QMNT 610-M01 A2-Good

5, 4, 4

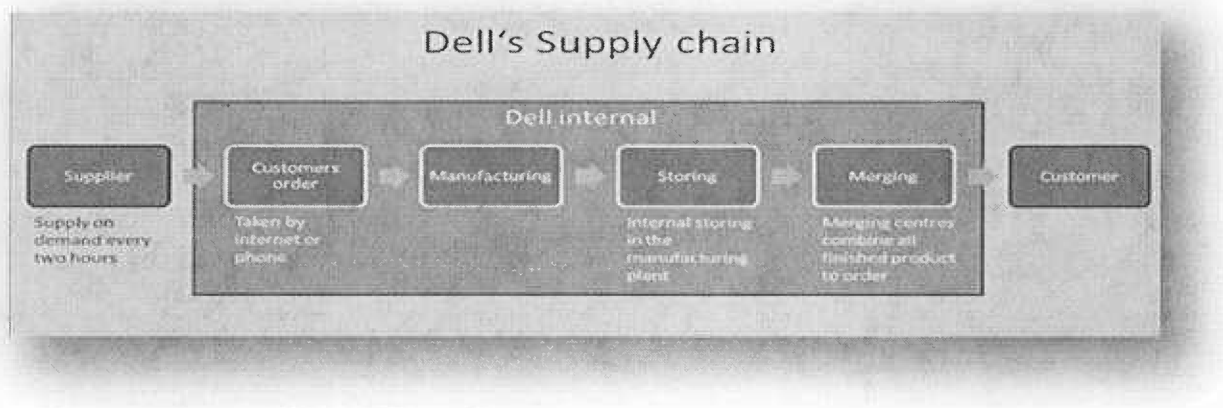
Operations Management

A2: Dell's Supply Chain Management

Submitted by

Karan Galani

0867793



(http://danielgmoe.wordpress.com/2010/05/13/36/#more-36)

Working with the suppliers

Dell establishes healthier relationships with its suppliers by refraining them to face the situation where in they are forced to drive down lot sizes and inventories

Dell achieves this through its customer-focused research and designing of special web related features for their suppliers

Dell manages to effectively work with the suppliers to keep the supply chain moving swiftly and to minimize queue of the customer orders

Through supplier collaboration and support, the build-to-order feature can actuate which gives it a competitive advantage from a global standpoint along with a positive inverse proportion of market share and investment

Managing Customer Relationship

Dell can establish ultimate customer relationships through direct sales feature and acquire valuable feedback upfront. This information is useful for Dell to comprehend the nature of its customers and further helps to launch new products and services accordingly

Dell uses *Internet* as a tool to support its direct sales distribution component and is able to virtually offer a wider variety of products that not only attracts customers but also adds value to the business

Dell is also been able to offer relatively cheaper price as it does not have to bear any other costs that retailers generally bear (brick and mortar model)

The customer chooses a product online and places an order and consequently assembly begins

and the product is delivered at the customer's doorstep

Dell reputation of offering finest customer service before and after sales further embellishes the process

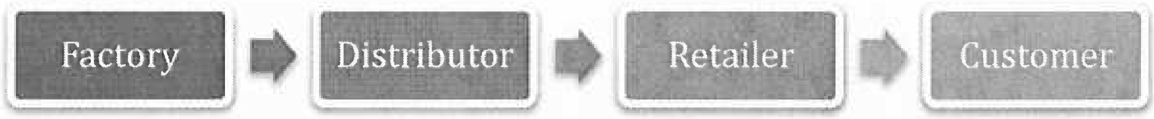
Dell's direct sales model to improve operational performance

Just in time inventory control owing to Dell's supply chain pattern allows it to enjoy huge advantages over its competitors

