

# [Dell’s work-in-process case study](https://assignbuster.com/dells-work-in-process-case-study/)

[](https://assignbuster.com/)[Business](https://assignbuster.com/essay-subjects/business/)

How wasDell‘ s working capital policy a competitive advantage? They hold less finished goods than other competitors, and are holding their inventory for less days which implies that their cash collection processes are efficient. Dell’s business model is based on the fact that they are holding a smaller percentage of finished goods. In fact, most of their goods in the beginning of the company were only partially finished goods. “ By the mid-asses Dell’s work-in-process (WIPE) and finished goods inventory as a percent of total inventory ranged from 10% to 20%. Competitors at the time were average 50-70% finished goods inventories and therefore were exposed to changing market conditions and changing consumer interests.

By keeping inventory of parts, they kept their inventory costs down, and remained flexible. Additionally, their ADS’ is much lower than competitors enabling them to turn cash faster than its competitors. By keeping a low inventory they were able to stay relevant in the market because their inventory wasn’t becoming outdated before they were able to sell it to customers.

Their most recently reported cash cycle is only 40 days long which allows Dell to turn inventory into cash in an effective timeshare. Daniels thought: Because Dell’s inventory turnover is high and its low inventory of finished goods, Dell can move quickly to the new technology with less cost.

Therefore, Dell can make the new technology available to customers more quickly than its competitors, attracting more customers and gaining more market shares at the same time.

Secondly, because of its cash conversion cycle is relatively low, Dell has sufficient cash to pay its short-term payable to their vendors. Therefore, Dell would probably maintain a good relationship with its suppliers and get certain discount because of the early payoff. How did Dell fund its 52% growth in 1996? Dell likely increased their inventory (by roughly 46%) based on forecasted demand. Because of that demand becoming a reality, they were able to turn inventory quickly into product therefore raising cash through their efficient cash cycle.

By maintaining inventory turnover efficiency, it enabled Dell to achieve growth because they were churning a higher level of inventory. They likely funded the inventory using the increase in liabilities of approximately $MOM. They have two sources of fund: the profit in 1996, which is cash generated, 272 millions. And the increase in current abilities (939-752)= 187 Million Assuming Dell sales will grow 50% in 1997, how might the company fund this growth internally? How much would working capital need to be reduced and/or profit margin increased?