Dell Computer Corporation – Best practice for Relationship Marketing?

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CONTENT

1. Introduction Section

1.1. History of Dell

When Michael Dell was a freshman at the University of Texas in 1983, he sold disk drive kits and random access memory chips in Austin, Texas for earning additional money. In April 1984, he decided to establish a corporation named Dell Computer Corporation to sell "PC's Limited" brand computers. His business model based upon the idea that intermediaries can be surpassed in the business to the mutual benefit of both, his company and the customer. The "Direct Model" was created. Success confirmed his business model so in 1987 he could start the first international subsidiary in England followed soon by Canada, France and Germany. In 2003 the company is represented in almost every country in the world and is even manufacturing in four continents.

Today DELL is the world's leading computer company with a market share of almost 19% (Dell Computer Corporation 2003b). In 2002 Dell employed 34,600 people worldwide and generated a net revenue of more than 31bn USD (Dell Computer Corporation 2003b).   DELL's top competitors are Hewlett-Packard, IBM, Fujitsu and NEC in the personal computer market, which constitutes Dell's main market.

1.2. Aim of the Report

The aim of this report is to assess the extent to which DELL conducts relationship market methods. Despite the range of models existing to describe and analyze relationship marketing, we decided to apply the six-markets model, introduced by Christopher, Payne & Ballantyne (1991).

The characteristic that this model comprises six markets namely Internal Market, Recruitment Market, Supplier Market, Referral Market and Influence Market with the Customer Market in a central position reflects the importance of focusing all company's efforts ultimately on the customer. Moreover it

provides a simple and understandable framework making it easy in its proposition.

Our choice on the company DELL Computer Corp. was mainly influenced by its tremendous success within the last 15 years, making it to one of America's most admired companies (Fortune 2003). For us it was interesting and challenging to find out if the company makes efforts to build relationships and if these relationships were jointly responsible for its success.

2. Report Section

2.1. Customer Market

Customer relationships should still remain the focus of all company's activities. The six-markets model (Christopher, Payne & Ballantyne 1991) therefore places the customer market in the centre, surrounded by the other five markets.

Michael Dell emphasises the significant status of customers to the company's business by stating 'Finding ways to get close to your customers is critical to your success.' (Dell 1999, p.157). In an Interview he called this strategy "virtual integration with customers" (Magretta 1998). He affirms that DELL Computer Corp. detaches the partnership function from the marketing department, making everybody in the company responsible for fostering the relationship to its customers.

DELL organizes its business around three main customer segments: large corporate customers also called relationship customers, home and small businesses (transaction customers) and the public sector. Interestingly DELL uses relationship marketing terminology to characterize these segments (Kraemer et al 2000, p.8).

Hence the company approaches each segment differently and customized to the specific needs. The world's largest computer manufacturer mainly utilizes two communication channels, the Internet and call centres.

DELL assigns sales and telephone service representatives to individual relationship customers, whereas each sales representative is dedicated to only one customer. In 1999 30 DELL employees worked to maintain Boeing's 140.000 PCs (Kraemer et al. 2000, p.9).

"Premier Dell.com" is the procurement portal for large customers. The websites are customized allowing all registered customers to communicate faster with DELL, to place orders online and to request technical support 24 hours a day. Moreover DELL enhanced those functions by offering accounting, support and planning modules and with that they take over part of the clients IT Management function. Mutual value is created as resources are set free in the buying company which can be allocated better in its core competence, as well as for DELL as it becomes an integral part of its customer's value chain. This results in strong bonds between both partners and to consult Porter's Five Forces, DELL minimizes the threat of substitution (Porter 1979).

The Direct Model plays a central role in DELL's success in maintaining valuable relationships with their customers. As DELL deals directly with their customers they have huge opportunities to gather timely customer response. This response in turn provides the company with precious feedback. In the early 1990s McKenna (p.67) called the underlying marketing strategy "knowledge-based and experience-based marketing". The feedback helps DELL to constantly revise their products in order to meet best customer's requirements.

This advantage is especially applicable to the company's large corporate customers. But the Direct Model certainly gives DELL an information lead over its competitors.

