

# Sustainable Competitive Advantage Analysis and Recommendations for Dell Company to Achieve Success

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## Abstract

After Michael Dell's (CEO of Dell Company) resign announcement is released in 2014, the privatization negotiation of Dell, in which Michael Dell plays pivotal role is facing substantial pressure. In response to this potentially alarming development, Dell takes immediate action and an analysis of external computer industry environment as well as internal capabilities has been undertaken (Dell Annual Report, 2014). This paper is aimed at making sustainable competitive advantage analysis and providing recommendations for Dell company to achieve success. Firstly, this paper talks about the external and internal analysis of Dell Company. Secondly, SWOT analysis of Dell is provided. Thirdly, economic value-added analysis is also conducted. Finally, in order to help Dell to overcome its dilemma and achieve success, nine specific recommendations are put forward.

## Keywords

Sustainable Competitive Advantage, External Analysis, Internal Analysis, SWOT Analysis, Economic Value-Added Analysis

## 1. Introduction

Dell was established by Michael Dell in 1984, after 20 years, it tops the list of "America's Most Admired Companies" in Fortune magazine (Dell, 2013b). In the year 2013, Michael Dell and private equity firm Silver Lake Partners buy back Dell from public shareholders to accelerate the solutions strategy and to focus on the innovations and long-term investments with the most customer value.

Above information are strategies of Dell. It can be seen that Dell company is facing pressure and dilemma to achieve success. Based on this research problem, this paper is provided to make sustainable competitive advantage analysis based

on the following model and provide recommendations for Dell company:

*Sustainable Competitive Advantage = External Analysis + Internal Analysis + Business Strategy + Corporate Strategy + Global Strategy*

Firstly, Porter's Five Forces Model and competitor analysis are applied to demonstrate external analysis. Secondly, core competencies, value chain analysis (Porter, 1985), resources-based view and organization structure are used to illustrate internal analysis. Thirdly, SWOT analysis will be discussed based on the above internal and external findings to identify Dell's challenges, opportunities and competitive advantages. Fourthly, economic value-added analysis is also conducted to understand the real value of Dell. Finally, several recommendations will be provided in order to improve the performance of Dell.

## 2. Literature Review

According to sustainable competitive advantage model, it can be analyzed through external and internal perspective. External analysis includes industry analysis and competitor analysis (Porter, 1985). According to Porter (1985), five forces model is a tool to undertake a detailed analysis of the industry's underlying structure.

Internal analysis includes core competence, value chain analysis, resource-based view analysis and organization structure analysis (Porter, 1985; Cosh, Fu and Hughes, 2012). According to Porter (1985), value chain analysis provides an important foundation of completing an internal analysis of firms. According to Dunford and Palmer (2002), using resource-based view can find that competitive advantage may be built on the internal capabilities of a firm, rather than its position regarding an industry environment. According to Cosh, Fu and Hughes (2012), good organization structure will bring innovation performance to the business. In addition, SWOT analysis and economic value-added analysis are also important to understand firms' sustainable competitive advantage.

## 3. External and Internal Analysis

### 3.1. External Analysis

#### 3.1.1. Industry Analysis (Porter's Five Forces Analysis)

To gain an in-depth understanding of global competitive environment that Dell is confronted with and get familiar with computer and peripherals industry, we use Porter's Five Forces framework (Porter, 1985) as a tool to undertake a detailed analysis of the industry's underlying structure.

Firstly, threat of new entrants. From one perspective, threat of new entrants to computer and peripherals industry is not significant due to cost and financial, knowledge and technological barriers (Dudovskiy, 2014). For example, low capital investments are needed for independent stores. Furthermore, new businesses may overcome these barriers if they are able to introduce new products to the market based on innovative concepts (O'Connor, 2013). However, it should be noted that due to low product differentiation, brand name may be a barrier to entry. For instance, large players such as Dell, Apple, HP, Samsung and Acer de-

rive extensive benefits from existing low economies of scale. In addition, no legal or government barriers and decreasing profitability of electronic industry indicate there is a high threat of new entrants (Dudovskiy, 2014). Thus, combine above two perspectives, we can see the threat of new entrants is moderate.

