

Dell and FedEx's Cooperation Business Negotiation and Business Strategy Research

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Abstract. In this report, the history of the business partnership between Dell and FedEx since 2005 will be presented, which helps to analyze the business negotiations of the partnership between these two companies. It will first present the basic information and business models of Dell and FedEx as it provides the basic background knowledge of these companies. Then the positions and interests in the collaboration between Dell and FedEx will be analyzed. A detailed description of the interest considerations of these two companies during the development of the Vested methodology is presented, and these terms had a great impact on their cooperation and development. Because of the success of their negotiations and the outstanding achievements of the cooperation between the two companies, their negotiation methods, as well as their cooperation, can be learned by other companies and have an impact on the related industries. The negotiations and cooperation between Dell and FedEx show that entrepreneurs are increasingly looking at long-term business-to-business cooperation in the future, so finding ways to build win-win relationships between companies is a key future trend. And as more and more companies are adopting diversification strategies, business-to-business cooperation is diversified and they can have many business intersections. A formal and win-win contract can help build trust among companies, reap their own benefits and create opportunities for long-term and diversified cooperation in the future.

Keywords: Dell; FedEx; Business negotiation; Business strategy.

1. Introduction

Dell is a leading global provider of IT products and services in notebooks, servers, networking products, storage, mobile products, software, and other areas of its business, including helping customers build information technology and Internet infrastructures [1].

Dell has adopted the direct sales model, which is supported by a strong supply chain system. First, there are no distributors, wholesalers, or retailers, reducing the number of intermediaries; second, services are outsourced, reducing operating costs. Professional third-party logistics (e.g., FedEx, Post, DHL) providers are efficient, functional, and widely distributed, using their trucks and planes as road and air warehouses, which significantly reduces Dell's inventory costs and logistics costs. Consumers benefit from global outsourcing. They pay less for goods and services and benefit from an extremely wide range of goods and services. Dell thus wins customer acceptance and a marketplace [2-4].

It did not make sense for Dell to build its own transportation system because it would have increased its transportation costs, and it would have required a large system to serve Dell's customer base. Therefore, Dell is taking advantage of the benefits of these services to reduce costs, achieve profitability, and expand its market share [5].

FedEx is one of the world's largest express carriers, committed to providing fast and reliable delivery services to all parts of the United States and more than 220 countries and territories worldwide. FedEx utilizes a global network of air and ground transportation [6].

One of the profit models of logistics enterprises is to propose overall logistics solutions and provide complete supply chain services for industry customers. This development strategy will enable logistics enterprises to expand in scale, increase profitability, and realize the profitability of logistics enterprise operation by using the enterprise's resources, combined with the management of procurement resources (social resources). The customer solution profit model refers to the logistics enterprises for customer logistics needs, using low-cost advantages and network advantages, as well

as in many areas that have mature customer relations. The purpose is to help customers tailor-made personalized logistics integration solutions such as transportation, distribution, inventory, regional distribution, collection, and agency settlement to provide supply chain management services and obtain operational benefits [7].

The case study explores the impact of the business negotiations and the partnership reached between Dell and FedEx on the operations and growth of both companies, as well as the contribution to the development of the industry.

2. Background of the Dell and FedEx's Cooperation

In 2005, Dell chose FedEx as a hardware return partner to help speed up the return and repair process, and they signed a traditional vendor contract. The contract, known as Nighthawk, was more than 100 pages long and full of clauses of what the supplier should do, detailing FedEx's responsibilities and dozens of Dell's criteria for assessing quality compliance. For nearly ten years, FedEx had fulfilled all responsibilities of the contract, assumed efficiency risks, and committed to reducing costs, but neither party was satisfied with the relationship. Dell felt that FedEx was not proactive in seeking continuous improvement and innovative solutions; FedEx was dissatisfied with Dell's perception that it was demanding, wasted resources, and had many restrictions on its work. Dell attempted to reduce costs by conducting three bids over the eight years of the partnership, infringing on FedEx's interests [8,9].

By the eighth year, the partnership was facing imminent failure. Both parties lost trust and confidence in their partners to continue working together, but neither could afford to terminate the partnership. Dell's switching costs to another provider were high, and FedEx was having a hard time finding a revenue and profit stream comparable to Dell's. It is a lose-lose situation. It was clear that the two companies were not satisfied with the content of the traditional contract. After many negotiations and discussions, they came to a win-win situation. Since the new Vested methodology came into effect in 2012, Dell and FedEx Supply Chain have been operating successfully under the Vested model [8,9].

3. Positions and Interests of Both Parties

Dell's position was to pursue low costs and wanted FedEx Supply Chain to proactively drive and bear the investment costs of innovation to keep up with the rapidly evolving market. However, FedEx saw Dell's pursuit of low costs as a short-term mindset that would put Dell itself at risk. At the same time, FedEx refused to bear the investment cost of innovation because, in the previous traditional contract structure, FedEx could not ensure the return on investment, and it had been bearing the pressure of cost-cutting. This was the main point of conflict between the two companies. FedEx wanted to increase its profits through its service offerings, while Dell wanted to get the lowest cost in return for its profits. Because the interests of both parties had to be aligned, a new contract structure was needed, and Vested was an innovative way to create a win-win outsourcing agreement [9].

