

## Case Application \_unit02

### Dell's Rebooted Asian Strategy

#### **The computer maker can't expect instant results from its decision to sell its products in retail stores**

Earlier this month, the company broke a 23-year tradition when it unveiled plans to sell its products at retail outfits across the Asia-Pacific region. The announcement is significant for a company that had long marketed itself as the golden child of a direct sales model.

According to analysts ZDNet Asia spoke to, it was a move that was inevitable particularly in the Asia-Pacific region, where consumers like to physically handle a product before they buy it.

Bryan Ma, IDC's Asia-Pacific director of personal systems research, described the move as "necessary" because Dell was often criticized for pushing its direct model in a region where consumers prefer to "feel and touch" their products and pay in cash.

"[The direct model] worked very well for them in the past because the bulk of their business has been in the enterprise and public sectors," Ma explained. However, Dell has had limited success in the Asia-Pacific consumer market, where its lack of physical retail presence was a disadvantage particularly against competitors such as Hewlett-Packard (HP) and Acer.

Diptarup Chakraborti, Gartner India's principal analyst of Asia-Pacific client computing markets, said Dell has been facing some resistance from users who do not buy or make advance payments for expensive products such as a notebook, without first seeing the product. Chakraborti noted that this has compelled Dell to change its strategy and enter the retail space.

In addition, Ma noted that a lot of growth in the last few years had centered on the consumer market, with Acer and HP gaining a fair bit of market from their notebook shipments. "That's where Dell has been left out of the game, so this decision is a good step forward," he said.

Chakraborti added that the PC maker has been "toying" with the possibility of going indirect for a long time, and the wakeup call came when it lost its leading position to HP.

In a phone interview with ZDNet Asia, Paul-Henri Ferrand, Dell's president of Asia Pacific South, acknowledged the company "may have overlooked" some areas in the past, including the consumer and SMB (small and midsize business) market segments, but it is now seeking to address these gaps. He said the company is placed 34th on the Fortune 500 list and remains profitable today, amassing a fortune worth US\$12.3 billion in cash and investments. The company is "number 1 where it matters", such as its leadership position in the global large-size business market with a 31

percent share, Ferrand said. He added that Dell has always been focused on growing its corporate business, where 85 percent of its revenues come from businesses.

While the PC manufacturer recognized it has had a challenging last few quarters, Ferrand stressed that Dell is unconcerned about how its competition are doing in the market, and is instead focused on how it can improve its customer proposition. "Consumers is a market by itself... We recognize that while we have been delivering products to consumers, we never had the strategy or organization to go after this market," he said. Dell has since formed a global consumer business unit to ensure its resources are "aligned to serve consumers", he noted. "Right now, everything will revolve around consumer behavior and so on." He added that Michael Dell's return to the helm helped spark the recognition that the company needed to have a bigger presence in this market segment.

### **Indirect inexperience will show**

Chakraborti said: "This move [toward an indirect model] does not reflect negatively on Dell as it shows the organization has the gumption to recognize their weakness and take steps to correct the same. "However, the fact that Dell has no experience in channels and with some really stiff competitors in Lenovo, HP and Acer in the market, Dell will have to be really innovative if they [want] to win back market share," he said.

IDC's Ma agreed, adding that the challenge the company faces lies in its lack of retail expertise compared to an old-hand such as HP. "HP is so well-entrenched... It'll be a slow-going process for Dell, and they will have to learn from their mistakes," he said, noting that it will take at least another year or more for Dell to figure it out.

Chakraborti warned though that it will need to take a gradual approach in implementing its channel strategy to avoid failure, which will hurt the company more than its absence in the reseller market. "Dell should be cautious in its retail venture and take a step-by-step approach, rather than do everything at the same time," he said. "[Its] competition will leave no stone unturned to make Dell fail in this venture, and Dell should be guarded against this."

Its archrival HP, appears ready to meet the challenge. With Dell's impending move to adopt the indirect sales model, running on a channel strategy may no longer be HP's differentiator.

In spite of this, the current PC market leader seems unfazed.

Dennis Mark, vice president of marketing for SMB and TQS (total quality service), HP Asia-Pacific's personal systems group, said the company feels "vindicated" when its competitors start looking at indirect and retail channels because this demonstrates HP's strategy to offer customers "choice of channel, products and solutions was the right one".

"Partnering is in our DNA," Mark said, adding that HP has over 40,000 channel partners in the Asia-Pacific region and 250,000 channel partners worldwide. This network allows both enterprise customers and consumers to buy HP's products through a channel partner, online or retail shops, he said.