Tailor-made products are only one part of DELL's customer relationship efforts. As already mentioned above the company tries to be an integral part of the customer's value chain. Therefore it adapts to processes where necessary instead of imposing its way of doing business on their customers. Kraemer et al. (2000) offer a good example for this. As the mayor IT provider for Boeing DELL connects to Boeing's procurement system EDI, making it easier for Boeing's staff and saving them change-over cost.

Research on the profitability of customers showed that loyal customers are not necessarily profitable (Reinartz & Kumar 2000). The Company has a clear customer strategy by concentrating on what they call "scalable business", namely customers with whom revenues can be increased stronger than expenses. Hence the biggest piece of the company's revenue cake derives from the very large customer segment (Magretta 1998).

The so called "Platinum Councils" are another means of maintaining a close customer relationship. DELL organizes semi-annual meetings for their biggest customers inviting executives and technicians to discuss latest developments in technology and giving them the chance to exchange views and experiences.

All above listed examples draw a good picture of the way DELL intents to build and maintain a good relationship with their customers. It also becomes clear, that the company regards some customers more relationship worthy than others, by analysing customer value and segmenting. The largest customers even constitute a segment-of-one. Consequently relationship-building measures concentrate on these groups. This philosophy becomes obvious as DELL names its biggest customers "relationship customers" in opposing "transaction customers".

2.2. Supplier Market

An important part of DELL's external relationships and actually the most important column of the direct model are DELL's relationships to suppliers. In the literature, these bonds are called 'business-to-business' (B2B) relationships. (e.g. Egan 2001). They can also be described, according to Palmer (2000, p.689), as 'vertical relationships': they integrate all, or part of the supply chain.

In the following, it will be described how DELL's supplier network developed over time and how DELL manages this network.

DELL's supplier relationships underwent an interesting development in the last 20 years. Early in its history, the company had more than 140 different suppliers. Over time, maintaining these many relationships proved to be too costly, and its complexity, decelerated time to market. Therefore, DELL redesigned its computers in a way, that different models utilize as many of the same components as possible (Zuckerman 1997 in Kraemer et al. 2000). Today, DELL only has about 30 suppliers provide 75 % of their material needs (Jacobs 2003). This involves that these suppliers are global suppliers, following their customer in new international production ventures, what literally means, that they build plants next to the DELL plant. (Dell 1999, p.178, 179)

As shown, today, the rule at Dell is to have as few suppliers as possible (Magretta 1998, p.75). However, Gummesson's (1999, p.129) recommendation, to be polygamistic in vertical relationships, is applied at DELL as well. Almost every component has two or more suppliers. (Jacobs 2003). So DELL avoids risky single sourcing.

In order to stay flexible, DELL's maintains a dynamic supplier relationship network, that means not all supplier relationships last a long time. Where technologies are stable, for example in monitors, DELL maintains long-lasting relationships, e.g. with Sony, whereas in more volatile segments, e.g. memory components, relationships can be short. (Magretta 1998, p.75)

To manage its supplier relationships, DELL applies a lean just-in-time pull concept, requiring suppliers to restock parts only as they are needed (Dell 1999). This concept is quite sophisticated in practice, due to the fact that DELL has no mass-production but produces build-to-order, which requires DELL and its suppliers, e.g., to have available special components at any time in unpredictable quantities (Kraemer et al. 2000, p.5).

To make this complex process work, the supply chains of DELL and its suppliers are neatly interwoven, and can therefore be called virtually integrated. This means Dell shares inventory data, design-databases, quality data, technology plans as well as daily production requirements openly with its

suppliers through a 'real-time window' into its information systems (Magretta 1998). The real-time window consists basically of an internet-platform called 'valuechain.dell.com' and various softwares, e.g. 'CAPS' of 'PartMiner' for Supplier relationship management, 'Ariba Buyer' for procurement, and many more (Jacobs 2003).

