

Inventory and growth plan essay

[Business](#), [Accounting](#)



Case: Warehousing Strategy at Volkswagen Group Canada Warehousing helps to regulate and control demand fluctuation. It stores goods when the production is more than demand and release the goods when demand exceeds the production capacity.

There are different options for making a warehouse namely 1. Self Owned 2. Lease/Rental 3. Outsource Automobile Industry player has to focus on distribution network of the following products. 1. Automobiles 2. Spares and Service There are different distribution network for these different categories. Automobile's demand is more predictive and it can be forecasted in a rational way.

Hence warehousing can be done in a near factory location and lot delivery can be done directly to distributors and dealers as per the projected demand. It may follow time based reorder point. The SKUs are very limited. (Automobile Models) The spares and services demand is largely dynamic and un-predictive. The service business is driven by the response time and delivery speed. Customers are very critical about these attributes.

Therefore the Warehousing for spares would be ideally in a near market location to facilitate faster delivery. Furthermore it may be noted that there are two types of spares. 1. General/Fast Moving 2. Rare/Slow Moving The warehousing can be designed in a Hub and Spoke model where the Hub would be a master warehouse containing 100% inventory and the spoke end would keep a optimum level of fast moving/general inventory based on the past trends and Pareto chart. This will ensure high degree of customer satisfaction. The Spares would contain a high level of SKUs.

This presents the challenge of organizing the warehouse that would ensure that minimum time is spent for locating and mobilizing the spare. The size of each SKU is very varied. The reorder point is based on critical stock amount (Number based). Decision: There are many parameters or factors affecting a business decision. To accommodate the future growth plan of any business, warehousing strategy forms a critical link. There can be several factors that would affect the decision making such as: 1.

Cost Lower installation cost and Lower operational cost is desired 2.

Time Timely Installation of facility 3. Convenience Shouldn't disrupt current operations. 4. Range It should cater to high range of customer 5. Inventory Levels Very high level of Inventory will increase the carrying cost 6. Control To guaranty timely delivery and customer satisfaction Product Innovation and Product Introduction will lead to increase in the number of SKUs. To accommodate the same a company could consider following options.

1. Expansion of existing facility 2. Lease of additional facility 3. Outsource to third party Option 1: Generally expansion of an existing facility is very cost effective and consume less time for installation. However it may cause disruption to the current operations and cause inconvenience. It offers the advantage of regulated inventory carrying cost and imparts high degree of control for timely customer services.

Every expansion has a limit. If the requirement is more than the possibility then this option may not be feasible. It may be considered for a 20-30 % expansion. Anything in excess of this volume would attract other options.

Option 2: It is considered in case of a huge expansion or growth plan. It has high capital cost and considerable high time to market.

However it is convenient as it doesn't disrupt any operations and it can be used to cater a wide range of customer and help to enhance the service quality and customer satisfaction. It will increase reliability but it may result in higher inventory level. Likewise option 1 it has high degree of control as the company may directly control its operations.

Option 3: It is considered when there is a low level of control of the company is required in the regular operations. Its installation time is the least. It may also cater wide range provided the outsourcing is done in a proper manner. VGCAThe current growth plan would add 48, 000 new SKUs to the total SKU basket. Considering that the PDC at Canada stores only fast moving spares at 75 % we can estimate that it may need to accommodate nearly 36, 000 New SKUs. Again considering that each SKU need a separate bin we may estimate that there is a need of 27000 Small bins and 9000 large Bins.

Considering the existing empty bins we may propose that nearly 15000 Small bins and 5000 large bins are required. Further volume calculation presents that after accounting for the free space a further 15. 5 % extra space is required. In view of the above analysis we may conclude that the company could go with the expansion of the current facility. This would be cost effective and it will not discount the service standards.