up to our identity as a producer of effective and reliable products. Losing this loyal segment of the population would push us to acquire the market of individual customers, a segment requiring a change in strategy in which Dell does not specialize. Dell has always focused on the already educated consumer, often purchasing for work-related purposes. Changing the focus to individuals will place stress on our customer service department, currently only fit to handle limited inquiries and free of “hand-holding” responsibilities.

Finally, let me conclude by presenting the situation from a financial point of view. The fact is that certainty plays a crucial part in the financial outcome of this laptop’s success. The net margin figures are the highest in the deferral of commitment to a single battery. A dual development path would yield a net margin of \$541.9m and an over-designed path a net margin of \$533.3m. However, this calculation comes with the intention of soon launching a perfected LiOn battery-operated laptop, the success of which is countered by a projected 4% loss in sales for every month of delay. (p.19) When the NiHi option’s net margin is compared to that of the LiOn option, the first results in an expected additional \$40.8m. (\$485-\$444.2) Although not extremely high, this figure shows a solely financial advantage for the NiHi model, backed by the numerous previously outlined strategic advantages. Since laptops are not Dell’s primary profit owners, I encourage you to remember the importance of Dell’s overall reputation, as your company is in no financial danger requiring an increase in profit.

**Exhibit A.**

Dell Computer Corporation – Selected Sales and Financial Data  
Sales by Products and Segments (1991-1993)

	<u>1991</u>	<u>1992</u>	<u>1993</u>
Net Sales (\$M)	\$890	\$2014	\$2873
Products			
Desktops	90%	88%	94%
Laptops	10%	12%	2%
Servers			4%
Market Segment Sales			
Relationship	59%	61%	64%
Transaction	41%	39%	36%
Markets			
US	72.8%	72.5%	70.9%
Europe	27.2%	27.5%	27.2%
<u>Asia</u>			<u>1.9%</u>

Source: D. Narayandas and V.K. Rangan, "Dell Computer Corporation," Harvard Business School Case No. 596-058