Furthermore, DELL passes on customer feedback directly to its suppliers, so they are able to benefit and adjust, e.g., their outputs quickly. DELL also communicates to its suppliers shifts in the demand of certain types of models, to allow the suppliers quick adoption to customer demand. (Dell 1999, p.174, 175, 179)

Michael Dell points out, that through these actions, the traditional bid-buy cycle is replaced by a mutually beneficial partnership (Dell 1999, p.180, 190). Indeed, the on-line, real-time sharing of information on orders and production throughout the entire supply chain offers clear cost advantages as well as flexibility: despite the fact that inventory is low, both, DELL and the suppliers rarely miss out on sales opportunities because of inventory limitations. (Kraemer et al. 2000, p.8). However, even more important is, DELL is able to have the industry's lowest inventory level, which means a lot in the IT-Business, where inventory depreciates rapidly. According to Mendelson and Pillai (1998), product life cycles in the PC industry have shrunk from about 22 months in 1988 to 6 months in 1997, and the price/performance of key components has continued to double every 18 months or less.

The described customer-supplier partnerships go beyond bonding in production, even Research and Development (R&D) is affected.

Rapid technological development and tightening margins have increased the industry's R&D costs, forcing companies to work together in joint research projects (Sheth & Parvatiyar 1995, p.410). As DELL is not inventing new computer architectures itself (Magretta 1998, p.82), mainly because it does not want to be 'the twenty-first horse' in the competition, DELL tries to partner

with the big players of the business, e.g. Microsoft. Joint design teams were founded, to which suppliers assign their engineers to. (Dell 1999, p. 195, 196)

The above mentioned examples show, that many of the primary benefits of customer-supplier bonding in the sense of Brennan (1997), also occur due to a vast extent in the case of DELL, e.g. the gain of in-depth understanding of the customers requirements, supplier involvement as a member of the team, customers´ greater certainty about future revenues as well as increased information flow and greater information trustworthiness. DELL and its suppliers can gain many of the advantages of vertical integration, without the drawbacks associated with acquisitions. (Sheth & Sisodia 1999, p.82).

To conclude, it can be said, that DELL applies to a vast extent relationship marketing methods and is really successful in doing so.

However, it seams that the downsides of partnering are passed to the suppliers. The following examples show again DELL's success, but confirm on the other hand a statement of Gummesson, that the 'balance of power' between buyer and seller is rarely symmetrical (1999, p. 16).

Although, Michael Dell describes the relationships to the suppliers as a kind of friendship, in fact, they are not. Michael Dell himself says that DELL wants to be a tough customer. This is mainly to avoid complacency among suppliers, that Brennan (1997, p.771) describes as one of the downsides of partnering. Using, for example, a 'supplier report card', a tool to 360-degree evaluate a suppliers performance also in comparison to other suppliers, DELL ensures that e.g., cost, defect tolerance, availability of technology, inventory velocity, etc. are always up to its expectations. Otherwise, a supplier is dropped. (Dell 1999). These measures help to secure that DELL avoids 'backing the wrong horse' (Brennan 1997)

In addition to that, key components must be stored within 15 minutes of Dell plants, and suppliers must ensure both, 2 hours of inventory in the plant at all times (McWilliams 1997) as well as 10 days of inventory nearby the DELL

plants. (Jacobs 2003) The ownership of the parts stays with the supplier until they are used. That shows clearly that the inventory problem is not really solved, but passed to the suppliers, they have to cope with costly inventory.

2.3. Internal Market

In the traditional marketing approach the internal market did not play an important if any role, whereas relationship marketing sees the importance of the internal customer. The employee is regarded as an enabler 'to enhance external market place performance' (Ballantyne, Christopher & Payne 1995, p.15). To put it more drastically, 'if internal marketing is neglected then external marketing suffers or fails. (Egan 2001, p. 149)

The internal market consists basically of the employees. They are important for marketing, as a firm's employees are the ones who create and foster trust and relationship with the customers. (Parasuraman et al. 1991, p. 43) Hence, there needs should be regarded, Shershic (1990, p. 45) argues, meeting the needs of the employees is the basis to meet the customers' needs.

Michael Dell knows about the important role of the employees. In his view, the enormous growth the company experienced within the last decade could only be achieved by the winning culture among his employees. (p.108) He goes even further by asserting that the 'greatest threat to DELL wouldn't come from a competitor […] It would come from our people'. (1999, p.107) This provocative statement basically means in case the employees lose the entrepreneurial team spirit the company would fail.

