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# Stjärnornas Krig

Apple vs Dell

Kandidatuppsats inom Företagsekonomi

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| Författare: | Marion Jarne |
| | Sandra Lilja |
| | Eva Lüddeckens |
| Handledare: | Mattias Nordqvist |
| | Elena Raviola |

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JÖNKÖPING INTERNATIONAL BUSINESS SCHOOL
Jönköping University

# Stars' War

## Apple vs Dell

Bachelor's thesis within Busines Administration

Authors:     Marion Jarne

             Sandra Lilja

             Eva Lüddeckens

Tutors:      Mattias Nordqvist

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| **Datum:** | **2005-12-22** |
| **Ämnesord** | **Distributionskanal, Organisation och ledarskap, Apple, Dell** |

# Sammanfattning

### Bakgrund

Dataindustrin har genomgått ett stort antal förändringar under de senaste åren. Konkurrensen har stigit både nationellt och internationellt. Samtidigt har kundernas krav ökat vilket resulterat i att de blivit svårare att tillfredställa. Teknologins förändringar har öppnat upp för nya kommunikationsmöjligheter, som till exempel Internet. För att anpassa sig till alla förändringar har företag tvingats utveckla och förändra sina distributionskanaler.

### Syftet med studien

Syftet med studien är att undersöka hur både Apple och Dell kan vara framgångsrika på den svenska marknaden, trots att de använder sig av olika distributionskanaler.

### Teori

Teori inom följande områden har blivit studerad och presenterad: kundbeteende, distributionsstrategier, Internets betydelse, samt service management.

### Metod

Apple and Dell har blivit undersökta med teorin som bas för den empiriska delen. En kvalitativ undersökning genomfördes genom intervjuer med Apples ledande chefer i USA samt egna återförsäljare i Sverige. Intervjun med Dell gjordes med Danmarks/Sveriges marknadsföringsansvarig. Övrig fakta om de båda företagen är tagen från litteratur, hemsidor och artiklar.

### Slutsatts

Vår slutsatts är att Apple och Dell har lyckats att bli framgångsrika genom att använda sig av två olika distributionskanaler, detta eftersom de alltid uppfyller kundernas behov och förväntningar, vilket bidrar till en stark relation med dem. Nyckeln till en framgångsrik distributionsstrategi är att förstå vikten av att sälja produkter och tjänster på den plats där kunderna förväntar sig, vilket både Apple och Dell har lyckats med.

**Bachelor's Thesis within Business Administration**

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| **Date:** | **2005-12-22** |
| **Subject terms:** | **Distribution channels, management, Apple, Dell** |

# Abstract

**Background**

A great deal of changes has occurred in the computer industry the last few years due to the development of the market, customers and technology. The competition has increased, both domestically and internationally, and in the same time the customer demands have changed and become more demanding to satisfy. The development of technology has led to the apparition of new ways to communicate, such as the Internet. As a result of these changes, the distribution chain has had to be adapted and changed repeatedly over the years.

**Aim of the study**

The purpose of our study is to examine how both Apple and Dell can be successful using different distribution channels in the Swedish market.

**Frame of reference**

Theories regarding the changes in consumer behaviour, different distribution channel strategies, the importance of the Internet, and service management are presented.

**Method**

Based on the theories, research on Apple and Dell was established. The theory has contributed as a base for the empirical findings. As method, a qualitative study was conducted through interviews with managers of Apple Centers in Sweden and Apple management in the US. The facts about Dell are mainly retrieved from Dell's homepage, different articles, and from an interview with the marketing director of Dell Denmark/Sweden.

**Conclusion**

Our final conclusion is that Apple and Dell have managed to be successful with two different distribution strategies because they have always fulfilled the needs and expectations of their customers, creating a strong relationship with them. Indeed, they sell their product where their customers expect to find them and that is the key of a successful distribution strategy.

# Innehåll

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# 1    Introduction

*This chapter deals with an introduction of the thesis. It starts with a broad background that narrows down to a problem definition, which furthermore leads to the purpose of the thesis.*

## 1.1    Background

The computer industry has undergone many changes and modifications since the start, due to new technology and changes in customer demand. In Sweden, as well as internationally, computer companies have emerged that have made market share competition tough and demanding (Grönroos, 1990). Grönroos stated in 1990 that only those that have managed to distinguish themselves from their competitors have survived, which Kotler (2003) agrees with.

During the start-up of the computer industry, companies used highly educated employees to sell and give instructions to their customers. The customers were few, so companies focused on a special niche when selling their computers. As the popularity of personal computers grew and the price decreased, companies further penetrated the market by using a third-party, e.g. non-specialized retailers. A third-party channel reaches a larger market, as opposed to direct channels which work specifically on niches. The use of a third-party channel was successful and made new-comers grow quickly both in size and amount (Cunningham & Pyatt, 1989).

As the market matured in the 80s, strategy was changed to favour rational and capital intensive vertical integration. So called value-added retailers (VARs) became important. Retailers added value to the products through their way of providing them. This was done by professional and service-minded employees. The method became internationally popular and known for its efficiency since it provided faster growth compared to the overall market (Cunningham & Pyatt, 1989).

Computer companies use all kinds of distribution medias to reach their customers. Some companies sell directly to their customers while others use an indirect, third channel. Cunningham & Pyatt stated in 1989 that most manufactures use a direct channel with professional retailers in order to offer technical support and superior service, targeting the technologically demanding and well informed market segments. Firms that sell less advanced products prefer a third channel to target customers with less knowledge and experience in technology. The third-party tends to bring in lower revenues for the manufacturer than direct channels do (Cunningham & Pyatt, 1989).

The reason for a company to use a distribution channel strategy is to maximize its market share in the retail marketplace. It helps the producer to assess channel opportunities, and recommend alternatives to attain required market exposure at target levels of profitability and growth (Retail Forward, 2005). The distribution channel chosen depends almost exclusively on the buying behaviour of the customers, i.e. how the buyers want to purchase the product. This leads to the manufacturing company needing knowledge of such factors as whether or not the customers prefer to buy locally, from retailers, via mail, or over the net. According to Tutor2uTM (2005), intermediaries are often better placed to provide service than the original producer. The producer may, however, not have the right resources to perform the functions of the channel, i.e. resources to recruit, train and equip a sales team. The only option may therefore be to utilize agents or other distributors. Another reason for using an agent or a distributor can be a lack of market information, i.e. customer-based

skills. Since channel intermediaries usually have great market knowledge it can be a competitive advantage to use them. How much intermediaries are used will also depend on to what extent the producer wishes to have control over how, to whom, and to what price, the product is being sold (Tutor2uTM , 2005).

The Internet opened up a new market for the computer industry, providing the possibility to solely use a direct channel to reach the consumers. Some distribution channels fear the latest intermediary; the Internet. They are simply afraid it will take their jobs away from them, due to the fact that Internet often offers a lower price (M. Billgren, personal communication. 2005-11-01). The computer company Dell chose to take the chance to fully use the Internet. They do not have any stores but provide all their services online (Dell, 2005). Apple, another company in the same industry, states that the Internet will help them promote the products and make it possible for the customers to seek information by themselves, but the retailers are a huge part of the companies' strategy. According to one of the Apple Centers, MacSuppport in Malmö, both Apple and Dell are highly successful companies, but use different ways to reach their customers (M. Billgren, personal communication. 2005-11-01). Let us have a brief look at Apple and Dell.

### 1.1.1 Company Description of Apple and Dell

Steve Jobs started Apple in 1976 together with Steven Wozniak. Since 1996 the business has been a success, above all for the newly designed generation of Macintosh computers, iMac, and PowerMac (Thulin, 2005). The company offers a range of personal computing products including; desktop computers, notebooks, related peripherals, software and networking, and connectivity products (MarketLine Business Information center, 2005). Added value for an Apple customer is physical contact both with the products and with educated and knowledgeable employees (M. Billgren, personal communication. 2005-11-01). The customers feel more comfortable when being able to touch and feel the products. The customers also prefer to have a place to go to in case something goes wrong or if they need to discuss the products. Apple is multifaceted; it consists of Apple Centers, retailers, electronic channel and VARs (Thulin, 2005).

Dell was founded in 1984, by Michael Dell. His motive was to start a company in order to sell personal systems direct to customers, and in 1985 Dell Computers introduced its first PC. Dell is a leading provider of products and services that customers require worldwide to build their information-technology and Internet infrastructures. Dell holds about 20-25 percent market share in the Swedish PC market (Dell, 1999). The company's approach is to be innovative and focus on the customers' requirements. According to Dell, they take pride in the fact that they listen and learn from the customers themselves and they innovate from there. Dell follows the direct–selling model in the IT-market to reach customers and to be the world's largest manufacturer of IT hardware. Dell has shown its customers that relations including high service by the web are possible (Dell, 2005).

## 1.2 Problem Statement

Two big companies in the Swedish computer industry that have chosen different distribution strategies are Apple and Dell. Apple has focused on a strategy where the company is selling its products both on the Internet and through distribution channels. Dell on the other hand has chosen to sell its products only on the Internet, and does not have any retailers at all. How can Apple be successful through its multi-channel strategy, and how is it possible for Dell to be successful with its direct channel strategy? What made the two com-

panies choose different strategies? How has the Internet affected the way companies are doing business?

## 1.3    Purpose

The purpose of our study is to examine how both Apple and Dell can be successful using different distribution channels in the Swedish market.

## 1.4    Delimitation

We have chosen to look at Apple and Dell since they are both big successful companies that use two very different strategies to be competitive within the same industry. We have chosen to focus only on computers within the two companies since discussing all the different products that the companies offer would be to broad for the scope of this thesis, mainly due to the limited amount of time we are provided with.

## 1.5 Disposition

| Theoretical Framework |
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| Consumer Behaviour | Distribution Channels | Service Management |

| Theoretical Platform + Research Questions |
|---|

| Method |
|---|

| Empirical Findings |
|---|

| Findings and Analysis |
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| Conclusion and Discussion |
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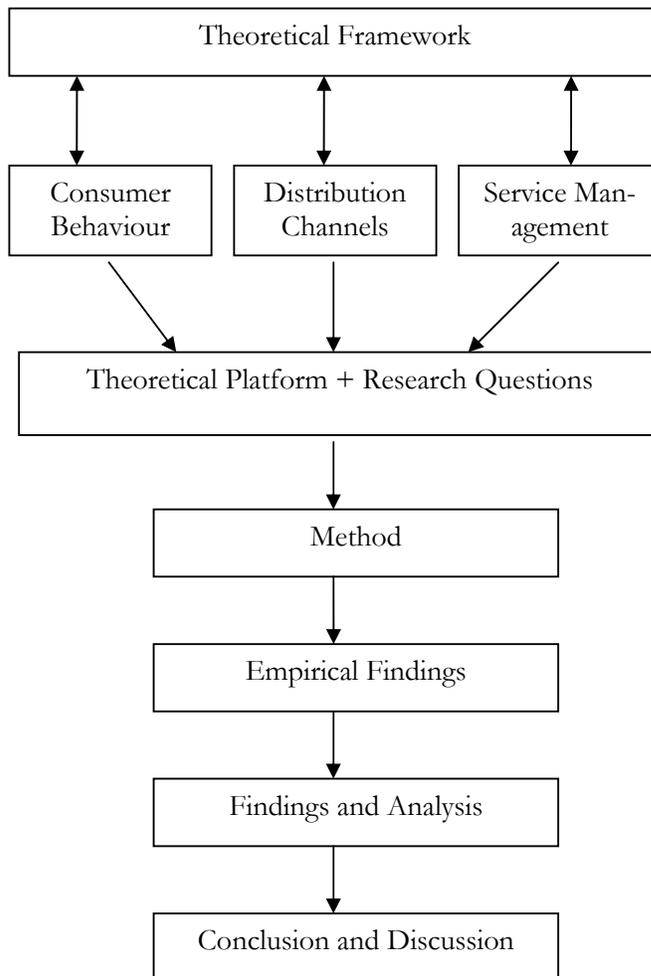
**Chapter 2, Theoretical Framework:** This chapter will discuss the theory that is relevant for this thesis. The theoretical framework is divided into three major parts, each acting as a theoretical platform for the empirical findings.

**Chapter 3, Method:** This chapter reveals the choice of research method and selection of empirical sources. The method chapter also discusses the reliability and validity of the study and states the analytical approach

**Chapter 4, Empirical Findings:** This chapter will present the empirical findings that will be used for analysis.

**Chapter 5, Findings and Analysis:** This chapter will analyze the findings from the empirical research with help of the theoretical platform.

**Chapter 6, Conclusion and Discusion:** This chapter aims to answer the purpose of the thesis and further generalize the study.

# 2 Frame of Reference

*Since our purpose is to examine how Apple and Dell can be successful with different distribution strategies, this frame of reference will first present all the shifts that have occurred in the market that have obliged companies to adapt their strategies to stay competitive and thus successful. The frame of reference will thus deal secondly with theories on distribution and on service management. We will use this later to analyse the empirical study in the analysis.*

## 2.1 Consumer Behaviour: From Mass Production to an Experience Economy

Over the years, society has encountered a great deal of changes. According to Pine II and Gilmore (1998), it has lead to four types of economies. First, the "Agrarian" economy, of which the goal was to extract commodities, provided fungible offer. Second, the economy became "Industrial", with the mission to make goods; giving tangible offer to consumers. Afterwards, consumers demanded more than a simple product. Customers wanted a service, something intangible, delivered on demand, and that provided them with real benefits: it was the "Service" economy. Nowadays, a new type of economy has emerged: the "Experience" economy. Consumers look for a memorable experience when they buy a product, they expect sensations and emotions. To illustrate these four types of economic offers, Pine II & Gilmore (1998) use an example of a birthday cake. In the agrarian economy, mothers used farm commodities to make the cake; in the industrial economy they paid more for premixed ingredients, and in the service economy they ordered a cake from the bakery. Now, with the experience economy, parents are ready to pay more by having the entire event organized by a company. This example shows the evolution of the consumer behaviour; customers demand something extra and are more difficult to satisfy.

The changes in consumer behaviour can be explained by the digital revolution and the arrival of the Internet. These revolutions gave consumers possibilities they did not have in the past (Kotler, 2003, p.2):

- *"A substantial increase in buying power"*: Customers can now compare competitors' prices and product attributes very easily thanks to the Internet.

- *"A greater variety of available goods and services"*: Consumers can buy almost everything on the Internet and thus have the possibility to make their choice among products from all over the world.

- *"A great amount of information about practically anything"*: People have access to plenty of information from all over the world.