Dell's contract was lopsided, with FedEx taking on the risk and getting little in return. The new contract required both parties to take some risks and share the rewards. The two companies were previously lacking trust, and the new contract would not work if it were not possible to overcome the trust issue. Ultimately, Dell and FedEx agreed to make the new Vested agreement a goal to work toward together, which meant the two companies would have a different attitude and approach to risk and reward sharing than before. Dell and FedEx appointed a small core team that was designed to complete the transformation of the relationship based on a contractual transition to a win-win Vested business model and ultimately enable both companies to make significant changes in their operations. This business model created a true win-win relationship, which is clearly a strong incentive for excellent supplier relationship management [9].

In this outsourcing relationship, Dell and FedEx may have a common desired outcome of reducing the cost structure of the overall operation (rather than reducing the profitability of the service provider). By reducing the cost structure, resulting in higher margins, the company wins, and the service provider wins through incentives. This business model helped create a highly collaborative environment that inspired innovation, leading to transformation, improved service, and lower costs [9]. Fig. 1 provides a visualization of how Dell and FedEx have followed these five rules.

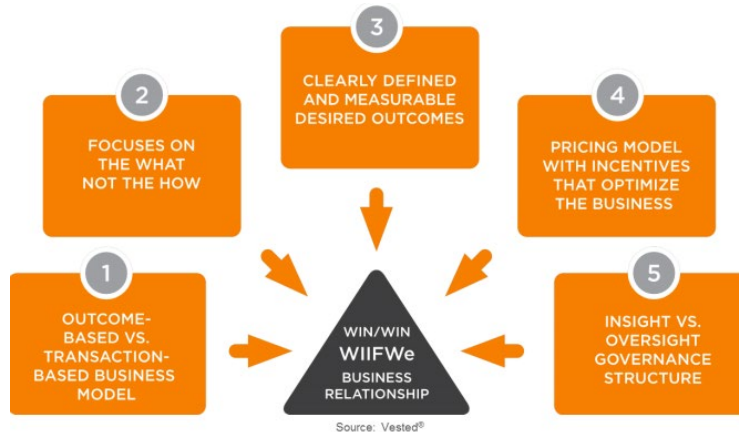


Fig. 1 How Dell and FedEx have followed these five rules [9]

The first rule is to focus on the outcome, not the transaction. Dell had previously fallen into the classic trap of focusing on transactions and transaction costs, all in an effort to make the cost of processing and refurbishing each returned item as low as possible for FedEx. They stopped caring about the cost per box and eventually decided to focus on the total cost, thus changing the focus to profitability and margins, i.e., how to minimize Dell's margin loss. In this way, the two companies reached a common vision and a mutual interest in each other. This is then implemented into specific target projects to get the best potential value for the investment. Because FedEx will do its part to deliver margins when both companies are focused on the overall profitability of the repair and refurbishment business, Dell can gain more, which is an excellent balance between the two companies. This also included a jointly created pricing model with incentives that allowed FedEx to share in the value created [9]. Therefore, the rule of establishing a "collaborative" mindset and striving to build an environment of mutual reliance and trust, and openness about each other's expectations, specific goals, and concerns, is critical and fundamental to unlocking a win-win partnership and can be learned from [8].

The second rule is to focus on the what, not the how. i.e., not following rule number two can lead Dell into pre-described mandates - outsourcing work to experts and then telling them what to do. Dell should properly relinquish control, which would allow FedEx to become more proactive and innovative, which would help its performance [9].

The third rule is clearly defined and measurable results. The team significantly reduced the number of metrics to less than 20 KPIs and did so in a way that aligned the metrics with the six desired outcomes [9].

The fourth rule is a pricing model for incentives. In traditional outsourcing, companies pay a transaction fee when they purchase services, including cost per shipment, pallet storage and more. In Vested, the buyer and supplier build a pricing model that rewards the supplier when the desired outcomes defined by both parties are achieved, and after extensive testing, both parties determine a pricing model that is based on fair and win-win economics [9].

The fifth rule is insight and oversight governance. The previous contract was difficult to manage, with hidden agendas on both sides and information being kept tightly under wraps. The new contract clearly lays out responsibilities for specific areas, and the project and account managers at Aware are informed. Direct and continuous communication improves the flow of information while empowering the supplier team [9].

In subsequent years, as society continued to evolve and market conditions changed rapidly, Dell and FedEx maintained a win-win relationship by continually revising and updating the content of the Vested Agreement [9].