Secondly, threat of substitutes. Threat of substitutes for computer and peripherals industry is low because of two main reasons. First reason is that nowadays PC has strong presence throughout our society. Take U.S. as an example, researches show that there is one person possessing computer among every three people (O'Connor, 2013). And the second reason is that it is known to us that the only substitute for PC is the Apple computers, so customers have limited choice when they buy computers (Apple Inc., 2013). What is worse, expensive price to purchase and lack of software support all prevent people from switching to Apple system (Apple Inc., 2014).

Thirdly, bargaining power of suppliers. Bargaining power of suppliers for electronic industry is immense (O'Connor, 2013). Here we take Dell as an example to illustrate the situation. To begin with, Dell does not manufacture but simply assembles its products from parts delivered by external vendors, which forces Dell to be extensively dependent on its suppliers. Although there is a large number of companies that can potentially supply parts for Dell's components like hardware, keyboards and etc., there are only few reputable suppliers located close to Dell's assembling units and two major inputs are monopolized (Dell, 2014). For example, Microsoft standard are used for all PC's and Intel standard are used for most PC's (Dudovskiy, 2014). Therefore, all these facts increase bargaining power of suppliers. Moreover, high switching costs is also an important factor. For Dell, the cost of supplies related to high selling price of products increases supplier bargaining power (Dell, 2014). However, a paramount importance of volume for suppliers decreases their bargaining power to some extent.

Fourthly, bargaining power of customers. Bargaining power of buyers is significant because of three reasons. The first reason is that, there are abundance computers brands offer and low differentiation among these products (O'Connor, 2013). Therefore, customers have widely choice when purchase these products. The second reason is that, low switching costs increase buyers' bargaining power. Take Dell's customers as an example, there are usually no additional costs to switch to the competition and the majority of customers are well educated about products and services offered by Dell. The third reason is that, high price sensitivity of customers for the type of products and services offered by electronic industry also contributes to the bargaining power of buyers (Dudovskiy, 2014). For example, if the prices are raised too high, customers will not hesitate to switch. However, products reliability and outstanding customer service help to create certain brand royalty. And also, inability of backward integration, for instance producing products offered by certain brand by customers (O'Connor, 2013). They all can be specified as important factors that diminishes buyer bargaining power. But overall, the bargaining power of customers is high.

Finally, competitive rivalry within the industry. Competitive rivalry within

computer and peripherals industry is high. First of all, high concentration of electronic industry is one of the factors (Dudovskiy, 2014). For example, Dell, Apple, HP, Samsung and Acer are large players and derive substantial profits when compare with other competitors. Then, with severe competition in electronic industry, many companies are taking Price War, which means they are willing to get low profit margin to gain more market shares. Additionally, researches indicate decreasing profitability of this industry, which cause more competition among these existing larger players. Furthermore, the feature that low differentiation among the electronic products makes competitors difficult to distinguish their products from other competitors', which deteriorate current severe competitions to some degree.

### 3.1.2. Competitor Analysis

The three main competitors of Dell Company are Hewlett-Packard Company, Lenovo and Apple. Like Hewlett-Packard (HP), Dell provides business products that include computer servers, data storage devices, PCs, enterprise software, printers, networking hardware, monitors and other computer peripherals, and cloud-based information technology services. In 2013 quarter 4, Dell's market share is 12% that is higher than Apple, Lenovo occupied 19% market share which is higher than Apple and Dell. The product line of HP is diversity than Dell and Apple, but Apple has multiple services than Dell. However, in these years, growing competition from tablet devices and mobile phones has eroded demand for traditional PCs around the world, therefore, limiting growth in the Global Computer Hardware Manufacturing industry.

## 3.2. Internal Analysis

As indicated in competitor analysis, Dell's current business strategies can be explained as following. Firstly, Dell is focused on meeting customer needs. Secondly, Dell is focused on becoming an end-to-end technology solutions provider. Meanwhile, Dell is also consistently focused on making services include a broad range of IT and business services (Dell, 2013b).

Through these strategies, Dell seeks to grow revenue over the long term while improving operating income and cash flow growth. Following are discussions of Dell's resources, capabilities and competencies. After analysis we find Dell's resources, capabilities and competencies all support its business and corporate strategies.