At DELL, employee satisfaction is achieved by partnering with employees through shared objectives and a common strategy. For this, goal congruence between employer and employees is needed. In order to act in concert, employees are treated like co-owners. To put it in Michael Dells words: 'We give them the authority to drive the business in a particular direction, and provide them with the tools and resources they need to accomplish their goals.' (Dell 1999, p.109)

To assist employees in understanding the DELL way of doing business, in 2001, an initiative was launched, called "The Soul of DELL." The results were used to compose an employee guidebook about DELL's ideals. (Sloan, 2003)

These examples show, that DELL puts empowerment as defined by Bowen and Lawler (1992, p. 32) to a vast extent into practice. Employees get informed about the organisation's performance, enabling them to make a proper performance contribution. As shown, they also get the power to make decisions that influence the company's direction.

However, employees as human beings need more than rather technical information and goal congruence to feel good. Next to goal congruence, another interesting approach is the occasionally questioning of management authority. When goals are achieved, several times a year a so called "Management Pay Up Day" is organized. An employee team decides what they want the managers to do to show their appreciation of staffs work, for example, managers were ordered to amuse staff by dancing in hula skirts (Soggy Managers, 1999).

This approach of 'getting along with everyone well' deepens relationships between management and staff. As a result, the workplace gets homely for employees, with positive results for commitment, motivation and output efficiency.

As a kind of backup and control element, a great emphasis at DELL is on team-work, a concept called "two in a box", even the CEO position is shared (Sloan 2003). The reason for that is the simple notion that 'two heads are better than one' (Dell 1999, p. 114)

All these measurements to maintain employee satisfaction ensure at the end of the day that DELL is able to provide customer satisfaction, (Dell 1999, p. 109) a prerequisite for establishing long-term relationships with customers.

To conclude, the fielded examples show that the dominant role employees play in the relationship approach to customers (Grönroos 1996, p. 12) has been recognized at Dell. Through a sophisticated empowerment strategy, Dell tries to achieve commitment among employees to ensure that Relationship Marketing with customers work.

2.4. Recruitment Market

'The scarcest resource for most organisations (…) is skilled people' (Cranfield School of Management 2000, p.21). The above statement suggests that the recruitment market is a vital area for an organisation like DELL to conduct strategic and effective partnerships with intermediaries such as colleges and universities in order to expose the company and capture the best trained and experienced workforce. This section will try to ascertain the effectiveness of how DELL operates in this market.

The way in which DELL conducts itself in the Recruitment Market is similar to the way it conducts itself in the Customer, Supplier and Internal Markets i.e. through the use if the use of the 'Direct Model'. From the groups' research into DELL it is clear that the 'Direct Model' is employed in selecting candidates, for instance non-university candidates can only apply online through DELL's website, whereas DELL does carry out road-shows at universities to make students aware of employment opportunities at DELL and specifically to attract the highest calibre of students i.e. MBA and undergraduates and master's through recruiting on-campus at selected universities.

The way in which DELL employs the 'Direct Model' to the recruitment market, is by providing all the information needed for a potential candidate through its website for instance what DELL expects from the candidates pre-interview and once a candidate has been successful in gaining employment at DELL. In terms of what DELL expects from pre-interview candidates there are 'hints and tips' on what a candidate should do to be selected for interview and it also

makes it clear how the recruitment process is carried out from the c.v. being stored on a database which is set up to check for 'buzzwords' and key phrases on the c.v.'s, to telephone interviews, and to how the personnel department carries out the interviews and how candidates are informed whether or not they are successful.   The website also states what DELL expects from an employee once a candidate is successful and welcomes the fact that not all of employees are computer genius' and other skills are encouraged, but expects that employees have an awareness of the computing industry.

In terms of recruiting graduates DELL has since 1994 been identifying, recruiting and hiring new graduates for full time and internship positions (www.Dell.com). This is done through establishing working relationships with colleges and universities in order to gain exposure to the most talented students for opportunities at DELL, and through DELL's University Relations (UR) which is a long-term recruiting strategy. DELL states that the success of the UR program is dependent on the building of effective relationships with universities and students to promote and improve DELL's image to attract the best candidates to the company. In 1999 Michael Dell stated that, 'You have to hire based upon the candidate's potential to grow and develop.' (Dell 1999, p.109).

