

Role of warehouse in postponement business essay



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Introduction

Warehouses play an important role in enhancing organizational profits, as they receive, store, and preserve goods, which are shipped to various destinations. Based on warehouse investment, organizations devise their strategies. Some organizations used postponement strategy to delay delivery of products to exploit business fluctuations. Governments have encouraged companies to build warehouses, store their products, and send them to various destinations. Warehouses store products and assist companies in their postponement strategy.

Role of warehousing

In the current competitive world of business, warehousing has emerged as a major part of modern organizations that aim to enhance their sales turnover and profits over a short span of time. Warehouse provides various services which including storing of goods, receiving goods, picking items from a particular locality, and shipping goods to a stated destination. (Tompkins 1998, p. 2)

In warehouses it is possible to store goods for a specified period of time.

Industries, after producing goods, can store them in a warehouse.

Organizations follow storage strategy due to different reasons. For one reason, organizations can bargain for higher price for their products.

(Tompkins 1998, p. 2) On the other hand, companies failing to store their goods will lose their bargaining power as they are not able to demand higher prices for their products. Warehouses can be used to preserve goods produced in order to retain their original quality. Companies can obtain raw materials and other goods, which can be stored in their warehouses. Raw materials required for industrial production can be brought domestically and delivered directly to be preserved in warehouses. A few scholars like to differentiate between finished goods warehouse and raw material store room, but it is suggested that both perform similar functions. (Tompkins 1998, p. 2) Another function of warehouse is to enable shipping of products to a particular destination. Warehouse personnel can be asked to pack the required products & export to the requested destination. As there are advantages associated with warehouses, large numbers of companies have showed interest in maintaining their own warehouses. (Tompkins 1998, p. 2)

Traditional and modern economists have exhibited different approaches concerning warehousing. Traditional approaches suggest that warehousing is a “ necessary evil”, which add to the cost that should be avoided. (Tompkins 1998, p. 5) Their argument is that warehousing adds to indirect cost of the organization. But, the modern approach is that warehouse is indispensable. It is like making a comparison with having a refrigerator. Today it is not possible to manage house without refrigerator. It is suggested that “ The

true value of warehousing lies in having the right product in the right place at the right time.” (Tompkins 1998, p. 5) This statement suggested that warehouses should be used in such a way that organization is able to achieve its short term and long term objectives. Warehouses should be used to store most valuable products or materials, which can be later transported to particular destinations. Proper management of warehouse resources and personnel can yield positive results while inefficient use of these resources can lead to negative impact on organization. This implies that industries need to understand way of optimal utilization of warehouse resources. (Tompkins 1998, p. 5)

Warehouses perform “ gathering” and “ breakdown” functions. (Gourdin 2001, p. 134) The gathering function refers to collection of small quantities of goods from different destinations and their assembly into large consignments. This function performed by warehouses allows companies to obtain commodities from various different locations, but achieve efficiency in transporting large quantities of goods to a particular purchaser. Break-down function refers to receiving large quantities of goods from particular vendor and assembling them into small consignments. For example, large grocery shops receive bulk commodities, which are later assembled into small packages that are sent to various destinations. (Gourdin 2001, p. 134) In this way, warehouses performed many varieties of functions. An advantage of warehouses is that they are flexible as their functions can be modified depending on company objectives and requirements. (Gourdin 2001, p. 134)

It is suggested that warehouse personnel perform duties such as receiving, storage, replenishment, order selection, shipping, and clerical

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administration. (Gourdin 2001, p. 126) 'Receiving' refers to receiving goods from different locations and maintaining a record of finished goods. 'Storage' refers to the process of storing goods in the warehouse. 'Replenishment' refers to shifting goods to temporary location for subsequent transportation. 'Order selection' refers to selection of goods ordered by customers and sending them to destinations. Clerical administration is a function wherein personnel maintain necessary records and use them to achieve optimum utilization of the warehouse storage facility. Therefore warehouse personnel also perform varied functions, thereby assisting organization in enhancing its competitive ability. (Gourdin 2001, p. 126)

Companies need to use strategies such as professionalism, customer awareness, and logistics network to achieve success of warehouse management. Warehouse personnel should exhibit professional qualities in order to able them to deal with challenges on warehouse management. The company should show awareness of customer demands, their wants, and aspirations. Based on such analysis, finished products and raw materials should be stored and transported to particular destination. Warehouses should be considered as a part of logistics network. This implies that transporting of goods from one place to another in shortest time is a major challenge faced by many organizations. To achieve this objective, one needs to invest in huge and efficient warehouses, which can be used to store goods. (Tompkins 1998, p. 6)

There are many different types warehouse such as public, contract, and private. (Gourdin 2001, p. 135) According to a survey, private warehouses are likely to provide efficient service to customers as they cater to specific

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needs of organizations. Public and contract warehouses which are also known as third party warehouses provide service to organizations which do not possess their own warehouses. They have various advantages and disadvantages. For example, organizations which did not invest in warehouse can depend on third party warehouses to store their goods; however those warehouses fail to provide customized service. The advantage of private warehouses is that they provide flexibility as their structure can be modified. (Gourdin 2001, p. 135)

It is suggested that “ Management decision to utilize private, contract, or public warehousing (or some combination) flows from an analysis of the costs and benefits associated with each.” (Gourdin 2001, p. 135) In the end, it is the managers from the organization who take appropriate decisions based on cost-benefit analysis.