Unperturbed by Dell's pending onslaught, Mark said HP believes its "most complete" channel network will become "an even bigger differentiator" for the company. He noted that the company is already in 420 cities in China, and will be looking to increase this number to 600 over the next few quarters. HP is also present in 425 cities in India, and is targeting to up the number to 525 in the next few quarters, he added. Mark further described the company as "streets ahead of competition" in terms of its partner network and customer support. "We feel great about our current [market] position globally, as well as in the Asia-Pacific region," he added. "Over last year, HP broke away from the competition...on the back of our multi-channel, partner-driven, customer-focused global strategy to deliver products...designed and innovated to deliver a truly personal computing experience to users."

### **New hybrid sales model**

However, Dell is placing its bets on a model that is a blend of both direct and channel sales. Ferrand stressed that Dell is not abandoning its direct model, which has helped provide the cost advantage it has over the competition. "We're not going direct like everybody else, where they're simply pushing their products on retailers or resellers to sell," he said.

Rather, Dell will continue to preserve and improve its supply chain which, he said, will prove to be a critical competitive differentiator for the company as Dell makes its play in the retail market.

"We're going to leverage our build-to-order capabilities so our resellers won't have to carry inventory, and we can still have a winning strategy without being a HP or Lenovo," Ferrand said. "Our competitors typically don't have the supply chain that we have, and would [stock] thousands of their [computer] systems on the shelf," he explained, noting that this adds to their inventory cost. In addition, consumers can only choose from specific configurations available on the retail shelf. "So it's a traditional supply-driven model," Ferrand said. In contrast, Dell's new retail strategy will be supported by a network of VARs (value added resellers) and retail chains that can leverage the PC maker's already-proven supply chain, he said.

He noted that the company's retail strategy in the Asia-Pacific region will be a mix-and-match of both the direct and indirect sales models, where Dell's go-to-market strategy will likely differ between countries.

Ferrand explained that retailers can choose to have a handful of system configurations on the store shelf for consumers to see and touch. If a customer wants a model that is not available on the shelf, or that may not be in the inventory, the retailer can still place an order configured to the customer's requirements and have the system delivered to his doorstep. "That's an example of how a distributor or retailer will not need to carry much inventory, but is still able to leverage our supply chain model," he said. "They can have bigger profit margins, split between them and Dell, and consumers also have more choice." Ferrand declined to elaborate on such revenue-sharing models because the company is still working out the details behind their retail sales strategy for the region.

According to Gartner's Chakraborti, rather than simply take the reseller route in the Asia-Pacific, the company should focus on establishing alliances with large retail chains similar to its partnership with Wal-Mart in the United States.

### **What Dell must do**

Chakraborti said Dell should also consider zooming in on its competition with Lenovo in countries outside the latter's stronghold in China, especially since Lenovo is currently "also a bit shaky". "India would be an ideal launch pad," Chakraborti said. He suggested that Dell needs to activate a strategy to enter smaller cities in India, as well as China, and expand its AMD-based portfolio to penetrate these smaller towns. He added the company does not need to abdicate its direct model, which it is "still a master at", as it can help Dell reach smaller towns in countries such as India and China, as well as enhance its visibility and trust among consumers.

IDC's Ma said: "It's not just about having a presence in channels, it's also about building the brand. Dell's brand isn't weak but it needs to convey the message that it's hip and an attractive brand. "Marketing to consumers isn't the same as to enterprises, which don't usually want change whereas consumers want something that shows their status and [ability] to look cool," he said. Dell needs to be perceived not as a clunky enterprise box maker, but one that produces products that are hip, Ma said, adding that its latest Inspiron notebook series—available in multiple colors—shows some efforts in moving toward this direction.

Chakraborti added that growing a services division that is as strong as IBM's and HP's will also add to Dell's overall margins.

According to Ferrand, services will indeed be a significant part of the company's growth strategy. In fact, Dell currently operates a US\$6 billion services business and the company believes it can outplay the likes of HP and IBM, he said.

"There's immense opportunity for us to grow, around the box, around client management as well as the IT architecture," he added. "It's a huge business and it's the fastest-growing division in Dell."

The company clocks 38 million technical calls a year, has 55 million systems under warranty, and hires 12,000 service personnel worldwide, Ferrand said.

"It's a massive organization, but we think we can do more," he noted. He added that Dell wants to establish a stronger link between its products and services business, allowing for service offerings such as Dell Connect, to be extended "beyond the box" of its SMB PC customers.

**Source: Business Week, Technology July 23, 2007**

## **DISCUSSION QUESTIONS:**

1. Identify business environment factors mentioned in the case that possibly impact on Dell.
  2. Why has Dell changed its strategy and business model in Asian market ?
  3. Which factors that possibly affect the success of Dell's new strategy implementation?
  4. What are implications for businesses who are successful in domestic market when they decide to go internationally?
-