### 3.2.1. Core Competence

After researches and analysis, we find Dell has following four core competencies: direct-sale distribution channel, speed and low cost, value-added customer services, and market segmentation capabilities and skills.

Firstly, direct-sale distribution channel. It is known to us that in order to eliminate the dependency of dealers and retailer, Dell has used the internet as distribution channel (Dell, 2013b). This direct-sale distribution channel allows customer to place specific orders on Dell's Website and gets their PC or laptop at

their door steps. Using this distribution channel can help to reduce the cost because no distributor and retailers are involved when directly taking orders from customers. Furthermore, cost of managing inventory will also be reduced by directly ordering the hardware from suppliers, and the amount of costs saved are based on number of customer order placed.

Secondly, speed and low cost. Since Dell was established in 1984, it is constantly changing, adapting and finding new ways to master its environment and satisfy customers' demands, but one thing that never changes is the focus on speed and low cost (Dell, 2013b). Dell always pursuing low cost and speedy by squeezing time lags and inefficiencies out of the manufacturing and assembly process, meanwhile extending the same brutal standards to the supply chain, which means it has good relationships with some key suppliers and if emergency happens, Dell can receive parts in minutes rather than days (Ram, 2011). Take Dell's systems works at Topfer Manufacturing Centre for example, boxes of microchips and electronic components skitter are on double decker conveyor belts. Assembly workers use an integrated computer system that practically hands them the right part whether it is any of a dozen different microprocessors or a combination of software at just the right time. It can be seen that this practical system does not cut costs but also save times by decreasing the number of worker touches per machine. Dell's speed and low-cost competencies allow Dell to sell products at low prices compared to other competitors and the low-price forms another competence for Dell because it transfers the value of low cost to customer. But it should be noted that Dell always maintains the quality with low-price selling.

Thirdly, value-added customer services. Another core competence for Dell is value-added customer services. Dell does not only put efforts in discovering new value in the face of changing customer demands and evolving market (Dell, 2013b), but also, dedication towards the customer, provide excellent services to forge stronger relationships, build trust and loyalty environment for customers. For instance, if customers turn to Dell for expertise around Dell products and solutions, Dell has PartnerDirect Program and OEM Channel Partners to solve problems (Dell, 2013b). Staffs in these programs are carefully selected based on their capabilities to help original equipment manufacturer (OEM) and Independent Software Vendor (ISV) customers bring products to market efficiently. Their work is to provide value-added services such as custom hardware and software integration, final assembly and test, financing options, inventory management, consolidation and shipping, custom support engagements and supply-chain solutions.

Finally, market segmentation capabilities and skills. The last core competence for Dell is its market segmentation capabilities and skills. After researches, company's analytics indicated that customer demand had become quite complex such as that consumers want multiple channel options rather than B2B, To address these issues, Dell segmented its supply chain as part of a multiyear transformation (Dell, 2013b). The transformation moved through six different phas-

es: identify customer values, understand Dell's strengths, understand the external environment, chart clear course and benefit, engage the entire organization, continue to govern and refine portfolio. After successful completion of above six stages, Dell's transformation yielded both financial and qualitative gains. Specifically, Dell builds stronger connection with customers, meanwhile reduces cost and complexity issue, which finally help to improve internal collaboration and forecast accuracy.

### 3.2.2. Value Chain Analysis

Porter's (1985) value chain analysis provides an important foundation of completing an internal analysis of Dell. A value chain is used to analyze the primary activities and supporting activities from suppliers to customers aiming to deliver a valuable product or services for the market to improve the competitive advantages of business.