- *"A greater ease in interacting and placing and receiving orders"*: Buyers can place orders from different places, and these orders will be delivered in the place they choose in a very short time.

- *"An ability to compare notes on products and services"*: Nowadays people can easily exchange information and opinions thanks to the Internet.

As a result, in the new economy, Kotler (2003) points out that consumers expect more quality, service and customization. They can shop more intelligently, perceive fewer differences between products, and are less loyal toward brands (Kotler, 2003). In other words, being more sophisticated, more informed, and thus more demanding, consumers look for

more comfort, fewer problems, lower additional costs and less trouble caused by the use of products and services; they look for better value (Grönroos, 2000).

*"Customer perceived value is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives"* (Kotler, 2003, p.60).

According to Kotler (2003), customers that are value-maximizers buy from the company they perceive to offer the highest customer-delivered value. Thus, it is crucial for companies nowadays to find a sustainable competitive advantage. But what strategy to adopt?

In 1993, in its article *"From marketing mix to relationship marketing. Toward a paradigm shift in marketing"*, Christian Grönroos argues that the marketing mix management paradigm (4 P's of marketing), that has dominated marketing since its intoduction forty years ago, is beginning to lose its position. He introduces relationship marketing as one emerging new marketing paradigm for the future, emphasizing that it has already taken place in services marketing and industrial marketing. In 2000, in its book *"Service Management and Marketing: a customer relationship management approach"*, Christian Grönroos explains the reasons of this new paradigm. The mass marketing approach has become less effective and profitable, more and more markets are mature and oversupplied and thus it is more and more difficult to find new customers. How to keep customers? How to make them become loyal? A transaction marketing, with a *"perspective based on the exchange of ready-made value for money"* (Grönroos, 2000, p. 25) is not effective anymore to keep customers. Relation marketing is needed, with a *"perspective based on cooperation in order to facilitate a mutual creation of value"* (Grönroos, 2000, p. 25). According to Kotler et al (2002, p.406), relationship marketing can be defined as *"the process of creating, maintaining and enhancing strong, value-ladden relationships with customers and other stakeholders"*.

How to create a strong relationship with customers? As the distribution channel is the link between the customer and the product or service, the choice of a distribution strategy adapted to the needs and expectations of customers is one way to achieve a good relationship. Another key of a successful relationship marketing is a good service management. Indeed, as Grönroos (2000) argues, nowadays customers do not only look for products or services, they demand a much more holistic service offering including everything from information about how to best use a product, to delivering, installing, updating, repairing, maintaining and correcting solutions they have bought, and all this delivered in a friendly, trustworthy, and timely manner.

## 2.2    Distribution Strategy

This part starts off by describing the different distribution channels and their evolution to demonstrate the opportunities that are given to companies nowadays. Then, it shows the importance of the distribution strategy and which criteria a company can use to choose a relevant strategy, which corresponds to the needs and expectations of its customers, in order to develop a strong relationship with them.

### 2.2.1    Different Distribution Channels

A firm can sell its products either directly to customers or via distributors; *"possible distribution channels are wholesalers or small retailers or retail chains or direct mailers or your own stores"* (Worldreference, 2005).

*"Contractual relationships can be thought of as lying along a spectrum which runs from spot transactions at one end, to vertical integration at the other. In between lie arrangements such as partnering contracts, franchises, and joint ventures." (Domberger, 1998, p.208).*

*"Retailing consists of the activities involved in selling goods and services to ultimate consumers for personal consumption"* (Coughlan, Anderson, Stren & El-Ansary, 2001, p.390). In retailing the buyer is the final consumer, and the motive for the purchase is always personal or family satisfaction retrieved from the product that is purchased. Retailing is very complex and varies around the world. Retailing is often understood as a brick-and-mortar store. However, it is not necessary that retailing be centered on brick-and-mortar stores. (Coughlan et al, 2001). Instead, it can be used as direct selling or nonstore-reatailing, i.e. catalogs and the Internet. Both of which creates a shorter channel for consumers and business-to-business markets. This kind of retailing has become more popular as channel partners are learning how to add value without the traditional retailers (Betancourt, 2004)

*Catalog retailing* refers to companies selling their products from catalogs instead of using regular stores (Betancourt, 2004). Like a typical retail store, catalogs reach a large volume of people. They tend to make it easier to reach the customer segment wanted, and cheaper when you only need to mail out the catalogs to customers that later on will order via mail or internet (Coughlan et al, 2001).

A direct selling organization, DSO, is defined as *"the scale of a consumer product or service in a face to face manner away from a fixed retail location"* (Coughlan et al, 2001, p.442). This differs from catalog selling since DSO only relies on personal selling. The channel is structured to have many or a few levels. The DSO will manufacture the products it sells, or they contract out the manufacturing of the products. The companies contract with intermediaries (distributors) that often are independent (Coughlan et al, 2001).

*Electronic channels* are channels that involve the Internet, where the company is able to reach the end user online. Electronic channels are used for both sales to consumers and sales through business-to-business (Coughlan et al, 2001).

Another type of distribution channel is the use of *Wholesaling*. A wholesaler is a business organization that sells products primarily to other businesses. A wholesaler sells physical inputs and products to other businesses, and is very much associated with tangible goods. It adds value through providing services, that is, channel flows (Coughlan et al, 2001).

The last channel mentioned by Coughlan et al (2001) is *franchising*. Franchising is intended to convince customers that they are buying from a vertically integrated manufacturer, when in fact they may be doing business with an independently owned company (Betancourt, 2004).

## 2.2.2    The Changes in the Distribution Channels

When the computer industry emerged the preferred option of distribution was to use internally highly trained employees. As the popularity of personal computers grew, and price decreased, companies penetrated the market by using a third-party, e.g. a retailer (Cunningham and Pyatt, 1989). The loose relationship with distribution channels could lead to hard negotiations over price and other conditions of sales (Gill & Allerheiligen, 1981). Since most new-comers used a third-party channel to penetrate the market it has been given the name *the classical marketing mix theory* (of placement, product, promotion and price). The new way of getting market share were successful and made newcomers grow both in size and

amount. No manufacturer without a third-party channel in Europe, Japan or USA has grown as fast as those with. The main factor behind the success is that a third-party channel reaches a larger market than direct channels, which instead specify on niches (Cunningham & Pyatt, 1989).

A switch of trend occurred in the 80s, now favouring rational and capital intensive vertical integration. So called value-added retailers (VARs) became important. Retailers added value to the products through their way of providing them. This was done by professional and service-minded employees. The method became internationally popular and known for its efficiency since it provided faster growth compared to the overall market. Around 60 percent of the former computer industry was sold in specialist industrial niches while value added channels today aim to sell entirely in specialised industry segments. Research shows that companies that provided services grew faster than those that did not (Cunningham & Pyatt, 1989).

Already in the end of the 80s the market included all kinds of distribution channels. Some companies sold directly to their customers, while many chose an indirect channel. Cunningham & Pyatt stated in 1989 that most manufacturers use a direct channel with professional retailers in order to offer technical support and superior service, targeting the technologically demanding and well informed market segments. Firms selling less advanced products preferred a third channel to target less technologically knowledgeable and experienced customers. However Cunningham & Pyatt (1989) stated that the third-party tends to bring in lower revenues for the manufacturer than direct channels do (Cunningham & Pyatt, 1989).

With increased competition and the emergence of the Web, companies have to consider an increase of their IT budget to remain in the market. "*Web services are self-contained business applications that operate over the net.*" (Ganesh, 2004, p. 141). Many customers visit the shop and then order online. Or, conversely, they first have a look online and then check it out in the store. Many products can be purchased and returned through multiple channels. They can for an example be bought and returned in physical stores, bought online and returned in a physical store, or bought online and returned by a currier, and so on. There are multiple means and the combination of them is increasing due to more intense competition. Many distributors therefore invest a lot of money to expand their net-service. (Ganesh, 2004). Although the multi-channel (multi-channel customers research and purchase products online, in store, or through catalogues) marketer concept has been around for years, it is just recently that competition among companies has put pressure to make them seriously invest in multi-channelling (Schoenbachler & Gordon, 2002).

According to Ganesh (2004), Boston Consulting Group conducted, in 2001, a survey about multi-channel distribution. The results showed that the multi-channel customer is the most valuable. The research leads to an upswing of firms heavily investing in web-service. This in turn made more customers use web-service and also become more willing to contact web support in case something went wrong instead of abandoning the process. The survey also showed that 46% of the online shoppers also bought offline and 17% of the offline shoppers also bought online.

Schoenbachler & Gordon (2002) remark that the difficulty in moving to a multi-channel strategy is that little is known about what drives customers to be single channel or multi-channel buyer. Some simply assume that more is better and a presence on the Internet would attract new customers and drive growth and profits upward. Others believe adopting a multi-channel is easy. Schoenbachler & Gordon (2002) report that many companies have

underestimated the opportunity and because of that failed in providing the same quality as through other channels. The Internet channel needs to be nicely designed and contain a good description of the firm's products. That way companies do not only take advantage of sales opportunities, but also of marketing communication efforts.

### 2.2.3 Distribution Channel Strategy

A company uses distribution channel strategy to reach the customers in the best possible way. It is a tool to identify opportunities and develop strategies for companies to access the market through additional channels. A strategy is supposed to define the requirements to effectively operate in desired channels and build up responsive marketing programs to take full advantage of the channel's end-market impact and efficiency (Retail Forward, 2005). Leahy (1992) states that a store cannot be run individually anymore. It cannot stay out of the chain's demands, requirements and advantages. Research shows that attributes such as location, size relative to population within a given area, store layout and placement, inventory levels and stocking are of importance. Due to monetary factors and knowledge the end process of the sales should be left to a distribution channel (Leahy, 1992). Steve Minram (1992) states that the structure of the organisation is a key element to international success. The company should think globally and act locally. Interactions between corporate perspective and regional and individual responsibilities are needed to penetrate a wide range of market sectors, which is essential to stay competitive in the massive and growing high-tech industry where almost all means but channel distribution, have been used to reduce costs and product prices. Periera (1997) argues that handing over the end process to distribution channels helps lower the cost and reduces the time of product delivery. Manufacturers get to focus on their development and production competences while the distributors do what they are best at, distributing the product.

### 2.2.4 Market Factors Influencing the Choice of Distribution Channel

What sort of channel distribution to choose heavily depends on the buying behaviour of the customers, i.e. how the buyers want to purchase the product? The manufacturing company needs to know if the customers prefer to buy locally, from retailers, via mail or over the Internet. Another central aspect is to what extent the buyer needs product information, installation and servicing. Intermediaries are often better placed to provide servicing than the original producer (Mallen, 1996).

Mallen (1996) claims that multiple middlemen often are used to reach more market segments and hence maximize sales. However, a single channel is used to minimize costs and maximize control and goodwill. A manufacturer using a limited number of channels in a geographical area to sell its products is said to use *selective distribution*. The significant advantage of this method is that the manufacturer can choose the most suitable and best-performing outlets. Selective distribution is mainly used when buyers tend to "shop around" and search for a particular brand or price and use the outlet that provides the requirements. If a product demands high technical knowledge for sale, installation, maintenance and repair service it should be sold through a selective channel. Generally, the more consumers see the product as a speciality and the more they act as store patrons, the more likely a selective distribution is chosen. Brands with high customer loyalty are less likely to lose customers because there only are a few providers. It is, however, important not to forget that the middlemen's strategy have to be in line with the manufacturer. The contractual agreement has to be conducted so that the inventory policies, selling and promotional efforts, service and pricing policies suit those of the manufacturer. Lastly, financial, human

(quality of management and employees) and physical (e.g. warehouse) factors have to requisite (Mallen, 1996).

According to Coelho, Easingwood & Coelho (2003), distribution is increasing in importance, and is now seen as one of the key marketing variables capable of providing significant competitive advantage. Particularly this is true in the service sectors where consumer, technological, and regulatory trends have increased the competition. The market has been provided with a larger range of possible distribution channels, which makes it even more difficult to choose the right ones. That is why it is very important to understand the factors affecting the appropriate number of channels. Companies may develop multiple channel strategies to be able to be prepared against the competitive environment, the desire to grow, the need to prepare for changes in the marketplace, and the transaction costs. Coelho et al (2003) also mentions the importance for companies to understand the customer behaviours and preferences when using the right channels.

The dominant influences for the choice of distribution channels for a company are according to Mallen (1996): the market, the marketing mix, the resources, and the environment.

*The market:* Multiple channels may be best to use for a very large market. However, the bigger the market concentration, the more likely it is that a channel should be direct and selective. And the greater the total size of the market, the more direct, intensive and multiple can the channel system be. Maybe the most important question in channel distribution is where the consumer expects to find the product (Mallen 1996).

Marketing mix: The marketing mix includes the product, pricing, promotion, physical distribution, and marketing intelligence. Companies need to consider the uses of a product, how many items are sold, how fast the market will change its preferences, the service required, and its value, when selecting channels. Pricing is important since margins can be manipulated by price setting, discounts and price changes. It is the marginal policy that will decide what kinds of middlemen will be available for the channel design. Often the good middlemen will require a higher margin policy. Promotion and channel selection are determinants of each other. The level of promotion needed will depend upon how much personal selling the company provides. Direct channels often need to use only little of their promotion budget to be aimed at the wholesalers. Marketing intelligence will do research on consumer habits, inventory levels, and middlemen's attitudes towards manufacturers (Mallen, 1996).

*Resources:* If the company has a strong financial position the organization can engage in costly direct marketing. On the other hand, if the resource position is weak the company may be forced to use financially strong middlemen even if this is not the most profitable way (Mallen, 1996).

*Environment:* Looking at the environment is also important before choosing distribution channels. Environmental factors could for example be: business condition and technology, international marketing, social and ethical considerations, and government and legal considerations (Mallen, 1996).

Companies need to constantly review all the questions mentioned so they can be up to date on what is going on, and so they will be prepared to change and improve the channels when needed (Mallen, 1996).

Ever since the Internet started to boom, a lot of companies also need to consider Internet as a distribution channel. The market factors determining the strategy of using Internet will

heavily depend on the countries' level of technology. A lot of countries today are not able to choose the Internet as a channel since their customers do not have access to it. Even if the Internet does exist in many people's homes, the people and the government must be ready to accept it as a market (Jevalagi & Ramsey, 2000). The four determining factors for the impact that the Internet will have on companies are according to Javalagi & Ramsey (2000); 1) the information technology and telecommunication infrastructure; 2) the level of social/cultural infrastructure i.e. education, entrepreneurial spirit, values, and technology innovations; 3) the commercial infrastructure. To be ready to use Internet as a distribution channel the commercials also need to be prepared to be transferred online; 4) the government needs to accept the new changes. Companies need to be able to find new ways to protect the customers, patents, and trademarks, but also to improve the technology in the country. Internet is sometimes seen as a risk since it threatens the existence of middlemen (Jevalagi & Ramsey, 2000).