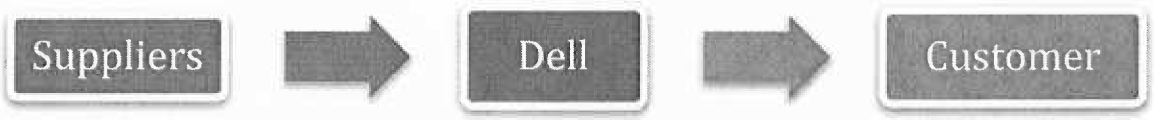
Direct sales model imparts the company with huge cash flow benefits and advantages

Since the supply chain does not feature any external distributor and retailer, Dell is able to secure most of the margin

Most PC Makers



Dell



With no burden of inventory, Dell surprisingly can manage to operate even with negative working capital since it first receives payments from the customers sooner after the order has been placed and makes the payment 60 days later to its suppliers
The Direct sales aspect via Internet also helps Dell to launch new products online as soon as the first of the fleet is ready
Dell's Just In Time approach has largely helped it to reap immense profits with lower inventory hassles and reduce its overhead expenses.

Direct Sales Disadvantages

Dell's direct sales model comes in with a few disadvantages as well
Higher Shipping Costs: - This model causes Dell to bear higher outbound shipping costs without distributors and retailers
The lack of provision of distributor at supplier end and a retailer at distribution end although increases margin for the company but also results in heaving shipping costs since the products are directly shipped to the customer
Sometimes the customer might opt for a relatively smaller product and the shipping of such an item might not be lucrative
Absence of economy of scale: - The eradication of middlemen shatters the cost advantage that Dell could possibly inhabit with the economy of scale
The lack of distribution partners suggests that Dell cannot lever its process by shipping greater quantities or large shipments to retailers or warehouses
This results in higher outbound transportation costs

Dell Vs. Retailer with Stock

Dell is able to compete with any retailer with stock through is effective pattern of business operations and supply chain strategies
Cheaper Prices Benefit: Dell has been successfully able to offer a cheaper price to the customers as compared to those offered by any retailer
This is possible due to the fact that Dell is free from any retail associated costs such as store, building and similar costs (brick and mortar) whereas every retailer is bound to bear these costs
Introduction of New and Distinctive Products: Dell industry featured shorter product life cycles which made it easier for the company to launch new products moreover the

products were perceived by the customers online which gave them the ability to virtually create the widest arena of products offering the most unique products with first-rate quality through before and after sales service

These strategies helped dell to achieve a unique product differentiation like no other retailer could and every move beyond their (retailer's) scope.

Dell's Supply Chain and Bullwhip Effect

(http://en.wikipedia.org/wiki/Bullwhip_effect)

Bullwhip effect refers to the fluctuations in inventory levels owing to changes in customer demands. Some of the causes of this effect are error in forecasts, variable lead times, and lot sizing

Dell has been successfully able to keep this effect at bay through close relationships with suppliers and substantial customer information

Dell emphasizes more on maintaining supplier capabilities through encouraging them to focus on their technological aspects and excel in what they produce

Dell with its research-focused approach in terms of customer information helps to eradicate supplier pressure by avoiding them to acquire fatal lead times, lot sizing and inventories

Besides, Dell has established a web support for its suppliers so that they can view the orders and simultaneously produce the components as required by Dell

This allows the suppliers to plan each step efficiently and make sure the product is formed in line with the customer demand

To sum up, Dell's customer based information and research coupled with integrated support to and from the suppliers has allowed Dell's supply chain management to deal well with the bullwhip effect.

Dell's Supply Chain Initiatives

Dell's supply chain success is a benchmark for all other industries and it comes with effective strategies, planning and information

With a view to eradicate hindrances due to uncertainties in market demand, Dell emphasizes on the use of an effective ERP system to establish clear communication with its suppliers (web support) and customers.

Customer trends and knowledge is featured in the web support to the suppliers to avoid any bullwhip effect

This effectiveness in communication has helped Dell gain a competitive advantage over other firms and industries

Therefore we can say that Dell's supply chain model is highly capable of withstanding any uncertain product demands and activities causing disruptions in supply.