Regarding primary activities. It includes inbound logistics, operations, outbound logistics, market and sales, and service. Firstly, inbound logistics. Dell's main suppliers are the Intel and Microsoft corporations. Intel is participating in the manufacture of the microchips and Microsoft develops the system software for their products. *Dell Annual Report (2013a)* explains that the company works with more than 165,000 channel partners in inbound logistics and provides \$125 million every year to incentive partners. To strengthen the relationship with the suppliers, the company uses Just-in-Time (JIT) philosophy to deal inbound logistics. In addition, this method helps Dell save huge inventory costs and build cost leadership for its major products and services. Customer orders are registered by Dell and its vendors by an integrated system together. Then, materials are shipped by suppliers within 2 hours and Dell received the materials. The company also uses a computer monitor supplier who is responsible for shipping the products to the customers directly. The suppliers are supposed to retail the leadership position of the Dell. Secondly, operations. *Dell Annual Report (2013a)* said that the business manufactures the goods and services directly, i.e. the direct conversion of the input to the outputs (goods and services). At Dell, the input resources combine the use of technical knowledge, skills and labor to make products such as the personal computers. Under this operation, Dell has employed two major strategies (building-to-order and customization options). Under build to order, the company reduces overproduction. Customization options develop the state-of-the art products, specifically tailor customer service, and meet the changing user needs. These strategies provide award-winning reliability. Thirdly, outbound logistics. *Dell Annual Report (2013a)* explains the outbound logistics of Dell delivers final product to the customers. Although the corporate is a global organization, Dell has engaged various technologies to ensure a close contact with the customers and to meet consumers' needs. The company uses the e-commerce systems to allow customers place their customized orders directly. Fourthly, market and sales. The sales strategy of Dell is selling products directly to customers. The company sells its products through

its website, toll free lines and in case of corporate clients. However, in these years, Dell faced the situation of declining share in the computer market, to re-miss this situation; the company formed partnerships with computer retailers and has had success in doing so. Dell's marketing strategy has changed since the company became private in August 2013. Therefore, Dell marketing management aims to relate the brand with an entrepreneurial spirit because Dell is no longer a publicly listed business. Moreover, Dell created the plan for growth in end-to-end solutions incorporating hardware, software and services which benefits the customers. Fifthly, service. The company has the services includes IT services, product design services, value-added services for customers and after sale services. Dell's services is not diversity like Apple company (Apple Store, Apple Store online, Mac App Store, iOS App Store, iTunes Store, iBooks, iCloud, Apple Music), which means Apple is a big competitors of Dell.

Referring to supporting activities, it includes firm structure, human resource management, Technology development and procurement. Firstly, firm infrastructure. Dell has taken important steps to expand its storage portfolio, which offering customers a full range of world-class storage products and solutions. Dell-based technology offers compute power, storage, connectivity, networking and an entire management layer for a complete solution for the customer. Therefore, support infrastructure involves the functions and the support systems such as quality control, finance, planning and the general support from the senior management. Secondly, human resource management. Dell is one of top 50 business attractive employees in the world. The organization has 88,200 employees around the world as part of its primary value chain and to support it. Around 57% of these employees are in customer facing and frontline roles. Dell manages human resources includes recruitment, selection and placement, training, development and career management, reward to ensure that the company's employees have enough knowledge, skill and ability help company achieve its goals. Dell pays market-based salaries and benefit to motivate its employees. Also, the company consider about staff's suggestions to make the business better (Dell Annual Report, 2013a). Thirdly, technology development. Dell needs to improve the internal operations and external operations (customers and suppliers). However, investments in technology to reduce costs associated with manufacturing processes and produce Easy-to-Use manufacturing technologies. Fourthly, procurement. Dell works closely with their suppliers (Microsoft and Intel). The long-term relationship with the suppliers would need some improvement: deliver components timely, enhance some products like disk drives from suppliers, reduce costs from supply chain, set up systems and procedures to find the lowest cost products to purchase raw materials.

### **3.2.3. Resource Based View**

In order to look within the firm for distinctive attributes like internal perspective and then find ways to leverage them to best advantage, we look at resource-based view. By using resource-based view, we can find that competitive advantage may

be built on the internal capabilities of a firm, rather than its position regarding an industry environment. Following we will analyze 3 competencies we have mentioned above using resource-based approach which has three tests: value, rareness and imitability.

Under direct-sale distribution channel. Firstly, value test, the direct-sale distribution channel has existed since Dell was established, which attract many customers due to cost effective. And Dell makes so many profits depend on this distribution channel. Secondly, rareness test, Dell is the only company that use direct-sale distribution channel. Thirdly, imitability test, ability to imitate Dell's this distribution channel is extremely difficult because Dell has 30 years' experience using this distribution channel.