Warehouse and postponement strategy

Warehouse plays a notable role in postponement strategy. Postponement strategy refers to the principle that is found in supply chain management. This strategy is useful in reducing capital expenditure by controlling production and the storage of finished goods. Thereby this strategy can be used to provide satisfactory service to customers. (Jespersen and Skjøtt-Larsen 2005, p. 58)

Various types of postponement strategy can be identified. These types are production postponement, distribution postponement, and full postponement. In production postponement strategy, product customization is delayed until the customer order is received. This will give flexibility as it

is possible to store generic products and customize them depending on specific demands of regions. This implies that warehouses do not store specific products that are in demand in particular regions. Instead, products with general specifications are produced and stored in warehouses. The final product will depend on the specific orders received from the particular regions. This strategy was employed effectively by HP in manufacturing and storage their printers. General printers were produced and accessories were added after obtaining specific orders from various regions. Thereby, the HP was able to save capital by linking production to warehousing. In this way, production postponement strategy is benefited by use of warehouse personnel and resources (Jespersen and Skjott-Larsen 2005, pp. 58-59)

Distribution postponement strategy refers to distribution of products from a warehouse. Products are manufactured in different factories and distributed to a particular warehouse. This strategy allows organizations to produce items that are demanded by specific customers. For example, Atlas Copco Tools uses this strategy wherein a warehouse in Europe obtains goods from various regions and subsequently distributed out to many different destinations. Distribution postponement strategy gives extra time to companies to modify products to suit specific customer demands.

Warehouses play important role in picking and storing goods and modifying the orders as per customer specifications. (Jespersen and Skjott-Larsen 2005, p. 59)

Full postponement strategy refers to combination of production and distribution postponement strategies. This strategy delays delivery of goods.

Goods in this postponement strategy, are supplied directly to customers.
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This implies that the organizations using this strategy need not waste resources on different warehouses at national and international levels. This strategy has been adapted by B&O, which do not depend on large numbers of national warehouses. (Jespersen and Skjott-Larsen 2005, p. 60) Instead, a single warehouse is used to preserve and store goods. Finished products are supplied either directly to the dealer or send to the end customer. The warehouse of this company is designed in such a way as to avoid huge investment in warehouses that function at intermediate level. This shows that warehouses can be tailor suited to needs of entrepreneurs who employ different postponement strategies. (Jespersen and Skjott-Larsen 2005, p. 60)

Contract or public warehouses can be used to postpone payment of import tariffs, as the US law allows importation and storage of goods in specified warehouse for a period of five years. The advantage with this rule is that importer can store goods for five years and wait for the right opportunity to dispose goods. During this period of five years, the importer can store and repackage imported commodity, and finally when the imported commodity is exported to another destination, there is no need to pay custom duty. Such law can be used by companies to save tariff and enhance their income.

(Carlbaugh 2008, p. 119) Such law states that companies need to pay tariff charges in vogue while selling the commodity, rather than while importing commodity. In this situation, warehouses play important role in storing and preserving goods and transporting them to international destination.

Importing firms enjoy luxury of waiting for five years before selling imported commodity. In the absence of efficient warehouses, importers fail to store commodities and sell them at appropriate time. This proves that warehouses

are not necessary evil, as they can enhance capital saving for companies.

(Carlbaugh 2008, p. 119)

Companies can use postponement strategy to reduce production quantity. This strategy is necessary when companies face reduction in demand for particular commodity that depend on various factors such as global business environment and input their costs. Transportation costs can be reduced to considerable extent based on postponement strategy. In this aspect, warehouses play an important role as they assist companies in modifying production process. Warehouses can be used in transporting product parts instead of transporting finished products therefore warehouses can be transfer to places where parts are stored and arranged. (Shah 2009, p. 246)

At a particular destination, products can be assembled hence this result in product customization enhancing customer satisfaction. Warehouse personnel can be trained to provide specific service to customers in different localities. Companies can build warehouses in various locations to reduce transportation costs over long term. For example, cycle industry in India had adopted this strategy, where there is demand for customized cycles.

Customers are given opportunity to decide the product specifications. (Shah 2009, p. 246) Parts are supplied to specific destination and assembled in assigned place. By using this strategy, cycle industry in India has saved space required to store finished products, and reduced incidence of damage to finished goods. However at the same time this strategy encounters a few challenges. For example, long term uncertain economic environment can affect company's postponement strategy. In this situation, appropriate

warehousing facility can assist companies to withstand hostile business
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environment and postpone production and distribution process. This helps companies which invest in efficient warehouses to benefit in long run. (Shah 2009, p. 246)

Summary

In the modern competitive business environment, companies cannot afford to ignore importance of warehouses, as they perform function of picking up and storing commodities. Warehouses can be used to preserve goods for a particular period of time. Raw materials and finished goods can be stored and sent to national and international destinations. Companies with assistance of warehouses, can introduce various strategies to enhance their competitive abilities. There is a provision in the US law, which mentions that for imported goods taxes need not be paid when they are stored in warehouses. Importers can buy time and dispose imported commodity at the right time and right price.

Postponement is an important strategy that is used in modern industries, which needed to survive in today's competitive business environment. Warehouse supports postponement strategy by storing goods for longer period of time so that company is able to exploit volatile business environment, which depends on domestic and international developments and demands. Warehouses assist companies in implementing their production and distribution strategies. For example, companies such as HP have used postponement strategy in enhancing their profit. In India, cycle companies have used warehouses to implement postponement strategy, wherein sale of products is related to customer demand.