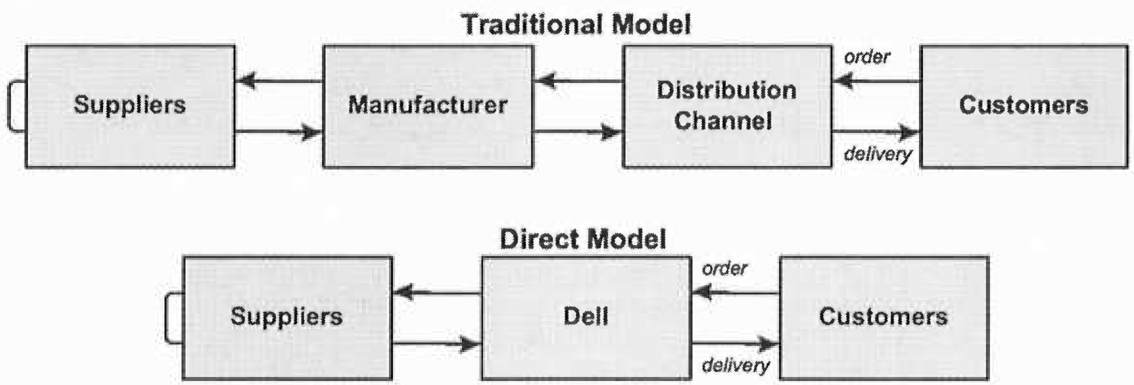
Some of the key characteristics of Dell's Supply chain management are

- ✓ Fewer and Strong suppliers with close relationships
- ✓ Components in line with the standards
- ✓ Relatively Shorter Lead Times
- ✓ Design Variations only after the product is ready
- ✓ Eradication of Distributors
- ✓ Order to suppliers only after customer request
- ✓ Receives payment from the customers and later pays to the suppliers

Dell's virtually integrated operations very well make use of its resources in the most feasible way centrally managing warehousing and data to the suppliers

Dell's Supply Chain Model Vs. Ford Motor Company Model

Ford Motor Company – one of the largest corporations in the auto industry creates products steered by innovation uses an effective traditional supply chain strategy to optimize resource utilization in production as well as in business operations.
Supply Base: Ford's supply base is broader than Dell's as their decision of suppliers was primarily based on the cost. Ford began to shift this approach towards long-term relationships and formed a Tier One Suppliers that would manage with a larger base of suppliers



(http://educompcentrallibrary.files.wordpress.com/2012/11/hrvd-ford-motor-co-supply-chain-strategy.pdf)

Ford also strived to improve operations at the suppliers end by emphasizing more on Just In time approach and Total Quality Management Principles

Production System: The production system at Ford was tuned finely to match the demand and simultaneously synchronize with the production operations. Based on the efficient forecasting Ford had to announce the number of components to its supplier well in advance unlike Dell.
Forecasting was the key here

Order to Delivery: Order to delivery was another process undertaken by Ford with a view to make its Supply chain management more effective. This involved reducing the time by 15 days of customer's order to delivery which was way more than Dell's
This process needed – careful forecasting of customer demands, prior notice to assembly plants by at least 15 days
Ford knew order to delivery was the key towards better quality products with utmost customer satisfaction

Ford Retail Network: Ford launched its First Retail Network in Tulsa, Oklahoma and had to focus on an efficient distribution system

	Dell	Ford Automotive	Ford Fin. Services
Employees	16,100	363,892	
Assets ($mils)	4,300	85,100	194,000
Revenue ($mils)	12,300	122,900	30,700
Net Income ($mils)	944	4,700	2,200
Return on Sales	7.7%	3.8%	7.2%
Cash ($mils)	320	14,500	2,200
Manufacturing Facilities	3 (Texas, Ireland, Malaysia)	180 (in North and South America, Europe, Asia, Australia)	
Market Capitalization ($mils)	58,469	66,886	
P/E	60	10 *	
5 Year Avg. Revenue Growth	55% per year	6% per year	
5 Year Avg. Stock Price Growth	133% per year	33.4% per year	