Under speed and low-cost strategy. Firstly, value test, Dell's speed and low cost will make low price finally, which ensures customers receive the best value for money when purchasing PC. Secondly, rareness test, Dell is one of the few companies that focus on cost effective producing. Thirdly, imitability test, ability to imitate Dell's speed and low cost is very difficult because profit for electronic industry is decreasing nowadays. Thus, it is risky to imitate Dell.

Based on market segmentation capabilities and skills. Firstly, value test, researches indicate that after market segmentation, Dell yielded both substantial financial and qualitative gains. Secondly, rareness test, Dell is one of the few companies that focus on this transformation. Thirdly, imitability test, ability to imitate Dell's market segmentation and skills is very hard because it needs so much financial, expertise and technique support.

### **3.2.4. Organizational Structure**

Cosh, Fu, and Hughes (2012) assert that good organization structure will bring innovation performance to the business. The organization structure of Dell is made up by different groups. The company builds different departments and functions to enhance the strength of the organization. Dell's organization structure is functional and decentralized. The hierarchical structure includes different functions of Dell Corporation, including business development, function, and global. A decentralized structure means the decisions come from various levels of the company.

Each of Dell's departments has a senior manager, who allocates work to team leaders, then team leaders doing the projects with their groups of employees. This matrix structure offers control and organization along function and region. It can give a clear picture of economies of scale. Dell's organization structure has three levels: CEO, functions, departments and their respective managers.

This structure is useful in the company that each department has various field of expertise that could be used to help in doing the project. However, different departments would also raise conflicts between functions and regions, conflicts may also arise between managers, projects team and geography.

From above analysis, it can be seen that from external perspective, Dell com-

pany is facing immense competition because of high suppliers' bargaining power, significant buyers' bargaining power and highly competitive rivalry within computer and peripherals industry. What's worse, Dell's three main competitors including Hewlett-Packard Company, Lenovo and Apple are taking more market shares in the industry. From internal perspective, Dell's resources, capabilities and competencies all support its business and corporate strategies.

#### 4. SWOT Analysis

SWOT analysis is a useful technique for understanding the company's strengths and weaknesses and for identifying both the opportunities open to the firm and the threats it faces. Following **Table 1** is the SWOT analysis of Dell company.

**Table 1.** SWOT analysis of Dell company.

Strength	Weakness
<ul style="list-style-type: none"> <li>• The largest PC maker and one of the best-known brands.</li> <li>• Uses latest technology direct to customer business model and the first PC maker to offer next-day, on site product service.</li> <li>• Low operating costs as a result of cutting out the retailers and supplies directly to the customers (CRM).</li> <li>• CRM enables to provide top-notch customer service before and after the sale and the system is built to meet individual customer's specifications, reliability, service and support.</li> <li>• Non-manufacturer-components are made by the supplies and it assembles the computers using relatively cheap labor.</li> <li>• The finished goods are then dropped off with the customer and it has total command of the supply chain.</li> <li>• Turns over inventory for an average of every six days, keeping inventory costs low.</li> <li>• Opportunity.</li> </ul>	<ul style="list-style-type: none"> <li>• Customers cannot go to retailers because dell does not use distribution channels.</li> <li>• Each product may take days to finish due to customer-built.</li> <li>• Unable to switch supply.</li> <li>• Embarrassments can be caused by the supplier's mistakes.</li> </ul>
Opportunity	Threat
<ul style="list-style-type: none"> <li>• Introducing new products to its range (diversification strategy) to hold market position.</li> <li>• Huge potential opportunities to expand business on the interest by putting products' information on the website other than physical stores.</li> <li>• Growing demand for the laptops can make Dell grow in other segments.</li> </ul>	<ul style="list-style-type: none"> <li>• Competitive rivalry existed in the PC market globally.</li> <li>• Government policies and bargaining power of suppliers.</li> <li>• Lose some customers who prefer to go to the physical stores.</li> <li>• New entrants to the market pose potential threats.</li> </ul>

## 5. Economic Value-Added Analysis

Firms focused on the maximization of shareholder value have to make sure that all activities yield positive net present values. To achieve this objective, there are a lot of value-based financial performance measurements that have been developed. These value-based measures, like EVA and CVA, aimed at including a company's capital cost and adjusting financial statement information to remove some of accounting distortions that occurred in traditional financial performance measures.

