Gateway: A Direct Sales Manufacturer

MGT 5309

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Company Presentation

- **Gateway, Incorporated** is a computer hardware company based in Irvine, California .
- It develops, manufactures, supports, and markets a wide range of personal computers, computer monitors, servers, and computer accessories.
- On October 16, 2007, Acer Inc. completed its acquisition of Gateway for approximately US$710 million.

- For the first decade of its existence, Gateway had a very simple strategy:
  - Direct sales of PCs built to customers' orders.
- The sales and distribution channel was the telephone.
- Gateway assembled PCs at its own plants as order were received, and shipped them directly to the customer

- In 1996: Gateway started selling PCs online.
  - Gateway uses the Internet as a sales channel, as a platform for offering new services, and as a tool for integrating its value network (customers, suppliers, business partners).

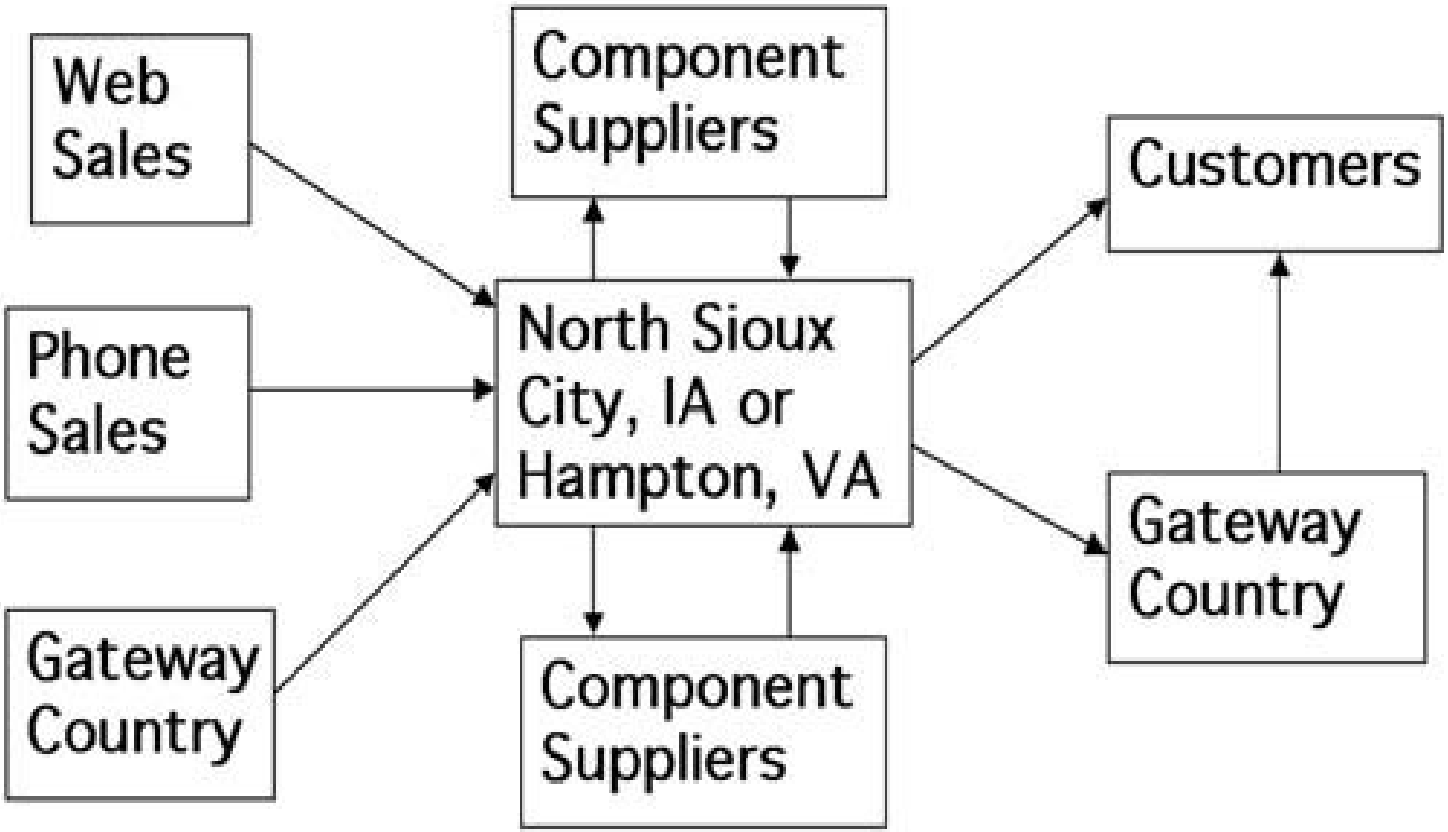
- Gateway expanded its sales and manufacturing worldwide

- By 1999: Gateway had three plants in the United States, a plant in Ireland, a plant in Malaysia.