An example of how DELL builds these relationships is through it various programs with universities and colleges to find the best and brightest graduates.   These are its Scholarship, and Targeted College/University Programs. For instance the Targeted College/University Programs is based on DELL establishing relationships with universities who have a strong academic programs and the ability to recruit and retain their students.

The advantages of having the information available to candidates on the website and the system of using the websites for the submitting of c.v.'s is that DELL can be more efficient and effective in selecting the top candidates, and candidates have an idea of how DELL conducts itself in terms of the employer/employee relationship and the ethos of the organisation.   For

instance, DELL clearly states the benefits that can be enjoyed by employees in terms of health plans, pensions and bonuses.

2.5. Influence & Referral Market

Influence markets are important to an organisation in terms of relationship marketing as members of this market include bodies that directly impact on the organisation. It is therefore essential that organisations identify the main influencers to its' markets 'in order to protect and progress core business' (Cranfield School of Management 2000, p.23). The first part of this section will attempt to identify the influencers, and determine how these relationships' are exploited by DELL.

Secondly, this section will deal with DELL and the Referral Market. According to the Cranfield School of Management organisations 'need to consider both existing customers and intermediaries as sources of future business' (Relationship Marketing: Marketing Multiple Markets 2000). This is due to the fact that satisfied customers will recommend and refer a company's product(s) to others, in effect becoming 'advocates' for the organisation. It is therefore important that an organisation such as DELL cultivates this market through excellent service delivery in order to retain satisfied customers, which will encourage them to refer DELL to other potential customers.

To ascertain the factors that affect DELL and the way that DELL conducts itself in the Influence market and the Referral Market was difficult as there was limited information to be found in terms of these markets. However, the relationships that are conducted in the Influence and Referral market are more rather implied in the sense that DELL relies on partnerships and its reputation to corner these markets.

In terms of the Influence market it could be said that government's, and the computer industry, are the main factors affecting this market for DELL. For instance governments both national and international affect the influence

through legislation affecting employment, interest rates, tax, and on monopoly laws. These factors effect how DELL as a company expands and conducts its business on a national and global scale. However, evidence from www.Dell.com, it is clear that DELL is in close partnership with the U.S. government, through developing defence systems with the military and supplying the U.S. government with computers. It could be said that this partnership allows DELL a certain amount of room to manoeuvre in the U.S. to expand its market share.

Another factor affecting the DELL in the Influence Market is the computer industry in the sense that DELL has to keep ahead of the competition in the constantly changing industry through inspiring innovation as well as creating partnerships with other firms and its suppliers for example.

In terms of the referral market DELL exploits this market through supplying businesses and education centres, such as universities and schools, as well as charitable organisations. By supplying these types of organisations DELL manages to maximise its advertising potential through exposure of its products, for example a satisfied customer will always refer and recommend a good product to their friends and will always use the same company again and again. Also, DELL can use the effect of supplying schools and universities in the sense that students and young children if exposed to Dell products will be familiar with DELL products and may encourage parents to purchase a DELL computer. To supply charitable organisations DELL has a recycling program where customer how want to upgrade their computers can trade in their current P.C. to DELL who would then pass on to charities. Again by promoting this philanthropy DELL can reach more potential customers through being seen as an organisation that is ethical and that gives back to the community in order to increase computer literacy amongst those who cannot afford a computer.

3. Conclusion Section

The aim of this report was to assess the extent to which DELL conducts relationship marketing methods constituting its recent success.

In order to assess the company's attitude towards relationship marketing we applied the six-markets model.

Our findings indicate that within the six-markets model constraints DELL is effective in recognizing the importance of these relationships.

Relationship marketing is all about building close mutually beneficial relationships. In this spirit elements of relationship marketing are even anchored in DELL's core business model, the Direct Model. The Direct Model draws its strength out of closeness to the company's partners, impressively realized in its supplier and customer relationships, where the company reached thorough virtual integration of the value chains.

Hence DELL can be regarded as a prime example as a company living Relationship Marketing.

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