One of the best-known value-based performance measurements is Economic Value Added (EVA), which is an estimate of economic profit generated by a firm and it is calculated by comparing a firm's net operating profit after tax to the total cost of all the forms of capital. CVA is cash value added as another indicator of firm's performance in the context of value creation over a reporting period. It refers to the value created by a company. The following **Table 2** is implemented to compare and contrast these two different measures of financial performance.

Through the above comparison, it can be seen that EVA is more appropriate for Dell company to measure its financial performance. And relevant statistics of Dell company can be calculated by using this method (no specific statistics here because this part is mainly aimed at choosing the most appropriate method between EVA and CVA method to measure Dell's financial performance).

**Table 2.** Pros and Cons comparison of EVA and CVA.

	Cons	Pros
<b>EVA</b>	<ul style="list-style-type: none"> <li>• Sensitive to the firm's depreciation policy.</li> <li>• Presents a better and true picture of the company, as covering both operating &amp; capital costs.</li> <li>• A monitoring device for gauging the financial performance of a business (especially demand capital &lt; supply of capital when the company is the relatively incentive to changes in access to cash).</li> </ul>	<ul style="list-style-type: none"> <li>• Different depreciation policies can result in large variations in the value of the measure.</li> <li>• Without taking into account the impact of depreciation on cash availability.</li> </ul>
<b>CVA</b>	<ul style="list-style-type: none"> <li>• No accounting adjustments are required.</li> <li>• Since depreciation is added back, the measure will not influence by the firm's depreciation policy.</li> </ul>	<ul style="list-style-type: none"> <li>• Problem of different depreciation policies in EVA can be solved by including an accounting adjustment.</li> <li>• The removal of accruals and depreciation may lose important information required by the market when evaluating an enterprise.</li> <li>• The process of removing the effects of accounting accruals is also complex.</li> <li>• CVA values may provide conflicting signals.</li> </ul>

## 6. Recommendations

After analysis, several recommendations have been suggested as following to improve Dell's performance and create value within firm. Firstly, Dell should improve its services-learn from apple (various services, like apple music, apple app, apple store). Secondly, Dell should pay attention on other potential competitors such as some infant enterprises. Thirdly, Dell is a global company, thus manage the relationship between functions and regions can improve company's efficiency. Fourthly, Dell should establish a good relationship with supplier because the close relation can not only decrease suppliers' bargaining power, but also encourage supplier to join the Dell's design products so that the better but low-cost products can be produced. Fifthly, Dell should remain good relationships with customers by providing good quality products and professional after-sale service. This way the customer bargaining power will be reduced to some extent and the brand loyalty will increase. Sixthly, Dell should put more investment and technique support to maintain its core competencies, this way Dell will gain more market shares and profits. Seventhly, Dell should widen its product line (diversified product portfolio) to meet high differentiation. Meantime keeps holding the low operating cost to remain its low-cost leadership. Besides, as a non-manufacturer, Dell should also detect the fraud to avoid unnecessary business embarrassments caused by the suppliers. Eighthly, Dell should include both balance sheet and income statement in EVA calculation and encourages managers to think about the assets as well as expense in the decision-making process. Finally, as Dell is an asset-intensive company, other than those software companies or service companies with a lot of intangible assets. It is most applicable to undertake EVA calculation, as it depends heavily on invested capital.

## 7. Conclusion

The biggest challenge faced by the firm is the growth of the tablet market and mobile phones. As customers are more likely to turn to multiple-products services (e.g. Apple and Samsung) for convenience service. Therefore, it is paramount for Dell to differentiate its product as well as improving its efficiency of operation to meet customer satisfaction.

Furthermore, the organizational structure plays a significant part to make sure the on-going development of the company. It is important to maintain communication in each level of the organization, in order to improve coordination of different departments and levels in order to make sure that the problems are isolated and can be resolved as soon as possible.

Managing the threats and potential risk as soon as possible to avoid potential losses occur in the future. That is, Dell should keep an eye on the business strategy of its competitors to make sure that its own strategy is one step ahead of them, maintaining the competitive advantage to generate continuous success within the industry.

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## Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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