**PME 602 Homework Assignment 1**

**How Should Dell Respond to the HP Challenge?**

Dell Computers was founded by Michael Dell in his college dormitory room. It quickly became one of the fastest growing businesses in history, an almost unparalleled success story. By 2005 Dell had become the largest manufacturer of PCs, primarily focusing on the B2B market. This was achieved by creating a “Direct” model that allowed companies to buy customized computers directly from Dell, cutting out the margins previously captured by middlemen such as CDW. The creation of Dell’s “Premier Pages” website made it easy for corporate customers to easily place orders for large numbers of computers configured exactly as they wanted. The direct model also allowed Dell to better manage its supply chain, reducing both the inventory of components as well as finished products.

However, by 2007 HP had surpassed Dell in PC sales. After having tried to imitate the Dell model, in 2005 HP hired Todd Bradley to turn the business around. Instead of fighting Dell in Internet and phone sales where Dell was strong, Mr. Bradley decided to focus on its strength, retail stores, where Dell was completely absent, and where individual customers, the fastest growing segment, made most of their purchases. He noted that PCs “aren’t just a commodity that you run out and buy on the Internet. People are going to want to touch it and feel it and understand how it connects.” He also began advertising campaigns using celebrities such as hip-hop mogul Jay-Z to talk about how they used their HP laptops.

In talking with retailers, he found that they complained about late and incomplete deliveries. So, he focused on fixing the logistical problems and consolidated 30 manufacturing plants into 23. This enabled HP to reduce both the time and cost of building PCs and reduce late deliveries by 30%. HP’s margins grew to 4.8% in the second quarter of 2007 from 3.6% a year earlier while Dell’s fell to 6.5% from 6.7% a year earlier.

Finally, he built better relationships with the retailers. He pushed products such as touch-screen PCs that would garner attention from customers. He also helped retailers to design products exclusive to their stores, enabling them to differentiate their products from competitors. He worked with them to be able to create customized imprints. For instance, working with Best Buy, HP created a silver and white laptop, softer colors aimed at female customers.

Thus, in 2007 Dell’s lost the title as the largest overall producer of PCs. In addition, as the consumer market continued to grow at a much faster rate than the corporate market.

QUESTION

Assume you just got on the elevator with Michael Dell. What will you tell him in the 1 to 2 minutes you have regarding the skills that his team needs to regain its position in the marketplace.

SOURCE: C. Lawton, “How HP Regained Its Lead over Dell,” Wall Street Journal, June 4, 2007, from http://online.wsj.com/article\_print/SB118092117687623314.