* Excludes earnings from Associates spin-off

Sources: Dell 1998 Financial Report, Ford 1997 Annual Report, Wall Street Journal Interactive

(http://educompcentrallibrary.files.wordpress.com/2012/11/hrvd-ford-motor-co-supply-chain-strategy.pdf)

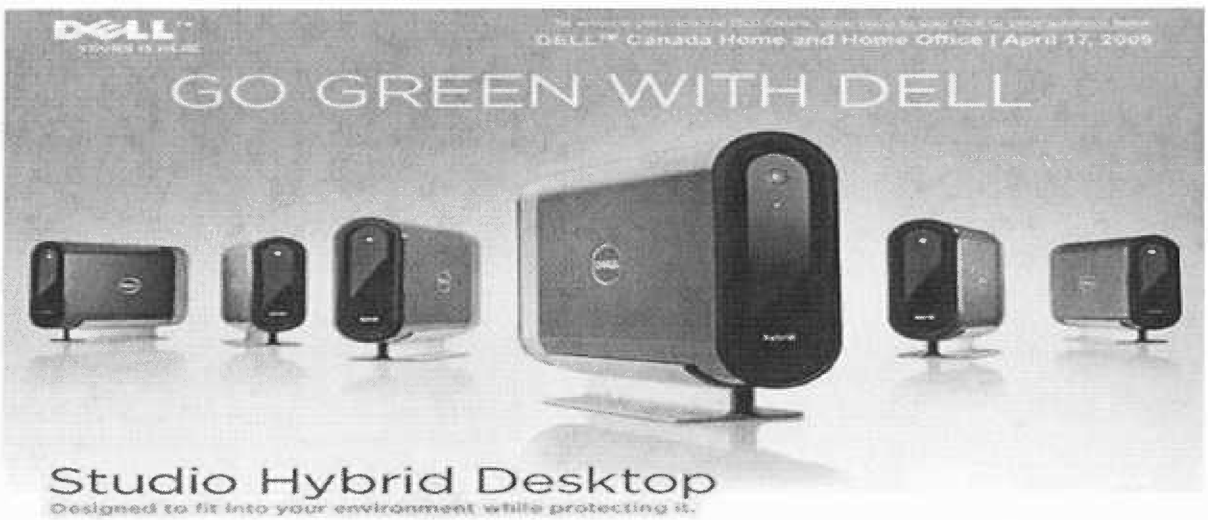
Some of the characteristics of Ford Supply Chain management are,

- ✓ Large Supplier Base with multiple Tiers
- ✓ Relatively higher product parts
- ✓ Longer Lead Times
- ✓ Substantial Variations in Design
- ✓ Dealers
- ✓ Products to be built in advance
- ✓ Consequently Parts purchased months in advance

Marketing Implications in Supply Chain Management

Supply chain success results in company's growth with wider product lines
This creates a need to spread awareness about different products
Dell in this case with its wide variety of different products has to perform an array of promotional and marketing campaigns to promote product knowledge in its customers
This is also required to compete with other players in the market

Implementing strategies is important but not sufficient, today any product without being promoted or marketed does not stand the chances of being a hit
Dells advertisings are substantial, promotional campaigns are precise
We see product promotion in commercials, newspapers, etc.



(https://www.google.com/search?q=dells+promotion+campaign&espv=210&es_sm=93&source=lnms&tbm=isch&sa=X&ei=xDiNUvnBKcj94AOdo4CoAQ&ved=0CAkQ_AUoAQ)

The above image is a classic example of product promotion at Dell
The marketing implications of engaging in supply chain management as effective as dell also give way to the need of excelling in this area with proper promotion of products for the customers to have an immense knowledge of the product.
Dell's Promotional Campaign 2013 is another example.