## 2.3 Service Management

This section demonstrates the importance of good service management to build a solid consumer relationship, as well as create customer satisfaction and loyalty. It also explains how to evaluate the quality of a service and thus how companies can have a successful service strategy. Moreover, it deals with the specifities of the service in electronic channels and thus the opportunities it creates for companies, as for example the *customization* strategy.

### 2.3.1 Definition of Key Concepts

Customer satisfaction, loyalty and quality can mean different things to different people. When we talk about the different concepts we refer to:

- ✓ **Customer satisfaction:** *"Satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations"* (Kotler, 2003, p.61).

- ✓ **Loyalty:** *"Deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behaviour"* (Oliver, 1997, p.52)

- ✓ **Quality:** *"The quality of a product (article or service) is its ability to satisfy the needs and expectations of the consumers"* (Bergman & Klefsjö, 1994, p.16).

### 2.3.2 Service as a Cornerstone of a Successful Customer Relationship

*"In a world where customers are gaining power everyday, controlling the relationship with the customer will be more important for business than controlling the product"* (Sheehy, 1999, p.8).

Parasuraman (2000) stresses that to build a good relationship with the customer and create a competitive advantage, companies should provide services with their products. Service quality is much more difficult for competitors to copy than product quality and price.

Low price strategy only works for those companies that manage to remain in a cost position over its competitors. When price strategy is not utilized, differentiation together with providence of superior customer care is necessary to survive in the competitive market. Adopting a service strategy might be one way to differentiate a firm and create a competi-

tive advantage (Grönroos, 1990). Surveys suggest that a price increase of 9% can be charged for a product with service, compared to one without (Cook, 1992).

As competition grows customers demand more from the companies. Customers have become more sophisticated and also more vocal in their option. Gill and Allerheiligen (1981) say manufacturers need to have good co-operation with distribution channels to ensure good customer service. Good co-operation makes sure that orders are correct and that stocks are on the right level (Cook, 1992).

Kotler (1997) states that firms should strive to exceed the service-quality expectations of the customers. Expectations are formed by past experiences, word of mouth, and firm advertising. Customers choose suppliers based on the three factors just mentioned, and compare perceived service with expected service. If perceived service falls below expected service, customers lose interest in the provider. If perceived service meets or exceeds expected service, the customer is apt to use the provider again. Professional firms believe employee-relations will reflect on customer relations. Management should create an environment of employee-support and carry out rewards for good service performance (Kotler, 1997).

Quality plays the major role in customer satisfaction. Service quality enhances perceived value, which in turn, contributes to customer loyalty. This is illustrated by Parasuraman (2000) with the schema of the Quality-Value-Loyalty chain. The same author created an instrument called SERVQUAL for measuring how customers perceive the quality of a service. It is based on five determinants:

- *Reliability:* Ability to perform the promised service dependably and accurately.

- *Responsiveness:* Willingness to help customers and provide prompt service

- *Assurance*: Knowledge and courtesy of employees, ability to inspire trust and confidence

- *Empathy:* Individualized attention the company provides its customers

- *Tangibles:* Appearance of physical facilities, equipment, personnel and communication materials.

According to Grönroos (2000), SERVQUAL give a valuable starting point for a company to understand what aspects characterize the service it provides.

### 2.3.3     Service in Electronic Channels

Business conducted over the Internet (e-business) is escalating as we enter the twenty-first century. New companies exploit the opportunities of the Internet and the established firms are creating new online businesses (Amit & Zolt, 2001). With the explosion of e-commerce worldwide, companies are using Internet to enhance communications with customers, increase their sales through an alternative channel, and reduce the costs of interacting with customers (Zeithaml, 2002).

*"Virtual markets refers to settings in which business transactions are conducted via open networks based on the fixed and wirelsedd Internet infrastructure"* (Amit & Zolt,  2001, p.493).

Virtual markets will help companies reach larger markets more quickly and cheaply, since the Internet offers a lack of geographical boundaries. New ways of creating value has taken

forms of connecting buyers and sellers in existing markets and economies exchange. (Amit & Zolt, 2001).

Value is the amount buyers are willing to pay for what a firm provides them. Porter (1985) argues that value can give companies lower costs or higher quality, but it can also be created by differentiation (Porter, 1985). The emergence of an online-business can open up a lot of doors for companies to create value, since the net offers greater mobility than other types of resources and capabilities. Some of the value that can be created with the help from online-business is that it is easier to extend the companies products range, they get improved access to resources and technology, and it is also easier for companies to outsource. Strategic networks have also improved because of the online-business. For example, companies are now able to share the risks with others, they have greater economies of scale, and they shorten the time to the market (Amit & Zolt, 2001).

The efficiency by using online businesses (virtual markets) instead of offline businesses (traditional markets) can be realized in a number of ways. The speed with which information is transferred is enormous with the help from the Internet, and in that way decisions can also be made much faster. Efficiency can be created by reducing information asymmetry between the buyer and the seller through the supply of up-to-date information (Lucking-Reiley & Spulberg, 2001).

According to Amit & Zolt (2001), companies will create value when customers continue to come back to buy its products and as long as strategic partners are willing and have incentives to improve their partnership. To create sustained value companies need to work on locking-in customers, i.e. try to make them come back again and again. Different facts that could lead to locking-in customers are:

- Loyalty programs rewarding repeat customers

- Develop dominant design for the businesses process and products

- Establish trustful relationships with customers through products and services

However, the successful companies are the ones that understand that it is neither the web presence nor the low price that are determinants for their success or their failure, but the "Delivering Electronic Service Quality" (Zeithaml, 2002).

In 2000 (p. 171), Parasuraman & Grewal (2000) offer the following question for further research: *"Do the definitions and relative importance of the five quality dimensions change when customers interact with technology rather than service personnel?".* The authors wondered if the five dimensions they created to judge service quality (reliability, responsiveness, assurance, empathy, tangibles) could be implicated in e-commerce. They could not answer themselves. Instead, the response came in 2002 when Valarie Zeithaml, in cooperation with Parasuraman and Malhotra, defined the e-service quality *"as the extent to which a Web site facilitates efficient and effective shopping, purchasing and delivery".* They tried to conceptualise and measure it, and thus created four specific dimensions to measure the service quality perceived by customers:

- *Efficiency:* Ability of the customers to get to the Web site, find their desired product and information, check out, and do this all with minimal effort.

- *Fulfilment:* Accuracy of service promises, the company must have the products in stock, and be able to deliver them on time.

- *Reliability:* Technical functioning of the site, if it is available and functions properly.

- *Privacy:* Assurance that shopping behaviour data and credit card information are secure and not shared.

However, when online customers meet some problems, "personal service" aspects should be included. Therefore, the same authors created three other dimensions:

- *Responsiveness:* Ability of the company to provide appropriate information to customers when they run into problems, and to have mechanisms for handling returns and providing online guarantees.

- *Compensation:* Ability of the customer to receive money back, return shipping and handling

- *Contact:* Customers often find a need of talking to an existing customer-service-agent.

Another idea is that Internet enhances lock-in by enabling customers to customize products, services, or information to their individual needs in a variety of ways. Customization is a way to provide customers with superior service by providing them with an individual solution adapted to their needs. It is thus also a way to develop a strong relationship with them.

### 2.3.4    Mass Customization

*"Mass Customization is the ability to prepare on a mass basis individually designed products and communications to meet each customer's requirements"* (Kotler, 2000, p.259).

Thanks to the Internet and new technologies, companies are now able to more easily gather information about individual customers and business partners (suppliers, distributors, retailers), and thus have increased their ability to individualize their market offerings, messages and media. Online, consumers have the possibility to design their own goods and to become *prosumers*, namely self-producing consumers. In this case the company creates a workshop where each person can design what he/she wants (Kotler, 2003).

The web also provides an infrastructure for data communication that enables custom-configured online orders to be efficiently produced. Indeed, manufacturers are assisted by other IT-enabled production and planning processes that enable them to satisfy individual customer needs (Grenci & Todd, 2002).

One of the most important advantages of customization for companies is the cost savings. It can reduce inventory levels, and thus decrease inventory costs. Marketing time and cost can also be reduced by the automated sale of customized products. In addition, customization decreases the cost of selling by reducing the labour expense through an autoimmunisation of the expertise of sales representatives (Grenci & Todd, 2002).

Another primary motivator of a product customization strategy is the revenue enhancement opportunity created by the time efficiencies that improve customer satisfaction and enable price premiums (Pine, 1993).

Indeed, as illustrated in figure 1, customization leads to greater sales, premium prices, and lower costs that in turn increase profitability.
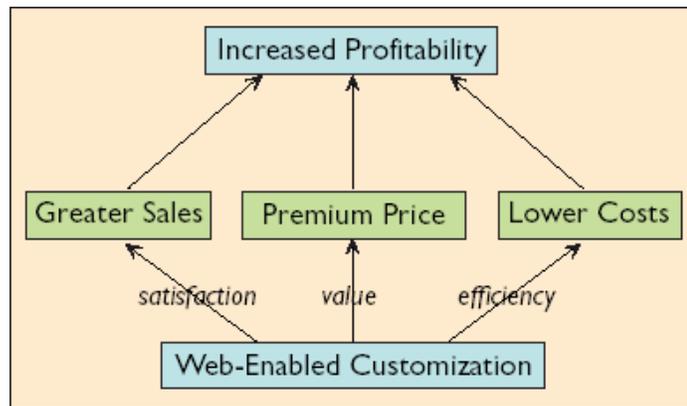
Figure 1. Paths to profitability through Web-enabled customization (Grenci & Todd, 2002)

However, the complexity of customization can lead to confusion that can entail purchase renunciation. Indeed, one study conducted by Huffman & Kahn (1998) has shown that when there is product variety, customer satisfaction is determined partly by the ease or the difficulty of the process used by customers to make their choices. Likewise, another study conducted by Garbarino and Edell (1997) demonstrates that people are willing to pay more for a product when it takes less effort to evaluate. Therefore, product variety and choice can add critical complexity to the selling process, and hence complicate the process for consumers. Consequently, to avoid this problem, companies should provide customers with decision support, to efficiently guide their efforts to the particular solutions that best fulfil their needs (Grenci & Todd, 2002).

As an electronic selling channel, Internet provides companies with the opportunity to create decision support tools into an online interface, which can favour a *solutions-driven* approach to marketing. This approach comes from a "needs-based" approach to selling, which is to detect the needs of a customer and then recommend a product to satisfy his needs. The "needs-based" approach is an effective strategy to market a complex good or service (Grenci & Todd, 2002).

As illustrated in figure 2 and 3, solutions-driven marketing strategies can be carried out thanks to three types or levels of Web-based customer decision support. These levels are determined by the point at which the support is applied to the purchase and selection process (Grenci and Todd, 2002):

- *Expert-driven*: In this level, an expert model or system uses rules to interpret customer-specific information or intentions into a recommended product configuration, and can be compared to the use of an intelligent agent that explores the Web for a product that is in line with customer-specific requirements.

- *Decision-Assisted*: In this system, the tool translates customer preferences into alternative product configurations, thanks to the preferred features specified by the customer.

- *User-Driven:* With this support, customers specify the needed product attributes and options while the system leads the purchase process to possible solutions.
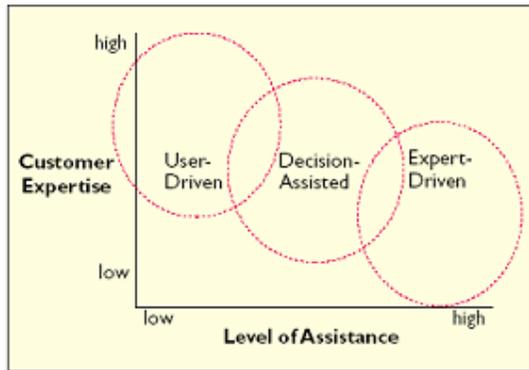


Figure 2 Interface design relative to customer expertise (Grenci & Todd, 2002)
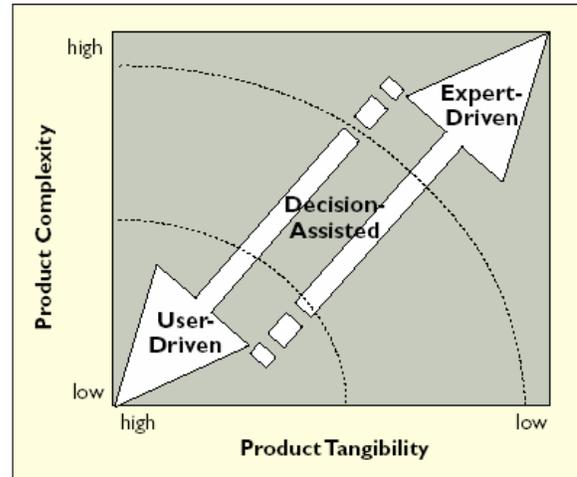


Figure 3 Interface design relative to purchase complexity (Grenci & Todd, 2002)

According to Wind & Rangaswamy (2001, p.13), mass customization has evolved and now the next stage is *"a buyer-centric company strategy that combines mass customization with customized marketing",* called by the authors *customerization.*

Driven by a company desire to redetermine its relationship with customers, *customerization* is a strategy that is under the control of the customers and initiated by them. The customer is an active participant in the procedure of creating and marketing the product or service, he is a co-producer and a partner in marketing (Wind & Rangaswamy, 2001).

In a *customerization* strategy, the company interacts with each customer personally, and personalizes messages, services, and the relationship. The customer can request customization of products, services, prices, and delivery channels. When a company is able to communicate with individual customers and respond by customizing its products, services and messages on a one-to-one basis, then it is customerized (Wind & Mahajan, 2002).

# 3 Method

*This chapter describes how the empirical study has been performed, the choice of approach, interview technique, as well as criticism regarding the method.*

## 3.1 Pre-understanding

To gather information there are four different methods to choose from; interviews, surveys, observations, and readings (Kylé, 2004). We have concentrated our empirical part on interviews and readings, since a survey is not relevant for the purpose of this thesis and an observation does not apply to this kind of study. However, we would like to argue that "un-intended" observations have been made previous to the start of the thesis. With un-intended observations we refer to observations that are not planned, but still performed in the daily life. We did that by observing our fathers' passion for technology (who frequently order Dell computers online) and by seeing how people invaded Apple Stores in USA and France. When we arrived in Sweden after a period abroad we reflected over how "quiet" Apple is in Sweden compared to USA and France, where Apple in 2005 showed enormous posters with youths dancing with an Ipod in their hands. Moreover, the American universities showed movies about Dell as part of the education in strategy courses and the company's strategy was discussed. The great stir of Apple and Dell made us reflect over their strategies. Our research of Apple and Dell examines the changes of the distribution channels over time, how the environment has changed and what impact these changes have had on the choice of distribution channels for the companies, and finally, how the companies can be successful in the same industry using different strategies. Yin (1994) argues that information gathering is an important part of a study. In order to obtain an overall understanding of the research area, information has been gathered and studied about Apple, Dell, distribution channels, consumer behaviour and service management.