Gateway New Distribution Strategy

- In the late 1990s: Gateway adopted an agressive strategy of opening retail stores throughout the US.
  - It choose not to carry any finished-product inventory in its retail stores.
  - The retail stores were used to try PCs, help customers, decide on the configuration, then orders are sent to assembly plants.
- In 2002: Gateway had 280 retail stores in the United States

Gateway Supply Chain



Manufacturing in Gateway

- Desktop PCs for both the consumer and business markets in North Sioux City, South Dakota, Hampton, Virginia, and Salt Lake City, Utah.
- PC servers are manufactured for business customers in Lake Forest, California.
- For notebook PCs, a Taiwanese supplier, Quanta, produces the base units, and final configuration is done in Salt Lake City.
- Third-party suppliers manufacture the configuration for the Gateway Profile and Astro desktop PCs

- Internationally, a plant in Dublin, Ireland, makes PCs and servers and does final notebook configuration for the European market, while a Malacca, Malaysia, plant performs the same functions for the Asia/Pacific region.

- Gateway also is beginning production in Brazil through its investment in local PC maker Vitech.

Information Technology in Gateway

- The production process makes heavy use of information technology.
- The JD Edwards order management system releases an order to the factory floor, and it is then fed into custom developed manufacturing and status tracking systems.
- Each component is bar coded and scanned as it is released to the floor, and again as it is installed into a PC.
  - This ensures that each order has the right components, and allows quality problems to be traced to a particular assembly team or component supplier.
- When assembly is completed, the JD Edwards system is notified, and the appropriate updates are made to inventory, billing, and accounting records.

Distribution in Gateway

- Gateway utilizes three main sales channels for the consumer market:
  - telephone sales, online sales, and company-owned stores. These are referred to as “call, click or come in.”
  - These channels are complementary, as over half of its customers use at least two of the channels. For instance, a customer might go to a store and look at different models, then go home and configure and order a PC online or by telephone.

Sourcing

- Gateway relies on contract manufacturer Solectron to assemble motherboards
- It purchases other components from suppliers such as Intel, AMD, Creative Technology, ATI, Seagate, Maxtor, and various Taiwanese, Korean and Japanese components manufacturers.
- To support Gateway's build-to-order processes, many suppliers warehouse their components in caged areas within Gateway's plants, known as **Centers for Production Replenishment (CPRs),** or supplier hubs.