4. Results Achieved by Both Parties

After conducting the first pilot project of the Vested method, Dell and FedEx found that the results they achieved were remarkable, and they considered it the best method and practice that allowed both parties to achieve the results they wanted from each other, improving their relationship and the two companies have formed an efficient alliance to reach a win-win situation. The results of the negotiations and the implementation of the contract are mainly reflected in the following: in the first two years, the total costs and the scrap costs have been reduced by 42% and 67% respectively by Dell and FedEx, and the number of defective parts per million is the lowest compared to previous figures; in the first three years, Dell's cost structure has been reduced by a total of about 44%; the "parts dollar" goal has been achieved " goal, Dell's cost of repairing parts was the lowest compared to the past; Dell's customer satisfaction also reached an all-time high; FedEx benefited from a twofold increase in profitability, received a million dollars bonus check in the first quarter, and received an automatic contract extension from Dell. That is the power of a win-win approach to collaboration. The relationship between the two companies has changed the way the business works, enabling a transformation of the reverse logistics business, and has been a very important catalyst for the transformation of the reverse logistics business [9,10].

In 2020, Dell was the only one to successfully apply the Vested approach to a variety of expense category services such as facilities management, reverse logistics, third-party logistics, environmental services, fiber optic network management, and labor services in over fifty organizations. As a result of Dell's and FedEx's successful practices, approximately 1,600 people have been sent to take Vested-related courses at more than 350 companies. Today the Vested methodology has been adopted by 57 companies and plays a very important role in improving their outsourcing relationships. There are also many real-life examples of the practice, such as the five Vested deals at Telia, a Swedish telecommunications company, and Dawn Tiura, President and CEO of Sourcing Industry Group (SIG), who speaks highly of that agencies are beginning to emphasize relationship-based contracts. That is, when companies are building strategic relationships with suppliers or business partners, they tend to arrive at a win-win contracting strategy [10].

Such contracts that promote trust and collaboration have a particularly important role to play in highly complex and unpredictable relationships, especially in today's highly competitive business environment, where it can be critical for companies to establish such formal relationship-based contracts that can help them gain a competitive advantage. Such complex relationships include complex outsourcing and sourcing arrangements, strategic alliances, joint ventures, franchises, public-private partnerships, major construction projects, and collective bargaining agreements. This approach is being used successfully by a growing number of large organizations, such as the Canadian government, Dell, Intel, AstraZeneca, and others. Therefore, in today's digital economy, companies should consider establishing such formal relationship-based contracts as their key growth strategy [8].

5. Further Cooperation between Both Parties

The cooperation between Dell and FedEx is not limited to the cases mentioned above. On the other hand, working with Dell Technologies, FedEx delivers value to the enterprise at a faster pace. FedEx continues to innovate for its customers, leveraging next-generation and cloud-based technologies such as IoT, machine learning, and artificial intelligence. FedEx successfully undergoes digital transformation to connect the world. By moving from their on-premise data center to a federated network and cloud with Dell Technology Services, FedEx has reduced the time to prepare infrastructure for their application teams by 30% and increased developer productivity by 40% [11].

In recent years, more and more companies are building or expanding their data centers as they not only provide better services to users through data centers but also can make some profit. As a result, Dell, FedEx, and Switch are working together to develop a hyper-scale multi-cloud edge infrastructure service. This will bring compute, storage and connectivity to the edge of the network, helping customers overcome performance barriers for latency-sensitive applications. In this partnership, the cloud infrastructure support and cloud solutions will be provided by Dell, the edge data center will be provided by Switch, and the real property and a portion of the building and infrastructure costs will be provided by FedEx. This relationship helps realize the three-way vision of sustainability for Dell, FedEx and Switch. Rob Roy, CEO and founder of Switch, said he believes that through the partnership with FedEx and Dell, how enterprises can retain independent control over the future of technology in the era of hybrid multi-cloud can be created and demonstrated by the three parties. John Roesse, global chief technology officer of Dell Technologies said the growing pace of business and intense technology competition is causing an increasing dependence on near-real-time connectivity for data on the periphery. A more localized cloud-based environment can be created by Dell, through a partnership with FedEx and Switch. This environment can bring cloud services closer to the customer while providing faster access to their workloads and data for increased flexibility and timeliness. As the network continues to grow in size, more data processing is seen moving to the edge to support the automation and technology needed to deliver more than 16 million packages per day, and through the partnership with Dell and Switch, FedEx can gain access to multi-cloud edge computing, which will allow FedEx to continue to reimagine the possibilities that come with its unique role at the intersection of the world of logistics and transportation and the world of intelligent technology [11].

6. Conclusion

In summary, this report focuses on the business negotiations and collaboration of the Dell and FedEx partnership, as well as background information on the two companies. The negotiations were successful and reached a win-win situation, as evidenced by the achievements of the cooperation and the harmonious and ongoing cooperation that has been in place. The two companies have been working well together, creating a great deal of wealth for both companies and society, and helping both to gain a stronger foothold in the market. There is no doubt that their cooperation can be replicated by other qualified companies in similar situations and has had a great impact on the development of both industries. This report provides a detailed analysis of this business negotiation to provide a reference for companies facing similar situations so that they can negotiate correctly and maximize their corporate value. From the negotiation and cooperation between Dell and FedEx, we can see that nowadays, companies value win-win cooperation relationships and future long-term cooperation between companies. A formal and win-win contract can help build trust among companies and create possibilities for long-term and multifaceted cooperation in the future.

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