## 3.2 Secondary Data

Since we did not have a sufficient number of interviews to base the entire empirical part on, we have integrated various information from articles, books and interviews already made by other authors.

Smith (2005) argues that in general, all research projects should include secondary information sources. The search should be conducted at an early stage of the research, prior to the empirical study. There are many reasons for this, he argues:

> Secondary information may solve the problem – If the secondary data is adequate enough there is no need for primary data.

> Secondary information searches cost substantially less – The costs of secondary sources are almost always a fraction of what primary cost would be, mostly thanks to the Internet.

> Secondary information has important supplementary uses – Even though the secondary data is not enough to solve the problem it has valuable supplemental uses including following :

- *Defining the problem and formulating hypothesis about the solution.* A better understanding of the problem will be retrieved by secondary data and new solutions will frequently be presented.

- *Planning the collection of primary data.* Previous examinations of methods and techniques made by other researchers in similar studies may be useful in planning the present one.

- *Defining the population and selection the sample.* Previous information and samples may be a guide when establishing classifications for current primary information collection.

We have taken notice of Smith's (2005) advice and searched for secondary data to provide us with a deeper understanding of our subject before we started with the empirical findings. Smith (2005) stresses the importance of collection of accurate and relevant data to be sufficient to solve the problem on hand. This was the hardest task for us. Most of the literature we first found about distribution channels was too old. However, the accurate data has not only helped us with a deeper understanding about our problem, it has also served as a platform for the empirical study. Thanks to secondary data we have saved both money and time.

## 3.3    Qualitative Approach

There are two main methodological approaches of how research can be performed; quantitatively and qualitatively. Which method to use depends on the problem and purpose of the study. A quantitative method is mostly used for a statistical analysis of the data collected while a qualitative method is used to gain a deeper understanding of the problem. The goal of a qualitative approach is to understand and analyse a problem while looking at the whole picture (Patel & Davidson, 2003). With a qualitative approach it is possible to see the problem in a variety of ways, to get a deeper understanding and be able to identify unexpected connections (Holme & Solvang, 1997). As an example of the difference between the two approaches it can be said that the quantitative researcher looks at the characteristics of a person, such as age, sex or education, as an entity while the qualitative researcher looks at the individual as an entity (Trost, 2005).

With our study of only two companies, a qualitative approach was taken. The fundamental idea behind qualitative research is that the sample should be representative and that the event can be repeated outside the sample (Lincoln & Guba, 1985). Mason (1996) has set up some criteria for qualitative research that we have followed. It should be:

- systematically and rigorously conducted

- strategically conducted, yet flexible and contextual

- involved in critical self-scrutiny by the researcher, or active reflexivity

- producing social explanations which are generalizable in some way or have a wider resonance.

### 3.3.1    Qualitative Interview

In addition to the empirical data that we found in articles and books, we decided interviews would be suitable since it gives us direct contact with the people that are working daily with the products of the studied companies. An interview is a meeting with one, or several people. The interviewer often seeks to get some specific information and tries to stimulate the interviewee to discuss the subject and answer the questions. A conversation face to-face with a person provides the best conditions to interpret how a person thinks or feels. The technique enables a follow-up question that clarifies unspecific and unclear answers. Language barriers, such as interpretations, can be diminished with an interview. Issues that can influence our way of thinking are things like background, upbringing and education (Kyle, 2004). Therefore we tried to make the questions as easy as possible to understand, and formulated them in a way that prevented the interviewees from twisting their answers in another angle than the original question was meant to be answered.

Häger (2001) stresses the importance of starting the interview with the basics in order to get an overview, and then go to the problem-based part, which leads to a conclusion. This was something we took great notice of when we conducted our interview questions. There are two different kinds of questions to ask; open and closed. Open ended questions allow the interviewee to reply with long and describing answers while close ended questions often leave the interviewee with no other option than answering short and specific. Closed questions can be devastating if the interviewee is unwilling to answer. He or she might answer short with yes or no and move away from the subject. In most cases the interviewee will reveal less in closed interviews and the interviewer becomes dominant (Häger, 2001). To avoid such a scenario an opened question interview was chosen. When an open interview is used it is important to let the interviewees answer themselves, leading questions should not be used. Moreover, it is great to use questions suitable for following-up questions. If an interviewee does not quite understand an answer a following up question can be used to clarify (Häger, 2001). More space given to the interviewee allows better developed answers and creates a possibility for new and exciting material to emerge. However, this goes hand in hand with interpretation complexity (Jacobsen, 1993).

## 3.4    Empirical Design

First of all, literature on consumer behaviour, channel distribution, service management and mass customization were studied in order to get an understanding of the development within the area. Secondly, Apple and Dell were studied through rapports of the companies founded in articles, books and on the Internet. The information retrieved was put together and analysed. Lastly, we decided to investigate the distribution channels of Apple and Dell through qualitative interviews. We wanted to get the "insiders" point of view and therefore decided to contact some of Apple's Centers as well as the headquarters of the both companies.

Apple uses different types of retailers. The two most common retailers are stores that only sell Macintosh products and stores that offer all kinds of technological products. Apple has its own *Apple Stores* in big cities like New York and London, but since Sweden is seen as too small a market for a pure Apple Store it only sells its products in other stores or through pure Apple retailers, which therefore became our target together with the head office in Stockholm. To make it more understandable we have chosen to call the stores that only sell Apple products for *Apple Centers*, and stores that offer all kinds of technological products for *retailers*.

Dell does not have any retailers so everything is sold through the Internet. Dell Sweden has an organisation separating corporate customers and individuals. The corporate division is located in Upplands Väsby, Sweden while the personal PC's division belongs to the responsibility of the headquarter in Copenhagen, Denmark.

Apple has 27 Apple Centers in Sweden. Our goal was to arrange an interview with as many of them as possible. The Centers have different grades of authority, depending on the education the employees have undergone and how wide their range of products is (Apple, 2005). On the website of Apple you can find the authority of all the different Centers in Sweden. We chose to focus on the retailers with the highest grade of authority which made the amount of retailers decline. We basically phoned all of the remaining Apple Centers, including some of the Center with lower grades. Sometimes we were told they did not have a shop hence only provided products that are ordered online or by phone. Those Centers were B2B retailers, only targeting businesses in the area where they are located. Other Centers said they did not wish to answer our questions since they stated the questions concerned information Apple did not allow them to answer. Finally, after a lot of research (among others involving asking retail employees for the right people to talk to as well as when they were reachable), we got in contact with an Apple Center called MacSupport in Malmö and one in Skellefteå called Grafit. We hoped to gain valuable information through interviews since the interviewees after all work daily with Apple products and customers, and have been involved in the process of opening up an Apple Center. To our disappointment none of the Centers had time for any meetings. Instead MacSupport in Malmö and Grafit in Skellefteå agreed to communicate through email. Apple's head office in Stockholm said they could not answer any of our questions citing lack of time as well as an inability to answer questions due to its confidential nature.

We were not satisfied with merely the information we received from the interviews. To get a deeper understanding we looked at previous interviews of company representatives. We found some really interesting information from conferences with the CEO of Apple Nordic, Oscar Bjears, in 2004 as well as with retail vice-president Apple USA, Ron Johnson, and CFO Apple USA, Fred Anderson, from 2003 and 2004. These conferences mainly concerned the Apple Stores, Apple Centers, and Apple retailers.

Getting information from Dell was also hard. Our main goal was to get an interview with the headquarter in Stockholm. We had several phone calls with the extremely busy Human Resources manager Karin Bartholf, who we were told is the person to contact concerning our questions. At first she did not have time to answer our questions but since we did not give up she finally promised to email us the answers. However, we have still not received any answer from her, despite the fact that we called her back to remind her several times. After all our attempts to get information from Stockholm we contacted Dell offices all over Europe. Fortunately Denmark, that also serves Sweden (responsible for employee purchased PC, Swedish = HemPC), was willing to provide us with the information we needed. Also this time we got our information through email.

Since we have found a large amount of information concerning Dell, from Michael Dell's own books and from other sources, we felt we had enough information to be able to conduct the empirical part with only one interview from Dell.

Before sending our questions to Apple and Dell we got feedback from our tutors about what kind of questions were suitable. Since the two companies are using different distribu-

tion channel strategies we conducted slightly different questions for them. What the "questionnaires" had in common was that they concerned how the companies perceive their customer's knowledge about their products, how they look upon Sweden as a technological country, how they add value to their customers, how well they are doing, and how their distribution channels have changed; if they have.

## 3.5 Reliability and Validity

Due to self-misinterpretations and misrepresentations, humans will always be unpredictable and the outcome of the interview will depend on the situation (Douglas, 1985). Seale (1999) means that external validity is difficult to achieve for qualitative researchers. Lincoln & Guba (1985) say that the quality of the findings depends on what extent the sample can represent the whole. We have interviewed only two Apple Centers in Sweden. They are located on totally different parts of Sweden and might face slightly different kinds of customers. However, we do not believe Swedes to be very different in this matter just because they live in different parts of the country. Dell acts almost identically in all its operational countries. Therefore, we argue that the reliability and validity of our sample are sufficient. Nonetheless, one can always argue that the outcome would be more reliable if we had conducted personal interviews rather than via email. The validity might have been greater if the sample was larger and the conductors professionals.

## 3.6 Criticism

There is a possibility that wrong tasks have had the majority of focus in this thesis. The areas covered in the investigation may/may not be the key elements behind the phenomena of success or competitiveness.

As mentioned before one criticism to our thesis is that our sample only consists of two Apple Centers and one contact person from Dell. If the sample size had been greater the validity of the exercise would have increased.

A lot of our information is retrieved from the companies themselves, which most likely will be subjective. Also, much of the information is from the US. Since we examined the Swedish market it might have been better if all our information would have been retrieved from Sweden. Nonetheless, we think it is important to include information from USA since that is the county of origin for both companies and they both have their head offices there. Consequently both Apple and Dell are greatly influenced by USA.

We had hoped to get personal interviews with representatives from the both companies. In that way it would have been easier to interpret their answers with help of their body language, and it would have enabled us to make suitable follow up questions. Language barriers, such as interpretations, can be diminished with an interview (Kyle, 2004) but since we only made email "interviews" we might have interpreted their answers wrongly. This goes especially in Dell's case where we were only able to get one interview

Kyle (2004) stresses that issues like background, upbringing and education can influence our way of thinking. After reading a lot of articles and interviews made by other authors we already had a picture of how the company operated.

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## 3.7　　**Method of the Analysis**

The chosen theories function as a framework for the analysis. In the analysis we will integrate the empirical findings with the theories and compare the two. Retrieved data is collected, structured and analysed in the process of qualitative data analysis (Marshall & Rossman, 1999). It is a time demanding process that took us a lot of effort. We wanted it to be reliable and trustworthy. McDaniels & Gates (2005) argue that a high degree of trustworthiness is necessary to make honest interpretations, comparisons, and to draw conclusions (McDaniels & Gates, 2005).

The empirical framework and the analysis follow the same structure as the frame of reference, thus making it as easy and logical as possible for the reader. The different theoretical areas will be analysed one by one. The analysis consists of an investigation of how the theory works in the cases of both Apple and Dell. The interviews, that the empirical part partly consists of, are designed in accordance to the theory. The interviews are going to reveal the thoughts of the "insiders" and provide us with information we cannot find through literature. We will evaluate the reasons for the companies' chosen distribution strategies and investigate if they are supported by the theory.

# 4 Empirical Framework

*This chapter deals with the result from the empirical study. The chapter starts with a description of the latest development of distribution channel strategies in the Swedish computer industry to provide the reader with a richer background. After that, Apple and Dell are being presented and examined based on the theoretical framework, partly thanks to interviews of company representatives; previously documented or made by the authors.*

## 4.1 Sweden's Distribution Channel Development within the Computer Industry - since the year 2000

The sale of PC's in Sweden fell with the IT-crash in 2000. Distributors' sales only gently declined however, down to 35 percent, whereas the bigger retail chains dropped from 45 percent in 1999 down to 34 percent. It might have been the industry decline that led to changes in the distribution channel. After the crash the industry moved away from non-specialist retailers to focus more on pure distribution channels. A threat to the distribution channel sector was the direct channel, used by companies like Dell. Surprisingly, direct distribution did not increase, but stayed at 32 percent of the total PC-market, according to IT Research. Instead customers and suppliers realised that there was an enormous need for distribution channels (Affärsvärlden, 2001).

Anders Bley (2001), Vice President at Scribona (a service company that offers supply chain management for IT products, e-business and complementary services) argued in 2001 that e-trade and an increase of customer services were ways for distribution channels to increase their profitability. Distributors need to have a great product knowledge, which is getting increasingly important as the IT-environments are getting more complex, states the analyst David Larsson (2001) at IT Research. Larsson predicted that small retailers with local competence were the ones that were going to perform the best (Cited in Affärsvärlden, 2001).

Both Bley (2001) and Larsson (2001) were right. A year later, in 2002, the turbulence in the sales channels was bigger than ever. The margins shrank, the Internet overtook more of the sales, and requirements of customer adoption increased. The market share became a battle about selling personal computers, where the customers wanted to buy and get the computers exactly the way they wanted (Wallström, 2002). The outcome was harder competition between direct and indirect distribution channels. Companies considered to either sell by themselves or to use some kind of distribution channel, like for example a retailer. When the Internet started as a distribution channel many thought it was going to outperform the other distribution channels, force them to close down and make the producer sell direct to the market, like Dell is doing. Even though Dell has been successful, Wallström (2002) stated that the indirect channel still was needed and wanted.

According to Kaplan (2002), a researcher at Stockholm Business School, the choice of distribution channel is of crucial importance, affecting how the company is learning from its customers. Kaplan's (2002) research is mainly about what knowledge a company needs for electronic trade. He has, during a ten year period, studied how Dell gains knowledge from its Swedish distribution channels. Kaplan (2002) states that Dell has been having a very active relationship with its customers through listening to feedback from customers (Cited in Wallström, 2002).