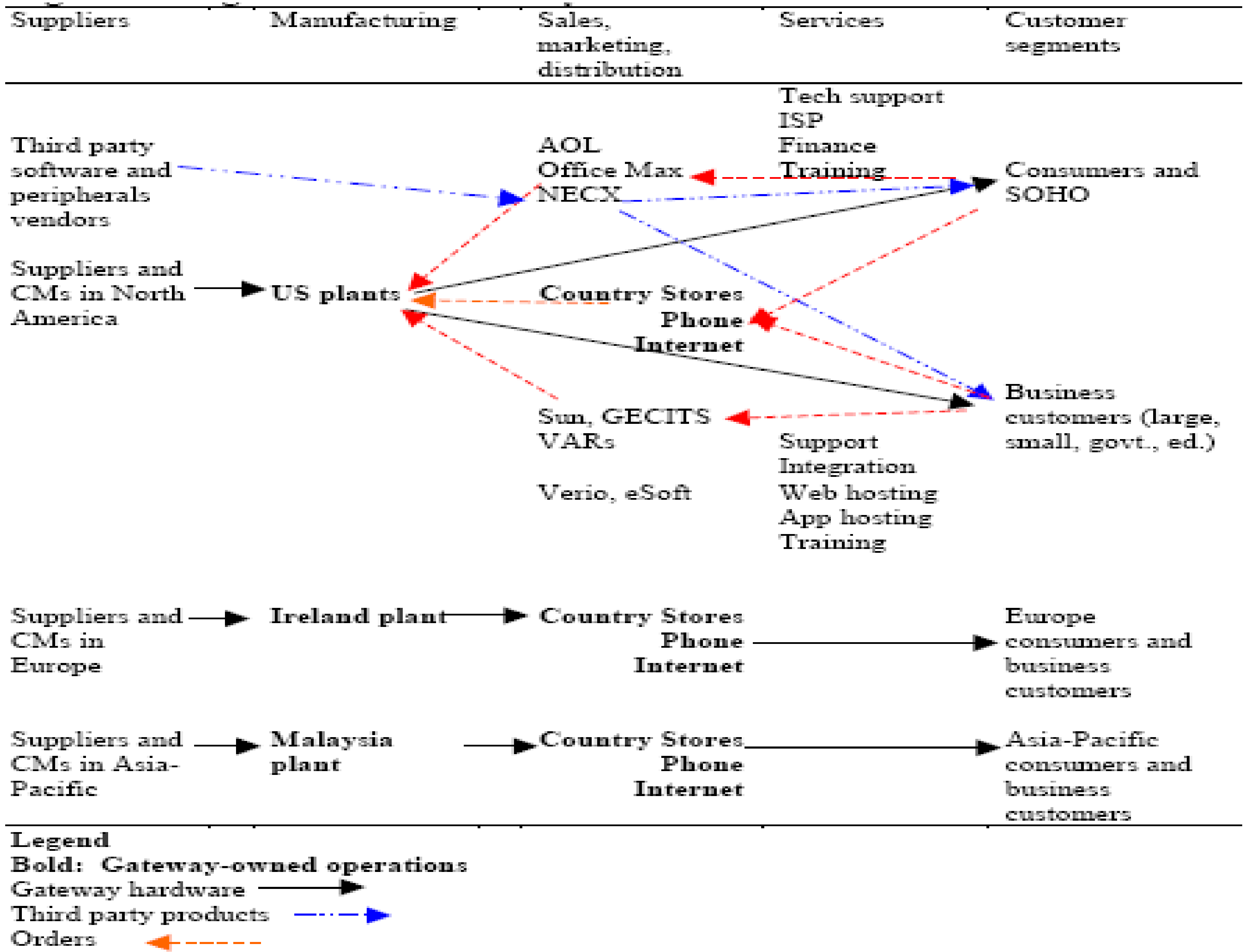
- **Gateway's Centers for Production Replenishment (CPR)** are run by third party companies, who maintain ownership of the components until they are pulled for use, meaning that Gateway does not have to carry inventory on its books.

- The use of CPRs not only lowers Gateway's inventory costs, it also relieves the company of a function that is not a key to its competitiveness.

- This practice is common among PC vendors, who are moving to outsource many non-core functions.

Gateway Customer Segments

- Gateway is organized into four business units with profit and loss responsibilities. These are:
  - Gateway Home—Consumer market in the Americas
  - Gateway Business—Business market in the America
  - Europe/Middle East/Africa (EMEA)
  - Asia-Pacific (APAC)
- In the U.S., the consumer and business divisions share resources, particularly call centers, IT infrastructure, and the Country Stores
- The European and Asia-Pacific operations follow broad corporate strategies, offer roughly the same products but operate quite independently.


Suppliers
Manufacturing
Sales, marketing, distribution
Services
Customer segments
Tech support
ISP
Finance
Training
Third party software and peripherals vendors
AOL
Office Max
NECX
Consumers and SOHO
Suppliers and CMs in North America
US plants
Country Stores
Phone
Internet
Business customers (large, small, govt., ed.)
Sun, GECITS
VARs
Verio, eSoft
Support
Integration
Web hosting
App hosting
Training
Suppliers and CMs in Europe
Ireland plant
Country Stores
Phone
Internet
Europe consumers and business customers
Suppliers and CMs in Asia-Pacific
Malaysia plant
Country Stores
Phone
Internet
Asia-Pacific consumers and business customers
Legend
Bold: Gateway-owned operations
Gateway hardware
Third party products
Orders

As 2001 approached and demand started to decrease Gateway was forced to cut costs:

- Close the plants in Salt Lake City, Ireland, Malaysia.
- Close all retail outlets
  - They moved Gateway away from its lean, low-cost business model as retail outlets required overhead.
- Reduce the number of configuration offered to the customer

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