DELL'S WORKING CAPITAL Harvard Case Solution & Analysis

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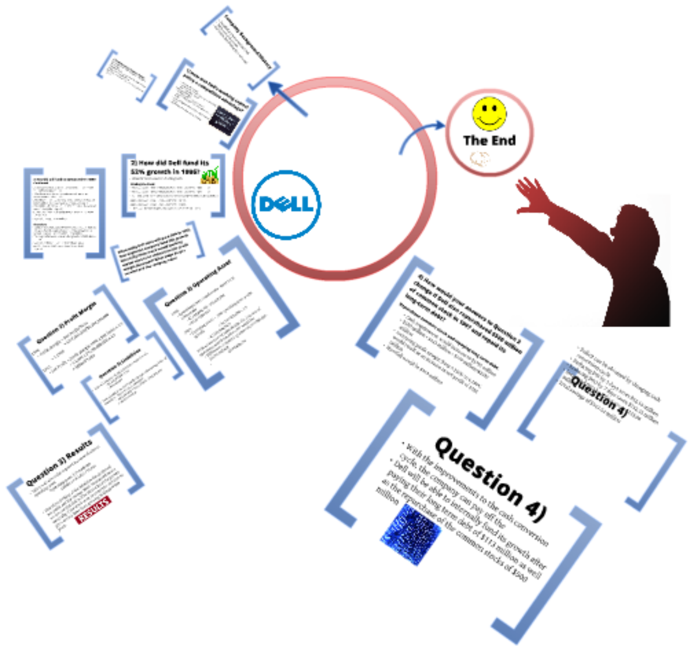

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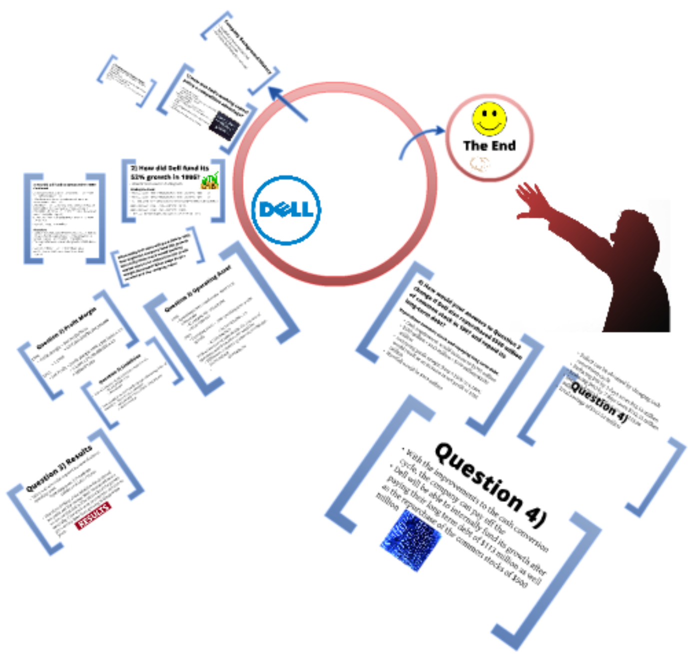

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Company Background/History

- Founded in 1984 by Michael Dell
- Their source of income
- Dell began distributing its own brand

1) How was Dell's working capital policy a competitive advantage?

Industry rivals' strategy:

- Assembled to forecast, retaining a substantial finished goods inventory

Dell's main strategy:

- Selling straight to consumers and a manufacturing cycle that started after a buyer's order
- A personalized purchase within a small amount of time
- Small finished goods inventory balances

A Small Inventory Balance Means:

- Less expensive to shift promptly to the latest technology
- Providing the latest systems at the same price as competitors' out-dated ones
- No excess stock doesn't take up room and absorb capital

2) How did Dell fund its 52% growth in 1996?

- Dell used internal resouces to fund its growth

Stating the Facts

- 1995 Total Assets = $1594 million and Short-Term Investments = $484 million
- 1996 Total Assets = $2148 million and Short-Term Investments = $591 million
- From 1995 to 1996 Dell's performance increased from $3475 million to $5296 million
- Operating Assets in 1996 = (2148 – 591)/5296 = 29.40%
- Operating Assets in 1995 = (1594 – 484)/3475 = 31.94%
- There was a decrease in Operating Assets of 31.94% - 29.40% = 2.54%

2) How did Dell fund its 52% growth in 1996? Continued

- Sales in proportion to percentage is ($5296 million - $3475 million)*32% = $582 million
- The decrease in Operating Assets means they saved $5295*2.54% = 134.5 million
- Since $582 million was the required amount and they saved $134.5 million the total required amount sums up to
- $582 million - $134.5 million = $447.5 million as the required amount to sustain its growth
- Current Liabilities increased 939-$752 = $187 million from 1995 to 1996
- Net Profit in 1996 = $272 million

Therefore

- Based on the calculations the Net Profit and Total Liabilities is larger than the required amount of Operating Asset to sustain its growth. As $272+$187 = $459 million