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Dell’s Investment Decision on Expansion and Section # of Dell’s Investment Decision on Expansion

Introduction:

Since its inception, Dell has always been a highly customer oriented company. This approach has provided a competitive edge to the company over its competitors and yielded cost savings that would have otherwise been spent to maintain huge supply chains of re-distributors. Even the recent acquisition of 3PAR, a data storage solutions provider, is to facilitate its customer with a range of services under one brand umbrella with a more personalized and cost effective solution (Press Release, 2010).

Investment on Expansion Plan:

Dell continues to invest in the Intellectual property, Information Technology infrastructure and expansion to reach its customers in every corner of the world. For the fiscal year 2011, Dell has planned to open up company owned stores and service centre in some of the developing Asian countries to target the maturing market and get the maximum chunk of the market share. Currently the country under observation is one where Dell has been observing a significant share being taken away by Acer due to provision of services locally and the rest being threatened by HP/Compaq. Dell plans to start with opening up 3 stores in that country. Each store would cost $300, 000 for acquisition of commercial land plus $100, 000 to make it running along with inventory of laptops, desktops and other accessories (working capital). Thus the total initial investment required is around $400, 000 for each of the 3 stores/service centers.

Total Initial Outlay = 400, 000 + 400, 000 + 400, 000 = $1, 200, 000

It is expected that Revenues will increase by $900, 000 each year if the company implements the new project. Operating Expenses will increase by $600, 000 in the following years. We assume that the tax bracket in the country in which Dell will be operating is 35%.

Incremental After Tax Cash Flows = (900, 000 – 600, 000) x (1 – 0. 35) = $195, 000

There are several issues involved in projecting cash flows, revenues, and expenses and above all getting the project through the management team and getting the majority shareholders to approve a project when competition is fierce and profit margins are shrinking. The cost estimation of the initial outlay is estimated by the product/business development department whereas revenue forecasting is the responsibility of the sales/marketing department. Operating costs are estimated by the various officers like the finance manager, accountant and tax experts of the company. There can be several issues in projecting the cash flows. A major concern is the over or under estimation due to few biases or lack of experience about such projects. Secondly the errors can be due to inadequate capital rationing, not considering the salvage values and ignoring sometimes the intangible and long term benefits of such investments.

Another job of the project manager would be to coordinate the efforts of all concerned and avoid any conflicts which may arise due to different priorities. Since this investment doesn’t require any enormous outlay, the project can be funded partly by the retained earnings along by debt financing by a bank that has strong presence in that developing Asian country. Estimating the cost of financing can also be a major concern for the company since they need to account for exchange rate risk and inflation in the foreign country.

References

Dell’s Press Release (2010) 3PAR Accepts Dell’s Increased Price of $27 Per Share, with Total Value of $1. 8 Billion. Retrieved August 31, 2010 from Web site: www. dell. com