

Dell computers: a case study in low inventory

[Technology](#), [Computer](#)



When managers discuss low inventory levels, Dell is invariably discussed. Hell, even I've mentioned Dell on this site. So why all the commotion? Has their low inventory Really helped out that much? In short, yes. This article is primarily going to discuss how much it helped. This article will not discuss how they achieved such high inventory turns using a state of the art just in time inventory system. Reasoning behind need for lower inventory

The first thing that needs to be discussed is why low inventory has such a great effect on Dell's overall performance. The reason is quite simple: computers depreciate at a very high rate. Sitting in inventory, a computer loses a ton of value. As Dell's CEO, Kevin Rollins, put it in an interview with Fast Company: " The longer you keep it the faster it deteriorates -- you can literally see the stuff rot," he says. " Because of their short product lifecycles, computer components depreciate anywhere from a half to a full point a week.

Cutting inventory is not just a nice thing to do. It's a financial imperative. " We're going to assume that the depreciation is a full point per week (1%/week) and use that to determine how much money high inventory turns can save Dell. This means that for every 7 days a computer sits in Dell's warehouses, the computer loses 1% of its value. Ok, now that we know how much Dell loses for each day, let's take a look at some of Dell's data over the past 10 years that I pulled from [www. hemanufacturer. com](http://www.hemanager.com) What I got from this was the inventory turns.

An inventory turn, as this website successfully describes it, is " cost of goods sold from the income statement divided by value of inventory from the

balance sheet". Typically, this is turned into a value showing how many days worth of inventory a firm has by dividing inventory turnover by 365. I divided the inventory turnover by 52 in order to show how many weeks worth of inventory Dell holds.

Key point to notice here is that Dell was carrying over 10 weeks worth of inventory in 1993. By 2001, Dell was carrying less than 1 week's worth of inventory. This essentially means that inventory used to sit around for 11 weeks and now it sits around for less than 1 week.

So what does this mean for Dell?

Remember, computers lose 1 percent of their value per week. This isn't like the canned food industry where managers can let their supplies sit around for months before anyone bats an eye. Computers aren't canned goods, and as Kevin Rollins of Dell put it, computers "rot". The longer a computer sits around, the less it is worth.

That said, due to depreciation alone, in 1993 Dell was losing roughly 10% per computer just by allowing computers to sit around before they were sold. In 2001, Dell was losing less than a percent. Based on holding costs alone, Dell reduced costs by nearly 9%.

Since 2001, Dell has continued to lower inventory. Looking at their latest annual reports, day's inventory has dropped by approximately a day.

Hopefully this article provided you with a practical example that demonstrates the positive effects lower inventory can have on a firm's

overall costs. For more information regarding lawyers in the Texas area, check out Dallas Fort Worth trucking accident attorney. For more basic information regarding holding costs, please read A Simplified Look at the Pros and Cons of Inventory.