Case Study #4: DELL

The company considers its vendors to be an integral part of its success being a fundamental part to achieve a truly flexible supply chain. The retail giant has got suppliers from all over the world, including major companies such as Motorola, Samsung, Sony and more. Dell concentrated its supplier base into 50 to 100, maintaining long-term relationships with them that help the brand streamline their inventory management as well. The suppliers should also cooperate with logistics companies that can both deliver the components to Dell's facilities.

Given that Dell produced customized products with low levels of inventory, it was crucial that suppliers and carriers be highly responsive. Dell promotes flexible and sustainable relationships with suppliers, managing 80% of his suppliers' relationships through the internet. A flexible and agile supply chain is crucial, and Dell needed to ensure that suppliers are ready for any raw materials orders at any time, safeguarding customer service level.

For this reason, Dell requires its suppliers to concentrate Dell-specific inventory, that is, parts designed to Dell's specifications, near to Dell's assembly plants, in small warehouses called Supplier Logistics Centres (SLCs). Each of this centre is shared by several suppliers, and the operational costs of the SLCs are assumed by suppliers and third-party logistics providers (3PLs). Suppliers negotiate contracts for operation and management of SLCs directly with 3PLs, such as Bax, Menlo Ligitics or Ryder, and pay them for storage of component inventory. While Dell closely monitors the ability of 3PL to manage SLCs to provide the required services to Dell factories, the operation of SLCs is conducted independently of Dell.

The inventory is managed based on the VMI model arrangement with its suppliers: suppliers decide how much to supply and when to supply while Dell sets target inventory levels and records suppliers' deviations from the targets. This process is made through an internal website called Value Chain responsible for increasing the speed and quality of the information between them. Information regarding demand patterns and inventory status are also available, and forecasts are shared monthly with them. Suppliers can log on, submit invoices, check engineering change orders, review negotiated and forecasted cost reports, and track their performance.

Starting in 2007, however, Dell altered its competitive strategy and supply chain. While it continued to offer customization, the company also branched out into selling PCs through retail stores such as Wal-Mart. It is also essential that monitors and other peripherals be available in inventory because a customer buying a PC at Wal-Mart is not willing to wait for the monitor to show up later. This raises the question of how Dell should adjust the various functional strategies given the change in competitive strategy if it is to maintain strategic fit. One of Dell's initial responses was to outsource assembly to low-cost countries.

One of the reasons that Dell (and every other PC manufacturer) outsources design and production of the processors in its PCs to Intel is that Intel supplies many computer manufacturers and gains economies of scale that are not available to Dell if it designs and produces its own processors. Dell also chose to outsource its technical support call centre.

In the 2000s, Dell acquired several important companies. Dell's 2006 purchase of Alienware was an unusual move for a company traditionally focused on the high internal growth of its computer division.4 Alienware, a maker of high-end PC gaming machines, had a large following among enthusiasts for the growing online gaming industry. This group of techno-geeks willingly pays more for a high-end machine and upgrades more often than regular computer customers. Dell's manufacturing, marketing and supply chain expertise has boosted Alienware's position within the PC gaming industry.

Most Dell's other acquisitions have been focused away from the core computer business and are designed to build business-to-business (B2B) services. One example was the acquisition Perot Systems in 2009. Dell had already been diversifying into providing management information system software and services to business customers, and Perot Systems expanded that business internationally. Perot Systems enjoyed long-term relationships with health care companies as well as various governmental entities. The merger added new services for Dell to offer existing clients and expanded opportunities for sales of Dell-manufactured hardware.

Given the information provided and the previous knowledge you have on the company, please discuss the following topics:

1. Correlate the case study with the possible alliances and partnerships that can happen between companies and identify the need, advantages and disadvantages of considering these ways to ensure that tasks are completed.
2. Discuss and characterize the relationship between Dell and his suppliers.
3. Discuss the outsourcing decisions made by Dell identifying some advantages and disadvantages.