

Case Application (Structure)

Strategy Implementation at Dell Computer

Dell Computer was one of the fastest-growing companies of the 1990s, and its stock price increased at the rate of 100% per year, delighting its stockholders. Achieving this high return has been a constant challenge for Michael Dell. One of his biggest battles has been to manage and change Dell's organizational structure, control systems, and culture as his company grows.

Michael Dell was 19 in 1984, when he took \$1,000 and spent it on the computer parts he assembled into PCs that he sold over the phone. Increasing demand for his PCs meant that within a few weeks, he needed to hire people to help him. Soon he found himself supervising three employees who worked together around a six-foot table to assemble computers while two more employees took orders over the phone.

By 1993, Dell employed 4,500 workers and was hiring more than 100 new workers each week just to keep pace with the demand for the computers. When he found himself working 18-hour days managing the company, he realized that he could not lead the company single-handedly. The company's growth had to be managed, and he knew that he had to recruit and hire strategic managers who had experience in managing different functional areas, such as marketing, finance, and manufacturing. He recruited executives from IBM and Compaq. With their help, he created a functional structure, one in which employees were grouped by their common skills or tasks they performed, such as sales or manufacturing, to organize the value chain activities necessary to deliver his PCs to customers. As a part of this organizing process, Dell's structure also became taller, with more levels in the management hierarchy, to ensure that he and his managers had sufficient control over the different activities of his growing business. Michael Dell delegated authority to control Dell's functional value chain activities to his managers, which gave him the time he needed to perform his entrepreneurial task of finding new opportunities for the company.

Dell's functional structure worked well and, under its new management team, the company's growth continued to soar. Moreover, Dell's new structure had given functional managers the control they needed to squeeze out costs, and Dell had become the lowest-cost PC maker. Analysts also reported that Dell had developed a lean organizational culture, meaning that employees had developed norms and values that emphasized the importance of working hard to help each other

find innovative new ways of making products to keep costs low and increase their reliability.

Indeed, Dell rose to the top of the customer satisfaction rankings for PC makers because few customers complained about its products. Its employees became known for the excellent customer service they gave to PC buyers who were experiencing problems with setting up their computers.

However, Michael Dell realized that new and different kinds of problems were arising. Dell was now selling huge numbers of computers to different kinds of customers, for example, home, business, and educational customers and different branches of government. Because customers were demanding computers with different features or more computing power, the company's product line broadened rapidly. It became more difficult for employees to meet the needs of these customers efficiently because each employee needed information about all product features or all of Dell's thousands of different sales offers across its product range.

By the late 1990s, Michael Dell moved to change his company to a market structure and created separate divisions, each geared to the needs of a different group of customers: a consumer division, a business division, and so on. In each division, teams of employees specialized in servicing the needs of one of these customer groups. This move to a more complex structure also allowed each division to develop a unique subculture that suited its tasks, and employees were able to obtain in-depth knowledge about the needs of their market that helped them to respond better to their customers' needs. So successful was this change in structure and culture that by 2000, Dell's revenues were more than \$35 billion and its profits in excess of \$3 billion, a staggering increase from 1984.

Michael Dell has continued to change his company's structure in the 2000s to respond to changing customer needs and increasing competitive challenges from Apple and HP. For example, Michael Dell realized that he could leverage his company's strengths in materials management, manufacturing, and Internet sales over a wider range of computer hardware products. He decided to begin assembling servers, workstations, and storage devices to compete with IBM, Sun, and HP. The increasing importance of the Internet also led him to pay more attention to more specialized groups of customers and find the best way to customize its approach to best meet each group's specific needs over the Internet. Today, for example, Dell can offer large and small companies and private buyers a complete range of computers, workstations, and storage devices that can be customized to their needs.

To help coordinate its growing activities, Dell is increasingly making use of its corporate Intranet to standardize activities across divisions and integrate its activities across functions to reduce costs. Dell's hierarchy is shrinking as managers increasingly delegate decision making to

employees who use its advanced IT to access the information they need to provide excellent customer service. To reduce costs, Dell has also outsourced most of its customer service function to India. As a result of these moves, Dell's smaller United States workforce has become even more committed to maintain a low-cost advantage.

Its cost-conscious culture is more than ever an important factor affecting its competitive advantage that has been threatened by the many cost-saving moves made by competitors such as Apple and HP that have imitated and even improved on its cost-saving strategies.

Case Discussion Questions

1. Given information in the case and possible sources from the Internet, identify the types of Dell's organizational structure and draw the charts in each of its period of time.
2. Why has Dell moved to different kinds of organizational structures over time?
3. Has Dell's performance been improved thank to its changes in organizational structure? Explain.
4. Search the Internet to find out how Dell has been trying to increase its performance and how its competitors such as Apple and HP have also been working to improve theirs.