Depending on the distribution channel, different roles appear which affect the way knowledge is retrieved. In the end, direct channelling is by far the superior way to gain new knowledge, according to Kaplan (2002) (Cited in Wallström, 2002). He also states that the computer industry has moved over favour a combination of direct and indirect distribution channels. Dell has several times, especially in the 90's been thinking about using an indirect distribution channel, but has never taken the step. At the same time companies have been better at finding ways to reach their customers, according to Kaplan (2002), (Cited in Walström, 2002).

Apple is a good example of a company that uses a combination of both direct and indirect distribution channels. We are now going to look at Apple to see why it has the strategy it has, and then move on to see the underlying factors of Dell's choice of only using a direct distribution channel.

## 4.2 Apple's Strategy

In 1997 Dell told Apple to fold and return its shareholders' money. The CEO of Apple, Steve Jobs replayed: "*With our products and our new store, we're coming to get you, buddy!*" (Langton, 1997, p.46)

### 4.2.1 Background

Steve Jobs started the company in 1976 together with Steven Wozniak but left in1986 after a battle with the former CEO, John Scully. After he left, the company struggled until 1996, when Steve Jobs decided to return to Apple. The following period has been a success, above all for the newly designed generation of Macintosh computers, iMac, and PowerMac (Thulin, 2005).

The Apple Macintosh computers were introduced in 1984; the computers were characterized by special designs and applications base, built-in networking, graphics and multimedia capabilities. A range of personal computing products, including desktop computers, notebooks, related peripherals, software and networking, and connectivity products, are being offered. Apple also sells a variety of third-party hardware and software products directly to end users, such as computer printers, storage devices, audio players, memory, and imaging products like digital camcorders and scanners. The products are sold in Apple Centers, at retailers, as well as in Apple's online store (MarketLine Business Information center, 2005).

Apple business is divided into geographic segments with America, Europe and Japan as core divisions. The European segment includes European countries as well as the Middle East and Africa. Each geographic operating segment provides similar hardware and software products and similar services. Just like many other American companies Apple's operation in Europe is based in Ireland. One of the cities in Ireland, Cork, has a big call center and a manufacturing plant. Apple Nordic is an agent for Apple Europe, with responsibility for sales, marketing and local competence. Branches are located in Denmark, Norway and Finland, with 100-150 employees (the exact figure is not official), and some of them are also located in Ireland. Apple Nordic has departments for sales, marketing, finance and technology/knowledge, but after-sales support is based in Ireland. The Swedish headquarter is located in Kista, Stockholm (MarketLine Business Information Centre, 2005).

The newly-designed generation of Macintosh computers, iMac, and PowerMac have been a great success (Thulin, 2005). Apple Sweden has increased from 2% of the market share in 2003 to 3% in the first quarter of 2005 (Björnström, 2005).

## 4.2.2    Consumer Behaviour

The following text is mainly based on interviews with Swedish Apple Centers made by the authors in November 2005, and interviews of top management of Apple USA made during 2003 and 2004. Our own interviewees are made with Mats Billgren from Skåne and Patrick Jonsson from Skellefteå. The interviews with top management in the US were retrieved from Ifoapplestore's webpage, where some conferences are in written form. In the following text, "Macintosh" is many times shortened to "Mac", which is a common name for the Apple computers.

Mats Billgren, CEO for the Apple Centers MacSupport in Skåne, argues that there is no common pattern among his customers. Nowadays Apple's customers vary in age between 7 and 90. There are those using Apple products for the first time, perhaps after a change from PC, while others have great knowledge about the products (M. Billgren, personal communication. 2005-11-01). Patrick Jonsson from the Apple Center *Grafit* in Skellefteå adds that it is not only in age that the customers differ widely, but also in economic position. However, he wants to point out that most customers have a great interest in music, graphics, video, or in something else where you need a computer as a creating tool (P. Jonsson, personal communication. 2005-11-15)

According to Billgren (2005), many of the customers have good knowledge of the products before entering the shop. They have searched the Internet and found information about their interest. Still they prefer to go to the shop, to the experts, since it gives them service, comfort through personal meeting, and the possibility to see and touch the products physically (M. Billgren, personal communication. 2005-11-01). Patrick Jonsson (2005) states the opposite goes for Skellefteå where most of his customers lack an interest in technology and have a poor knowledge of Apple and its products. Instead they have a strong demand for design (P. Jonsson, personal communication. 2005-11-15).

Elliot (2002) states that Apple's customers are "believers", basing their decisions on prior purchase preferences. He states Apple customers will always remain with the company.

According to Steve Jobs (2003), the difference between small and big companies is that the small companies do not have an IT department. Small businesses want somebody to help them get their computer system running - and keep it running. Therefore Apple targets small businesses through this kind of service providence (Cited in ifoapplestore, 2005). Both Apple Centers we have had contact with stress their co-operation with businesses, especially graphical working businesses, but also to a large extent the educational sector. The Apple Centers are doing very well targeting these segments (M. Billgren & P. Jonsson, Personal communication, 2005-11-15).

To sum it up, Apple's customers are driven by the design and function of the computer as a creation tool instead of as a simple working computer. The customers are in all ages and they do not belong to a specific "economic class". The customers simply want a hands-on experience before they buy the products. Mainly because Macintosh is more complex than a PC and that many are buying their first Macintosh computer, they prefer to get expert help from the experienced employees.

### 4.2.3    Distribution Channel Strategy

Apple used to focus on corporations rather than private customers. But in 1997, Apple decided to improve its relationship with retailers. Apple is multifaceted, consisting of Apple Centers, retailers, electronic channel and VARs. The company started to train its retailers because it wanted resellers who were advocates of Apple, not just selling Apple for the sake of it (Dimitruk, 1997). In 1998, Apple decided to target private customers with a greater focus which lead to a change in its distribution channels. Apple officially began searching for qualified retailers because it wanted only the best (Picarille, 1998). In 2001 Apple made the new strategy even more obvious by opening 25 Apple Stores in USA. This move came after a down swing in the computer industry (Heller, 2001).

Apple penetrated the European market by using a wide range of retailers. The company today wishes to reduce the amount of retailers and instead focus on only Apple Centers. In Sweden, Apple has reduced the amount of retailers by half, from 200 to 100. 27 of these are Apple Centers. Apple does not want too many distributors within the same area since it will reduce the profit of each distributor and stop them from investing in marketing, education of technicians, and other forms of special competence (Björnström, 2004).

According to Oscar Bjears (2004), CEO of Apple Nordic, more Apple retailers will not lead to more Macintosh computers sold. For example, the Apple Store in London is doing extremely well while the sales of other retailers has remained unchanged. Macintosh is not as easily sold as PCs, as they demand more competence of the end seller. Bjears argues that retailers like the Swedish companies OnOff and Siba have a high staff turnover and an uneducated sales force. They have small margins and do not have time to sell products they are not familiar with or do not have much knowledge about. He argues that it is better to make people go to specialized distributors that offer knowledge and time (Cited in Björnström, 2004).

Apple started to sell direct via the Internet in 1997, and offered a full product range online. Picarille wrote in 1998 that researchers and analyst's agreed this was inevitable. Also, Dell did it successfully so why should not Apple succeed? However many of the retailers were afraid this was going to hurt their businesses but Apple made it clear that the Internet was only going to help them. The Internet was mainly used as promotion where customers could have a look at the products and seek information about them. Since Apple did not want to take customers away from the Apple Centers they set their Internet prices higher than the in store prices. That way retailers remained happy and even got help with the promotion (Picarrelli, 1998).

In 2005, about 51% of the Swedes, that were interviewed by a Swedish Apple retailer called Mac, said they buy both online and look in the store. 28% only buy online whereas 10% only buy in the store and around 11% buy online after a visit in the store (99mac, 2005). This is a good sign of the effectiveness of the Internet focus. Customers still want to go to a shop but not solely. Billgren (2005) says that the web has not been sufficient enough when looking historically. Almost all firms want a store to go to, a partner who knows the industry. Business professionals are receptive to ideas proposed by experts in their fields. According to Billgren (2005) they seek for somebody that thinks a bit further than themselves. Personal relations also sell comfort (M. Billgren. Personal communication. 2005-11-01).

According to Billgren (2005), there are no specific requirements for selling Apple products. However, if one wishes to become an authorised Apple Center, an approval from the European headquarters is needed. To become an authorized Apple Center a long experi-

ence of Apple products is required together with an educated workforce that can guarantee quality service. Apple has to improve the choice of city and location. Contacts through network are, according to both Apple Center sellers, Billgren and Jonsson (2005), an important link for advancement within Apple. Apple employees are not allowed to provide more specific information about the matter. Billgren (2005) could only tell us that the Apple Centers are obliged to market in line with Apple's guidelines and undertake several company visits and seminars. These seminars are developed by Apple USA, passed on to Apple Europe and finally passed on to Apple Centers in Sweden (M. Billgren & P. Jonsson, personal communications, 2005-11-01).

Oscar Bjears (2004) is very happy with the commitment of the Apple Centers. He argues that Apple could not have done as well without them (Cited in Björnström, 2004). Apple excelled last year, increasing overall sales by 72%, mostly thanks to its distributors (Abens, 2005). While Apple was praising its distributors, the distributors were criticizing Apple for its poor logistics. According to Billgren (2005), the logistics need to be improved to be sufficient. The retailers would sell more if Apple simply provided them with more products. Billgren says that Apple provides them (the retailers) with products (the amount) based on the size of the country and the cities they are located in. Billgren says Sweden is the fastest growing country technologically, and is one step ahead in many ways. Sweden has a long tradition of high tech. Therefore, Swedes are used to advanced gadgets and might demand more than other countries (M. Billgren, personal communication, 2005-11-01).

Jonsson (2005), states the Swedish retail stores are doing very well but only account for a small amount of the total volume of sales. He argues that the larger volume sales are made to the graphical and educational sector (P. Jonsson, personal communication. 2005-11-15). The stores act more as a marketing channel. This statement is the opposite from what Johnson (2004) said in the Analysts' Conference in 2004. There he said that Steve Jobs was very clear from day one that they do not need stores for marketing since Apple has good awareness. Apple and Steve Jobs specifically, did not intend for the Apple stores to be seen as a marketing or advertising gesture. Rather, they expected the stores to turn a solid profit from the very first day (Cited in infoapplestore, 2005).

According to Johnson (2003) Apple will focus on trafficking its stores, which will attract other customers by word of mouth. He says that Apple will not waste any money on an advertising campaign since the traffic to the stores is increasing, but they want to figure out a better way to sell their products. The stores are meeting Apple's goal to introduce the brand to new people and let them experience the best technology available (Cited in ifoapplestore, 2005).

Another way of attracting customers is to take on a more expanded role for repairs: high-profile stores are doing many portable and desktop repairs in-store. *"We believe these things are really going to help drive people to buy Macs, because the service is unparalleled, even compared to a Dell, which has a great phone line, but it is a telephone. We have face-to-face help, face-to-face try, face-to-face diagnostics, and two-day turnaround time on repair."* Mr Andersson (2003) said (Cited in ifoapplestore, 2005).

About the future outlook Johnson (2003) said that Apple wants to be focused on core retailing efforts. Apple's priorities are adding new stores, improving finances, examining core metrics, and innovating to improve the customer experience. Apple is going to continue to innovate to make the stores the best place to buy computers. However, it is not easy to deliver a pleasurable customer experience. It is quite complex with a lot of personal aspects involved, Johnson (2003) said (Cited in ifoapplecenter, 2005). Apple is nonetheless deter-

mined to find the perfect solution. Anderson said in 2003 that they had a 95% customer satisfaction rating (Cited in ifoapplestore, 2005). In Sweden, it is up to retailers like Mats Billgren and Patrick Jonsson to keep up the good job, mainly by providing excellent service management.

## 4.2.4      Service Management

Apple carefully chooses its end-sellers since they put great importance on selective channels to be able to provide customers with the best possible service (Apple, 2005).

- Around 40 technicians have undergone a 17-day OS X education which started with the fundamental facts of the brand technology to follow up with the most advanced technical details (Apple, 2005).

- Sellers have undergone a 48 hour education with Apple, where also some big customers participated to get a wider knowledge of Apple and its latest technology (Apple, 2005).

The Apple Centers have argued against the costs of the education that they have to bear but Apple is determined that it is necessary and that it will be rewarding in the end. Most people are familiar with PC products and ask a lot of questions when changing to Macintosh products. Apple wants to be sure its distribution channels are able to answer these questions (Björnström, 2004). As a reply to our question if Apple has a reward system, Jonsson (2005) answered they do not. If you are not service minded enough, you better look for another job he replied (P. Jonsson, personal communication. 2005-11-15).

Yet it is not only in stores where customers get good service. If a product has broken down and the customer prefers not to go to the store, the company will pick the defaulted product up at the customer's door and deliver it back to the same place whenever it is finished (Apple, 2005).

Added value for Apple customers is, according to Billgren (2005), both the products and the educated and knowledgeable staff. The customers often wish to touch and feel the products. With a store they feel more comfortable. The customers prefer to have a place to go to in case something goes wrong or if they wish to discuss the products (M. Billgren, personal communication. 200-11-01). Many customers are, according to Patrick Jonsson (2005) at Grafit in Skellefteå, asking lots of question. They are insecure about the products and need information they can not get from the Internet. It is, according to Jonsson, only the ones that know exactly what they want that buys online. A big advantage with a store is also that the customers can get the product at once whereas ordering over the net it might take some time. Apple is bad at delivering products to the retailers. Therefore it is important for the retailers to stock products. Both retailers and customers gain from the retailers having a sufficient stock. Saying that, it should be added that the Internet also has become a factor of added value. Through the net customers can easily and quickly get information about the products. If they wish, they can sit at home in a relaxing environment and go through and order the products online. Which can be very convenient (Jonsson, personal communication. 2005-11-15). When Apple decided to go online it set higher prices on the web than in the stores. Now it is almost the exact opposite. The product prices are slightly cheaper online, which has raised concerns among retailers (Kunert, 2005). The differences are so marginal though that Jonsson (2005) thinks it will be overlooked considering the support customers receive from the stores.

According to Jonsson (2005) Apple can not solely use the Internet as a distribution channel in Sweden. The segment is too small to generate enough online sales. He argues that the customers need to be convinced to buy Apple products through testing them and interacting with an educated workforce, telling them pros and cons about the product (P. Jonsson, personal communication. 2005-11-15)

## 4.3    Dell's Strategy

*"The do- it-the-customer's way mantra has created for Dell the tightest - and most envied - relationship with buyers in the PC business"*- Business Week (Dell, 1999. p2.).

*"Computer maker Dell is showing the world how to run a business in the cyberage"* – Business Week (Dell, 1999. p1.).

### 4.3.1    Background

Michael Dell started Dell Computer Corporation in 1984 with the idea that there was a better way to sell computers. Dell believes that shipping the products directly to the customers will create a much better level of service and support. Service and support are seen as the ultimate competitive weapons in a maturing industry, and Dell approaches service as a product (Dell, 1994).

In 1985 Dell Computers introduced its first PC. Dell Computer opened up a manufacturing plant in Ireland in 1990 to be able to serve the European, Middle Eastern, and African markets. In 1993 Dell Computer expanded with new subsidiaries in Australia and Japan, to reach the Asia-Pacific region. In 2003 the company changed its name to Dell (Dell, 2005).

Dell is a leading provider of products and services required for customers worldwide to build their information-technology and Internet infrastructures. Dell holds about 33 percent of the market share in the US PC market (MarketLine Business Information center, 2005), and between 20 and 25 percent in Sweden for the first quarter of 2005 (Bohlin, 2005). Dell in Sweden is doing very well, it is gaining market share on desktop computers and notebooks, as well as enterprise solutions such as new storage technologies. Mats Oretorp, Marketing Director at Dell Denmark/Sweden argued in 2005 that Dell in Sweden will grow +20 percent (M. Oretorp, personal communication, 2005-12-01). Leading market position in most of its markets gives the company a stronghold within the industry (Market-Line Business Information center, 2005). Dell employs about 61,400 team members around the world and cooperates with different strategic partners and industry groups to be innovative and able to develop open-standard products. At the moment, Sweden employs 330 people at Infracity in the north of Stockholm, and Andersson (2005) stated that Dell needs to employ an additional 30 people. This means that Dell needs to extend its premises. In Sweden Dell is supposed to serve large companies with above 200 employees and the public sector. Dell is working in the entire Nordic region but it is Sweden that takes care of the Nordic support. Infracity is the only office in Sweden but Dell has further chosen to employ one seller in Karlstad and one in Sundsvall to get closer to its customers. Dell's new commitment comes from the big increase in PC sales. During this year's first quarter, the sales have increased 7 percent. The increase represents the raise in home-PC-sales and the sales in laptops (Andersson, 2005).

Dell's innovations often affect the IT industry by other companies benefiting from its new product directions (Dell, 2005). Only two decades after Dell was founded, its industry-wide phenomenon became known as the Dell Effect. The phenomenon explains how Dell has made computing more affordable and associable by revolutionizing how the world shops for technology. Dell itself calls this idea its winning concept, and it is built on a collective commitment to its customers, direct relationship, global citizenship, team success, and winning (Dell, 2005). The company recorded revenues of $49,205 million during the fiscal year ended January 2005, an increase of 18.7% in 2004. Strong operating performance provides flexibility to the company's operations (Dell, 2005). Dell is not spending as much

money on R&D as its competitors do. The company only invests about 1.4 percent compared to its big competitor IBM, which is spending almost 6 percent of its revenues. Dell also does very little product invention but is instead focusing on process innovation. The company is doing that by driving new efficiencies into its manufacturing and distribution of personal computers, servers, and other offerings (Weisman, 2004). Dell is one of the companies that have taken advantage of using short production cycles and global markets to create new business models and products. Dell has about 60 core suppliers that allow the company to cycle inventory through gathering facilities in just six hours. Dell uses an effective direct relationship to its customers which has attracted several customers with different kinds of consumer behaviour (Parks, 2004).

## 4.3.2    Consumer Behaviour

As mentioned in the background, Dell has different kinds of customers. Its customers include individuals, governments, schools, small businesses, and global corporations. The company sells its products and services to nine of the largest companies in the world, and to the six leading US banks (MarketLine Business Information center, 2005). Mats Oretorp at Dell Sweden, explained that Dell in Sweden sells to all customers over Internet or the phone, from individual consumers, large corporations as Volvo, Skanska, SEB, and Public municipalities. Oretorp says that sales and marketing are closely segmented to support every target segment's buying behaviour. It means for example that the phone and the Internet are the only channels to consumers, whereas the public segment has a high staffing of personal account managers. Most of Dell's customers, especially those with more than 200 employees, have dedicated departments who are familiar with the technology/products they buy. Larger organisations have several departments specialised in PC, printers, servers, storage etc (M. Oretorp, personal communication, 2005-12-01).

MarketLine Business Information center (2005) states that an effective direct relationship with the big companies has led Dell to a significant market position. There is now a new generation that prefers self-service everywhere, at the supermarket, hotels, airports, and over the web. The old way to deliver products, through physical stores, does not interest the new type of customers (Goldenberg, 2005). According to Elliot, (2002), research shows that Dell is winning new customers thanks to a new marketing strategy. The research confirms that customer demand will continue to grow every year, and the study divides the PC buyers into four different categories: socials, reasoners, believers, and worriers.

*"Socials rely on personal interaction when making purchases. Reasoners prefer to gather their own data before making a purchase. Believers base their decisions on prior purchase preferences. Worriers - the largest buyer group at 41 percent - need help making their purchase decision, and their focus is on personal needs."* (Elliot, 2002 p.14).

Historically, Dell has always appealed to reasoners, but now they also tries to take the socials from its competitors. The key to Dell's success is its strategy, and a lot of Dell's profits will come from PC owners replacing old equipment. Therefore it is important for companies in the PC industry to both keep their customers and win new customers from their competitors (Elliot, 2002). Oretorp (2005) states that Sweden in some respect is different from other countries Dell operates in by having some unique market segments like EPP (employee purchased PC = HemPC), which drives PC adoption quicker than in other countries. He said the following: *"Our business customers use notebooks and mobile platforms to a larger degree compared to other countries. However, in general, our value proposition and product & services*

*portfolio remains identical with the rest of the world"* (M. Oretorp, personal communication, 2005-12-01).

### 4.3.3    Distribution Channel Strategy

Dell has shown its customers that relations through the web are possible. Dell follows the direct-selling model in the IT-market to reach customers and to be the world's largest manufacturer of IT hardware (Dell, 2005). To do everything direct enables Dell to be faster than everyone else using physical assets since the company has fewer things to manage and fewer things that can go wrong (Magretta, 1998). However, it has not always been like that. When Dell started, it used personal selling, telephone, and later on, the Internet. It was in 1994 when the retail-business was growing the most and all Dell's competitors expanded into the retail-business. That is when Dell decided to go in another direction. In USA Dell sold its products to big chains like CompUSA and Circuit City for four years, but in 1994 the company decided to do something about the fact that their products did not make any profit when selling through retailers. Dell did one last try to sell at Wal-Mart, USA's biggest supermarket chain, before pulling out of the retail business in 1994 (Dell, 1999).

Dell is a very demand-driven company. The company integrates demand in its supply chain by shipping its products servers throughout Europe, the Middle East, and Africa, from its manufacturing facility in Limerick, Ireland. The company is trying to integrate suppliers, plants, and logistics networks. It is important for Dell to understand its customers to be able to keep as little inventory as possible in that way save money (Wheatley, 2005). Dell is using the information and technology to reshape the traditional borders in the value chain between manufacturers, users, and suppliers. Michael Dell calls this virtual integration. It is about how to combine mass-cutomization, partnership with suppliers, and just-in-time manufacturing in the most sufficient way. Virtual integration means customers' needs can be met faster and more efficiently. For Dell it is all about shrinking the time and the resources it takes to meet customers needs (Magretta, 1998).

One of three PCs in the USA is shipped by Dell, and one of six in the world. Dell is using a standard-based-approach. That will make the company the lowest cost producer of standard technology. Dell has no requirements to do everything itself and is very careful when setting up production facilities. Location decisions are high on the corporate radar, especially since they have a business model that contains low prices and quick delivery, coupled with responsiveness to the customer. Dell's main advantage is its consistent ability to execute a clear strategy (Stewart & O'Brien, 2005).

Dell is able to offer its customers value through high-quality, relevant technology; customized systems; superior service and support; and products and services that are easy to buy and use. This is due to Dell's strategic focus on a direct customer model, offering standard-based technologies with an efficient manufacturing and supply chain management organization. This helps Dell to cut the cost (since having a small inventory) and be able to introduce the latest technology faster than its competitors with slow moving indirect business models (MarketLine Business Information center, 2005).

The model will also make information technology more powerful and easier to use, not to mention more affordable. Customers are given an opportunity to take advantage of powerful new tools to improve their businesses and their personal lives. Online relationships are the main focus in Dell's strategy, and a lot of other companies now start to see the benefits of direct-sales. There is a lot of money to save when only selling on the web. The customers' habits lead more towards shopping on the web to make the purchase as easy as possi-

ble. The direct model allows the company to build every system to order and offer its customers great systems for competitive prices (Dell, 2005).

Thomas Rundin (2005), Market director at Dell in Sweden, explains that Dell has always sold directly to customers and that they will continue to do that forever. The reason for that is to be able to be close to the customers and to be in the middle of the flow of information. As mentioned earlier Dell tried to sell through resellers in 1994, but they ended that idea very fast. The reason was that Dell was not able to know what the customers wanted and that destroyed the whole business concept to keep track on customers' preferences. The company did not know how much inventory the resellers had or how much the customers bought, and also the resellers demanded some kind of margin. According to Thomas Rundin, selling directly to customers will lead to lower prices (Cited in Wallström, 2005).

Many companies have adapted to the new invention of the Internet but not a lot of companies have chosen to do like Dell and only focus on direct relationships. Dell differs from its competitors by communicating its brand value using its website as a direct sales channel. Dell also differs in the way that it manufactures its computers from scratch for its customers. Dell builds relationships through its own sites while several of its competitors use corporate sites that force the user to a retail space or third-party, not through their own factories. Dell knows that direct contact with customers assures higher quality and value for the customers who will get answers to their questions. To use a third party will create an insecure feeling since it is not always possible to control how much knowledge the third party has about the manufacturer's products. In Dell's case the manufacturers sell the products themselves (New Media Age, 2005). Dell enters new partnerships all the time to be able to keep up with top players while maintaining a strong operating base. The company has identified three product areas where they believe that growth and profitability are important and attractive: consumer electronics, storage, and printers. Dell has decided to opt into a partnership with companies in the mentioned areas in order to grow as much as possible (Wallström, 2005). They want to be able to offer best possible service. Dell believes in having as few partners as possible, and to only keep them as long as they are the leaders in technology. Nonetheless, as long as they remain partners Dell will treat them as if they were inside the company. One of the advantages of working close with its suppliers is that about 10 000 service technicians service Dell's products but only some of them are actually working directly for Dell. That is because most of them are contractors. Although most customers believe that the technician that comes to their home is actually working for Dell, which is an advantage for Dell (Magretta, 1998).

### 4.3.4 Service Management

Dell wants to be different and does things in an altered way. One of the company's keys to success has been that a lot of creativity has been used to allow people and infrastructure to be structured any way wanted. Dell's innovative business model has now turned towards the services business. Dell wants to understand what its customers think is important and then try to achieve it. Dell works after the slogan: *"feet on the street"*, which refers to being close to its customers (Turner, 2005).

Dell's approach is to be innovative when it comes to customer and supplier interactions. Dell wants its customers to be able to apply their own imagination when using its products and the company offers a variety of customized services and support programs tailored to meet specific customer requirements (MarketLine Business Information center, 2005). Ore-

torp (2005), argues that following tasks are their more important services: *"Support (on-site break and fix), proactive support and maintenance, 24x7 support, project management, consultancy around datacenter infrastructure, outsourcing, managed services etc"* (M. Oretorp, personal communication, 2005-12-01). To keep its promises of being flexible and service minded the company offers limited 24-hour telephone and online technical support. Dell's innovation mostly comes from the customers, and Dell listens and learns. The company has daily contact with thousands of customers, customer panels, and organized events (Dell, 2005). Dell wants to be able to deliver a great customer experience through all its products. Price, services, and the variety of goods are only a part of the overall customer satisfaction. Dell regularly makes sure customer service performance is outstanding. It uses for example tests of how long time an order will take, how fast problems are corrected, how good product quality is, and how the customers are treated. Dell wants to be the best in delivering an experience to its customers (MarketLine Business Information center, 2005). Therefore customers are being asked about their preferences and needs. They can more or less build their own computer by ordering special requirements which lead to a demand-supply effect, meaning the company can build the computers the way customers want, instead of first building the computers and then guess how many are wanted (Dell, 2005).

To be able to get new customers to buy from Dell without having a chance to actually see the products in a store, Dell decided in 1986 to offer a 30 days guarantee for its products. This creates a reputation for reliability. There will always be a chance for competitors to be better than Dell in price or quality, but if a company can be able to build up a strong customer relationship, the customers will stay with the company anyway. Michael Dell (1999) does not like to see Dells' customers as customers for just one transaction, but for life. Dell's customers will challenge the company to come up with new solutions and this will add value beyond the box. It is important for Dell to spend time with customers where they are doing business instead of showing customers Dell's business (Dell, 1999).

Dell has chosen to use a Matrix-model to have its different groups to report to more than one unit within the company. That to be able to have more control on how the different groups are doing (Dell, 1999). Dell has decided over time not only to segment by products but also by customers. For its large customers Dell uses face-to-face, telephone, and the Internet. For consumers and small businesses Dell uses telephone and the Internet. Customer segmentation will give Dell a closer relationship with its customers. Dell wants to provide its customers with the technology needed, support them with fast, reliable delivery, and onsite service. The company aims to offer its customers a personalization of a relationship when they buy products from Dell (Dell, 1999), but also the segmentation provides Dell with a better focus and attention to understand what the customers need. In this way, Dell is able to forecast the future demand. Dell turns its inventory over 30 times per year, which could not be done without having credible information about what their customers want (Magretta, 1998)

| Large customers | | | | Small customers (Business and consumer) | | 1994 |

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                                                          Large customers                                                     Small customers      1994
                                                                                                                              (Business   and
                                                                                                                              consumer)

          Large   com-        Midsize          Government                                        Small     cus-      1996
          panies              companies        & education                                       tomers

   Global   en-   Large  com-    Midsize        Federal    State   and   Education        Small  com-   Consumers    1997
   terprise  ac-  panies         companies                 local                          panies
   counts
```
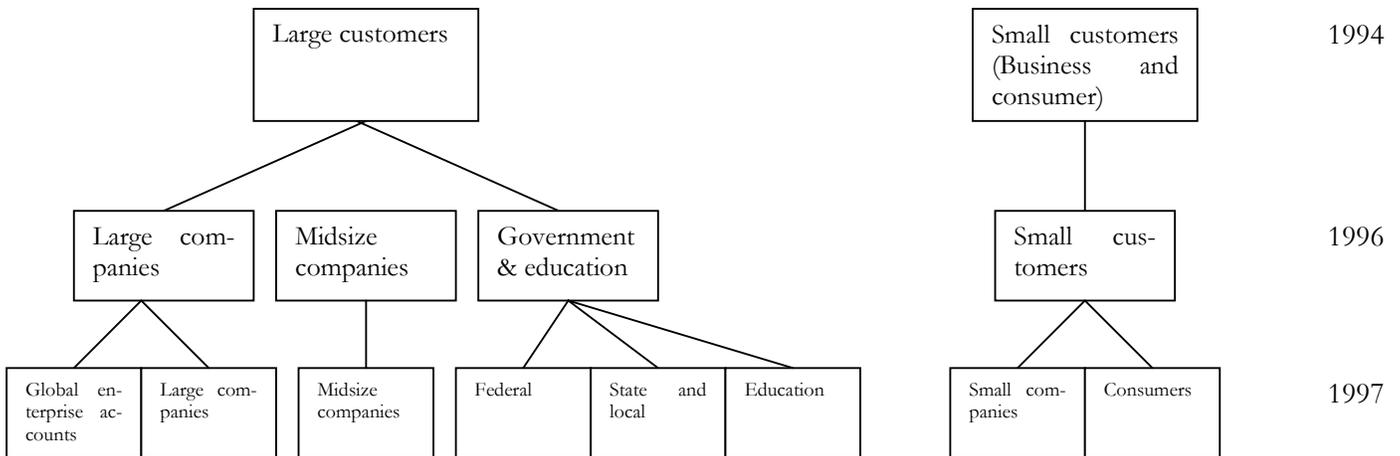
Figure 4 Dell's Business Structure through time (Dell, 1999)

To sum it up, Dell adds value to its customers by, like Oretorp (2005) said, customized web-shops, customized configurations, buying statistics, order and logistic process tracking, as well as reduced ordering costs. Furthermore, Oretorp (2005) says they can offer their customers better agreements or discounts if they use electronic channels for ordering (M. Oretorp, personal communication, 2005-12-01).

# 5 Findings and analysis

*In this section, the strategies of Apple and Dell will be analysed and compared, using the literature of our frame of reference and the results of our empirical study. Therefore, we decided to keep the same structure, dealing first with consumer behaviour, then with distribution strategy, and finally with service management.*

## 5.1 Consumer Behaviour

Apple and Dell have chosen to focus on a different group of customers. Even though Apple's Centers state they can not see a specific pattern among their customers, who vary widely in age and economic status, they agree that their customers are focusing on design and are using Apple products for some kind of esthetical work where a computer is necessary. Their customers prefer to have both a physical shop and an Internet shop. Apple's customers want to be able to explore the products through multi channels, perhaps by first a scan online and then a visit to the store to get a hands-on experience. Apple's customers want the concept to include an experience, as Pine II & Gilmore (1998) described with the birthday cake as an example, not just a product. Apple's customers want an experience including a cool shop, well educated employees, service, image and quality products. One reason customers are very eager to get face to face contact is that Macintosh is more complex than PCs and the customer might use a Macintosh for the first time. Since most computer-users have PCs, they can not turn to many others than sellers to get a helping hand.

Dell on the other hand, has since started listening carefully to its customers and has in that way developed easy to use, high quality computers. Since Dell does not use any distribution channels, they build the computer only after it has been ordered. This keeps it costs low and its prices competitive. A person that buys Dell products knows that they are easy to use and are high quality. While the price is affordable and the service is good, Dell has a high rate of self-service customers, as Goldenberg (2005) describes the new generation of people who do not care so much about physical stores, but about efficiency. Dell has also got its market position through targeting big customers, such as nine of the largest companies in the world and six of the leading US banks.

Kotler's (2003) first argument of how the change in consumer behaviour can be explained by the digital revolution is the *substantial increase in buying power*. Customers are now able to look online for the best prices and product attributes. Since Dell's customers can order solely online they are likely to look around for more valuable alternatives before ordering from Dell since it does not take much time. This consumer behaviour forces Dell to maintain low price and stay innovative. Apple on the other hand holds a higher price and targets less price sensitive customers. Nevertheless the company more or less has been forced to use Internet as a distribution channel. A survey made by the retailer MacSupport in Sweden says that 51 percent of the customers use both the Internet and the store when buying Apple products, while 28 percent only use the Internet. 11 percent first look at the products in a store, then buy them online, and an additional 10 percent buy only in stores. The great use of the Internet forces Apple to focus more on adding value to its customers through distributing its products online, the convenient channel many prefer to use.

Kotler's (2003) following arguments are about customers'; greater variety of available goods and services, information retention, and ease in interacting and receiving orders. We think these arguments are well applied in the case of Apple and Dell. Both Apple and Dell's customers worship convenience and transparency. Buyers can place orders from different places, and these orders will be delivered in the place they choose in a very short time. The

service received is different between the companies but is still an important issue for the customers who often are well aware about what they can get in another place. Since the buyer holds such a power, Poyenter (2005), chairman of PricewaterhouseCoopers LLP, argues that companies should be transparent. It should be easy for everybody to get an understanding of what is going on in and around companies.

Kotler (2003) believes that customers are value-maximizers, and will buy from the company that they perceive to offer the highest customer-delivered value. Thus, it is crucial for companies nowadays to find a competitive advantage by creating and maintaining added value for their customers. Both Apple and Dell are working hard to build and maintain customer relationships. Dell strives to establish a life long relationship with its customers. Dell is doing a lot of things right; its spotlight is on customer focus, market anticipation, company image, price, and time, which all are value drivers for buyers. We believe the most important single factor that in the long run contributes to a company's superior performance is perceived quality from the customers. Apple has through its service, i.e. for an example picking up a wrong performing product at the consumer's door and delivering it after servicing, together with its high product standards manages to deliver a feeling of quality. This perceived quality has been a key element for the Swedish development of the brand supply, mainly made over the net. Dell is ranked in second place for best innovation which probably will encourage the customers to stay with the company.

## 5.2 Distribution Strategy

The purpose of this part will be mainly to understand why Apple and Dell have chosen different distribution strategies.

While Apple has chosen multi-channelling, Dell concentrates on direct-selling. What are the factors that have influenced the two companies? To answer this question we will use the four influences; market, marketing mix, resources and environment.

**<u>Market</u>:**

The channel selection decision is influenced a great deal by customers. Their buying motives and patronage habits should be considered by companies to choose the right channel, hence the most important question is where customers expect to find the product (Mallen, 1996). Coelho et al (2003) also stress the importance for companies to understand the customer behaviour and preferences to succeed in their channel selection. The company also needs to know to what extent the buyer needs product information, installation and servicing (Mallen, 1996). We previously argued that Apple and Dell do not have the same kind of customers. While Apple's customers are design and image focused, and look for an experience when they buy their products, Dell's customers have good skills in computers, know what they want, and are above all looking for a product that gives them value for their money and contains good quality. Consequently, Apple's customers need to be in contact with the product and be advised, where as Dell's customers quickly need to find the product they want and at the better price. Moreover, Macintosh computers are more complex and rare than PCs and thus Macintosh buyers need more help and as a result they need Apple's resellers. Therefore, a multi-channelling strategy fits Apple's customers well because it enables them to visit a store and thus see the products, be advised by well educated employees, but also to visit the website to get information on the products. At the opposite, Dell's customers do not need to see the products in a real store, a virtual one is

enough. Ordering on the Web enables them to save time and money, which makes a direct-selling strategy well suitable for them.

## Marketing Mix:

Product: Apple and Dell both sell high technology products that are hard to replace. Mallen (1996) thinks low-replacement goods (high gross-margin, high adjustment factor, high consumption period and high search-time goods) require direct distribution. He also adds that the more a product requires technical knowledge for the sale, installation, maintenance, and repair service, the more it should be sold through a direct and selective channel. Indeed, when middlemen are used, they must be able to provide the service. Dell's strategy sticks with Mallen's advice. Concerning Apple, we saw that the company penetrated the market with a wide range of retailers but today wishes to go into a more selective strategy by reducing the amount of retailers.

Pricing: Apple and Dell do not have the same price strategies, hence they do not require the same distribution channels. Dell wants to have low prices to satisfy its customers who are price-sensitive. Apple encompasses higher prices, which are part of its image and are in line with its customer expectations, which associate price with quality. Thanks to its direct selling strategy, Dell is able to offer its customers low prices while they keep a high level of quality thanks to lower costs. Apple justifies its high price strategy by offering its customers different opportunities to interact with its products and buy them.

Promotion: According to Mallen (1996), indirect distribution requires the use of mass media, since the manufacturer has minimal personal contact with the ultimate market. Apple has direct distribution with Apple Centers and its website but it also has an indirect distribution through retailers. Thus, its communication strategy consists in pushing its products with a lot of advertising, and then letting the customers decide through which channels they want to interact. This is the general strategy of Apple, but we noticed that in Sweden there is not as much advertising as in other countries. At the opposite, the objective of Dell in advertising is about promoting its website. *"The role of both offline and online media is to generate phone calls and Web visits,"* says Greene (2005). *"The majority of spend is offline, but we have spent a lot of time on our online ad strategy and know how best to use our ad spend."* (Cited in New Media Age, 2005, p.20). Dell not only advertises with banner ads, affiliate and e-mail marketing, it also operates a direct advertising strategy based on sales (New Media Age, 2005).

We are not going to use *Physical distribution* and *Marketing intelligence* that also are included by Mallen (1996) in the marketing mix, since we do not think these elements can contribute to explain the channel distribution selection of Apple and Dell.

## Resources:

With the word resources, we wish to focus on the costs and profits related to distribution strategies. In 1994, Dell stopped selling through retailers as it realised that its products did not make any profit this way (Dell, 1999). It then decided to opt for a direct-selling strategy which enabled the company to cut its inventory costs.

Dell's customers nowadays visit the website and design their own computer. They give their payment authorization, which signifies that Dell receives the money in advance and is able to use it to pay for the supplies needed to build the computers. Thanks to its build-to-order strategy, Dell can claim an industry-leading four days of inventory (Kotler, 2003). Dell takes delivery of components only a few minutes before they are needed. Therefore, a Dell system can be built, have the software installed, be tested and be packed in only eight

hours (Ramstad, 1997). This strategy enables Dell to have lower inventory costs than competitors, and thus allow it to have lower prices. For example, in 1999, it had inventories of $273 million on sales of $18.2 billion (1.5%) whereas Compaq, which relies more on the traditional build-to-stock system, had inventories of $2 billion on sales of $38.5 billion (5.2%) (Wind & Rangaswamy, 2001).

Apple does not have a customization strategy as Dell but has managed to copy the build-to-order system initiated by Dell. Indeed, in 1997, Apple's CEO Steve Jobs announced that online, all computers will be built only after the order, moving from a build-to-stock strategy to a build-to-order one. This new policy should cut inventory costs and address the failure Apple met frequently to build enough of its most popular machines (Bray, 1997). In 2000, Apple's online store shipped 75% of orders on the day they were placed, up from 5% for the old system. Analysts say "That's as good or better than Dell or Gateway" (Burrows, 2000 p 102).

**Environment:**

Ganesh (2004) wrote that increased competition and the emergence of the Web have made companies obliged to consider an increase of their IT budget to remain on the market. In the same way, Kotler (2003) argues that new technological advances and new market forces have created a new economy in which companies are obliged to add new tools and practices to be successful. Dell was one of the first manufacturers to go online, but it has been followed by many afterwards. Apple started selling via Internet in 1997 because as Picarille (1998) stated, it was inevitable. Therefore, the company managed to change and go online when it was necessary.

In conclusion, Dell and Apple have chosen different distribution strategies and it is impossible to say that one is better than another. As we have seen, the choice of a distribution strategy depends on many criteria that are different for each company. Dell and Apple are successful companies because they managed to choose relevant strategies according to their specificities, and adapted them when needed.

## 5.3    Service Management

### 5.3.1    Service as a Cornerstone of a Successful Customer Relationship

Both Grönroos, (1990) and Parasuraman (2000) both discuss the importance of having a service connected to the company's products. Companies need service to be able to attract customers in today's hard competition.

Apple and Dell have learned how important it is to have service tied to the business structure through time. In the beginning it was more about selling just a product, but now the companies need to offer something more. Apple is adding more value into its products through service in stores, personal selling, and innovative products. Apple is one of the companies in the computer industry that have chosen to focus on graphic design as one of the company's most important niches. Dell on the other hand is providing service through fast delivery, listening to customers' requirements, and by always being available via phone or internet.

The more a customer buys from Dell, the more valuable service it receives. This way the company wants to add value that ensures customer retention. Dell helps corporate custom-

ers to better use its products or services. By visits to its most valuable customers Dell listens, learns and tries to help them by offering solutions to problems they may have. The goal is to provide customers for life.

Based on the customer's level of purchase, involvement or interaction, companies need to provide their products with higher quality or more sophisticated level of service. Dedicated employees should be assigned to handle customer's accounts personally. This goes particularly for products or services that are technical and require extensive support. This is a key issue for Apple that has well trained retailers, approved and educated by Apple. Miram (1992) states that interactions between the corporation and its channel distributors are important, which are something that Apple is taking great notice of. Apple provides training to its employees on their Macintosh products, which is costly. This is a cost Apple sees as an investment while it wants its customers to get the best service possible when visiting one of its shops. Apple involves quality on all levels.

Dell also puts great weight on acting according to customer behaviour and providing them with the best service possible. This may be one contributing factor to why it does not use retailers. Dell wants to be able to offer its customers a perfect service which it can not do if it uses the same strategy as Apple. Full control can not be provided using an indirect distribution channel. Added value might disappear. Guaranteeing fast delivery is a good way to differentiate the company and provide added value to services or products. Dell creates added value when always delivering very fast. Since it does not have any middleman it can often deliver within 24 hours. Apple on the other hand falls behind on this matter since retailers have to wait for Apple to supply them with products which takes longer than if Apple would use only a direct channel. Apple retailers are complaining about poor supply from Apple. Apple looks at the amount of people living in the city and supplies the retailers accordingly. This is obviously not enough in Sweden where the retailer states they are short of products.

According to Gill & Allerheiligen (1981) manufacturers need to have good co-operation with distribution channels to ensure good customer service. Apple carefully chooses its end-sellers hence puts great importance on selective channelling to be able to provide its customers with the best service possible. For example Apple's sellers have undergone a 48 hour education with Apple, where also some big customers participated to get a wider knowledge of Apple and its latest technology. Dell on the other hand does not have that kind of issue. Instead, the company is trying to create a tight relationship with its suppliers. Dell has tried to integrate the suppliers into its business model. Good relationships with the suppliers give Dell the opportunity to meet customers' needs faster and keep the cost down by not being dependent on a large inventory.

Professional firms believe employee-relations will reflect on customer relations. Service quality enhances perceived value, which in turn, contributes to customer loyalty. If we follow Parasuraman's (2000) schema of the Quality-Value-Loyalty chain, we are able to apply the factors contributing to service quality on both Apple and Dell. The same author explains how customers use five criteria to judge service quality:

- *Reliability*: Both Apple and Dell promise their customers high quality goods, and they correct mistakes if possible. Dell for example offers a 30 day guarantee if the customer is not satisfied. An Apple retailer is saying that Dell offers a better guarantee then they do. But despite the statement customers we have spoken to give Apple a lot of credit for their service when something goes wrong. If you do not hand in the broken product to a store your-

self, the company picks it up at your door, and returns it again when finished.

- *Responsiveness:* Apple perceives that its customers often ask a lot of questions when buying a new Macintosh. That is why the company wants to be sure that its distribution channels are able to provide its customers with answer to these questions. Dell offers help and service through the Internet but also through the phone. The company will always have someone available 24-hours to answer the customer. Dell often inspects the time it will take to answer the phone. It knows that it can lose customers if they have them waiting too long for an answer. Being able to have a face-to-face relationship with the customers, Apple will have it easier to help the customers in a more personal way.

- *Assurance:* Apple has chosen not to offer any kind of awarding system to its employees, while Dell tries to inspire its employees by making them partner in the company. When awarding the employee's Dell has chosen to focus on offering shares in the company, to create a feeling of that everyone fight for the company together.

- *Empathy:* Apple builds most of its relationships through the offering of stores and face-to-face interaction. Dell tries to build up an individual relationship with its customers by offering a personal seller to all big companies and also to some of the smaller companies. An individual seller will make the customer feel more valued and special for the company.

- *Tangibles:* Apple can use its store and personal selling while Dell needs to build the trust through the Internet and the phone. Both companies emphasize the ability to always answer questions, being educated and helpful.

## 5.3.2    Service in Electronic Channels

According to Zeithaml (2002), the successful companies are the ones that understand that it is neither the web presence nor the low price that are determinants for their success or failure, but the "Delivering Electronic Service Quality".

Zeithaml (2002), in cooperation with Parasuraman & Malhotra (2000), tried to conceptualise and measure Electronic Service Quality, thus creating four specific dimensions to measure the service quality perceived by customers:

- *Efficiency:* Both Dell and Apple make it easy for customers to follow websites that contain plenty of information. Both offer services to look at products, track orders, have your own pages and so on.

- *Fulfilment.* Apple has its products in stock to be able to send them to its customers as soon as they order. Since Dell has chosen to follow a direct model they do not have a large stock, instead they are building the computers when the customers order them.

- *Reliability:* Since being in the computer industry both companies offer the latest technology and always provide updated information on their websites.

- *Privacy:* Apple's privacy policy covers the collection and use of personal information that may be collected by Apple anytime you interact with Apple, such as when you visit the website, when purchasing Apple products and services, or when calling Apple's sales or support associates. Dell also respects the customers' privacy. Across its business Dell will only collect, store and use personal information for clear purposes. The information is used to support and enhance the relationship with the customer. That could for an example be to process the purchase, provide service and support, and share product, service and company news and offerings. Dell promises that no information is being sold. Dell strives to protect the security of personal data by using appropriate measures and processes.

However, when online customers meet some problems, "personal service" aspects should be included. Therefore, the same authors created three other dimensions:

- *Responsiveness:* Since customers can track orders on both companies' websites they will be able to follow what happens to the order.

- *Compensation:* Both Apple and Dell guarantee their customers to get money back return shipping and help when needed.

- *Contact:* While Apple offers face-to-face help in its stores, Dell offers 24 hour support via the phone or Internet.

According to Raphael & Zolt (2001), virtual markets will help companies to reach larger markets both quicker and cheaper since Internet offers a lack of geographical boundaries. They mean that some of the values that can be created with the help from an online-business are that it is easier to extend the companies products ranges, to get improved access to resources and technology, and it is also easier for companies to outsource.

According to Amit & Zolt (2001), discussed in the frame of references, companies are creating value when customers are repeatedly coming back to buy their products and as long strategic partners are willing and have incentives to improve their partnership. To create sustained value companies need to work on locking-in customers, i.e. try to make them come back again and again. Different facts that could lead to locking-in customers are:

- Loyalty programs rewarding repeat customers. Neither Apple nor Dell mentions anything about rewarding a repeat customer. Maybe you can say that Dell is rewarding its big customers with better service and help to find suitable solutions. Private customers will, however, not get any reward.

- Develop dominant design for the businesses process and products. Apple is a company that is trying to be, fashionable, special, and unique. Its design is something special that needs to be seen. Dell on the other hand focuses more on being simple, but with the highest technology available. Both companies have special business sectors, just focusing on business and tailor products for their needs.

- Establish trustful relationships with customers through products and services. As mentioned before both Dell and Apple offer trustful relationship when it comes to service management, but they have chosen to do it in two different ways. Through face-to-face interaction, and through the Internet.

### 5.3.3     Mass Customization

Thanks to the fact that Dell is selling its products exclusively on the Web, it is able to offer customized products. Indeed, Dell is the most cited company when taking examples of successful customization and even *customerization* strategies. It bases all its strategy on it, that is the way it differentiates itself from the competitors, and thus from Apple.

Dell's customization strategy not only enables the company to have lower costs and higher speed, it also enables the company to have successful customer service and thus develop and maintain good relationships with its customers. Dell knew from the beginning that it had two kinds of customers, corporate and private consumers. While the consumer chose a Dell product mainly because of the price, the corporate buyer desires a carefully developed relationship. Dell decided to concentrate more on building relationships with its most profitable customers, those who make up 80% of its business, corporate buyers. Therefore, it created customized web pages at the Dell site with a 24-hour order-entry system: Premier Dell.com. Big customers can on this website access all kinds of information about their preferences and needs. Moreover, any company subsidiary can access to the site worldwide, and employees can purchase computers that have already been approved with their companies (Kotler, 2003). Which means that Dell is one of the first to use *customerization, "a re-design of marketing from the customers' perspective"* (Wind & Rangaswamy, 2001, p.14).

Dell has a *solutions-driven* approach to marketing, as defined by Grenci & Todd (2002). The company, by its customization strategy, detects the needs of the customer and then recommends a product to satisfy the customers' needs. To carry out this strategy, Dell recommends specific computer configurations and models, but the recommendations are based upon broad categories of customers and the site depends a great deal on the customers' ability to configure an appropriate solution (Grenci & Todd, 2002). This system is closer to the decision-assisted level of web-based customer decision support, the tool translates customer preferences into alternative product configurations, thanks to the preferred features specified by the customer. This means that Dell can still improve its system, but it has not yet harnessed its full capabilities of web-enabled customization to extensively assist the customer in evaluating options, configuring solutions, and making a final purchase. The next step for Dell could be to build information specific to individual customers, and thus not only rely on customer input concerning stated preferences for product features. In addition, Dell should, through its website, guide customers to appropriate solutions as an expert recommendation, and explain and justify them (Grenci & Todd, 2002).

We saw that a customization strategy has made the success of Dell. But would it be possible and relevant for Apple to apply such a policy?

As Apple does not sell only on Internet as Dell, it would be quite difficult and risky to implement such a strategy. Indeed, it could make a big difference between standardized products sold in Apple Centers and through retailers, and customized products sold in the website. Going on Internet was already seen as a risk for retailers, and Apple decided to fix higher prices on the website than on shops not to disadvantage the shops. Apple's customers need to have both physical shops and internet shops, and do not have enough knowledge in computers to be able to have only a website. Apple's customers do not know what they want until they see and try the product. Thus, customized products would not be adapted to them.

# 6    Conclusion

Our purpose with this study was to examine how both Apple and Dell can be successful using different distribution channels in the Swedish market. To answer this question we made a few sub-questions:

1.  How can Apple be successful through its multi-channel strategy, and how is it possible for Dell to be successful with its direct channel strategy?

2.  What made the two companies choose different strategies?

3.  How has Internet affected the way companies are doing business?

1. Neither Apple nor Dell is like other brands. They are two greatly performing computer companies that have always strived to be perceived as unique. Both have managed, but in extremely different ways. Apple has an innovative approach and the highest possible quality. We argue that Apple is the only brand in the computer industry that represents a lifestyle for its customers. Hence, when a consumer buys an Apple product he/she wants to get something more than just a product; he/she wants to buy a whole experience. To communicate this lifestyle and experience, several distribution channels are needed. Moreover, physical stores are essential due to the complexity of the products, which need to be seen and tested by customers before being bought.

Apple has a cool image whereas Dell is well known for its sufficiency, reliability and high quality. Apple states it offers tremendous service which customers often associate with a store. But is a store equivalent with good service? Does a company need a store to provide services? Obviously not because Dell is this year ranked, by PricewaterhouseCoopers, in second place of *Best of Customer Service* - despite no stores. Service is much more than personal interaction. Service Management has got another meaning. Today's society is not particularly in need for a store, but are our problems being solved in the most efficient way. Dell has revolutionised the traditional way of selling by its new distribution channel strategy. We found a perfect quote to resume our thought: *"Dell has expanded creatively on its direct model to rewrite the book on everything from supply-chain management to customer relationships"* (Morris, 2000, p. 92). In this way, using the term of Hamel (1996), we can say that Dell is a "rule breaker" in the sense that it has broken and re-written the rules of distribution. Its direct distribution channel has lowered both prices and delivery time, which has created value for both the company itself and its customers. Dell is optimal for rational people who want to buy a cheap but high quality computer; online. Moreover, one key to Dell's success is that it has been clear from the beginning about what it stands for and what it does. As Mort Topfer, who in 2000 were director and counsellor to Michael Dell, claims: *"We are a really superb product integrator. We're a tremendously good sales-and-logistics company. We're not the developer of innovative technology."* (Morris, 2000, p.92).

2. We believe the main argument that explains why the two companies chose to use two different strategies is that they decided from the beginning to have different product positioning, image and target and thus had different ideas about the way to sell computers. Steve Jobs wanted to create a lifestyle and make the purchase of a computer being an experience, whereas Michael Dell has always tried to make everything as efficient as possible. As a result, having different customers, they chose different distribution channels to meet their consumer's needs and expectations.

3. The Internet has had a great impact on the way companies are doing business. The digital revolution has increased the power of the customers, since they are today able to look online for the best prices and product attributes. Without the Internet Dell would most likely have chosen a different strategy a long time ago. Only selling over the phone without being able to show pictures would have been impossible. Apple on the other hand would probably have been as successful as today. Companies have been more or less forced to use the Internet as a distribution channel, as Apple that decided to go online.

Our final conclusion is that Dell and Apple are two different companies that both are very successful. They have chosen two different strategies to sell their products, and both have managed to find the right distribution channels for their business. Dell can be successful with a direct strategy due to the fact that it offers everything faster, and adds a lot of services through the net. Its products are standard products that can be personally built for the individual's preferences. This will attract a certain kind of customer that knows what they want and know that Dell will give them exactly that. Dell gives its customers what they say they want to have. Dell wants to offer its customers a perfect service which it can not do if it uses the same strategy as Apple. Full control can not be provided using an indirect distribution channel since added value might disappear. Apple can be successful while using both the Internet and retailers, due to the fact that its products are more complex, and into fashion. Apple needs the stores to be able to give its products the marketing they deserve.

Overall, our research has shown that companies can choose different ways to sell their products / services, and even be innovative and break the rules like Dell did. What is important is to manage to create and maintain a strong relationship with customers, by fulfilling their needs and expectations. Where do my customers want to buy my products? That is the essential question that a company needs to ask itself to choose and modify its distribution strategy. This requires a deep understanding of customers' behaviour. Continuous research is needed to be able to follow the changes that can occur. By analyzing the evolution of the customers expectations and needs, companies will be able to change their strategy when needed.

## 6.1    Suggestions for Further Studies

Through this thesis two main areas of change in the business were emphasized. One is the changes that occurred in the distribution due to the impact of the Internet that created a new distribution channel. The other is the change in the relationship with customers that made the marketing mix lose its position to the benefit of relationship marketing. Therefore, some questions related to each theme came to our mind:

- What could be the next revolution in the way to sell products / services? What is the next step?

- Is relationship marketing the key of success in all companies, for all consumers? Or can the marketing mix still remain a good tool for some companies?

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# Appendix 1

Survey questions to Apple

1. How well are "Apple Stores"/ Mac stores doing in Sweden?
2. What did it take you to get a licence?
3. What is your relationship with Apple, what are you obliged to do? Can you decide where to open yourself?
4. Does it seem like the Swedish Apple customers are happy with the Apple service, i.e. servicing?
5. Do you believe that it is important for Apple to have stores in Sweden?
6. Do you think Sweden, as a technological country, differ to other countries? Does it in that case have any impact on Apple?
7. How would you describe your customers? What characterize them? Can you see a specific pattern among your customers (i.e. what kind of customers, what they buy; who buys what, and/or the way the perform their purchases)
8. Do most of your customers have good skills about the products before they visit? If so, how do you think they have got the information?

9. What is the added value for your customers when buying in a shop vs. purchasing online?

10. Do you perceive a difference between the Apple customers that buy online and those who prefer buying at a shop?

11. Why has the distribution channels changed? When did they change? Did Apple have another distribution channel before?

12. What is the difference between your customers and Dell's customers?

13. There's been concern in UK regarding lower prices online than that retailer can offer. How is the case in Sweden?

14. Do you have a reward system for good service performance or something similar?

# Appendix 2

Survey questions to Dell

1. How well is Dell doing in Sweden?
2. Do you think Sweden, as a technological country, differ to other countries? Does it in that case have any impact on Dell?
3. How would you describe your customers? What characterize them? Can you see a specific pattern among your customers (i.e. what kind of customers, what they buy; who buys what, and/or the way the perform their purchases)
4. Do most of your customers have good skills about the products before they visit? If so, how do you think they have got the information?

5. What kind of services do you propose?

6. What is the added value for your customers of the purchase online vs. buying in a shop?

7. Do you think that everybody is able to buy your products on line?

8. What is the difference between your customers and Apple's customers?

9. Why has the distribution channels changed, when did they change, did Dell had another distribution channel before?