

Advantages and disadvantages of jit management essay



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Introduction

Normally, warehouses are needed in the traditional manufacturing line, if the products or inventories are left after sales, either left or surplus, they will be kept in warehouse.

In fact, high inventory holding is usually considered as a poor management for a firm. Just-In-Time or J. I. T was first introduced by the United States defence industry during the World War II, but was used widely by Japanese firms during the 1950s and 60s in the manufacturing sector. J. I. T concept is to reduce inventory holding costs and to have stocks delivered just in time for firms to achieve high-volume production or in a sale and not before. This would help the company to produce high quality goods in minimal inventories, WIP (Work in progress) and eliminate all kinds of waste.

For example, Dell, has become famous for its JIT management which involves not even being in possession of the raw materials needed to fulfil an order until that order is placed and yet they are still capable of filling orders in a short period of time (Inventory Management Review, 2008).

In this paper, I will discuss about the benefits and drawbacks of J. I. T management. Firms should consider all these factors before applying this idea into their business.

Advantages of J. I. T

The main advantage of J. I. T is to save cost from speeding up inventory turnover. The firm can ensure the inventory supply comes in a regular time while in the same time reduces inventory holding costs, such as warehousing

and storage cost. It means firms can make full use of the amount of firm's capital by freeing capital for other use or lowering the working capital to finance inventory. Hence, this will boost the firm's profitability. ⁱⁱ This may help the firms to get rid of excess unused inventories that it has to write off against earnings or price low to sell. This could be shown from best case scenario; services and product are manufactured only when needed for sale and never even put into inventory.

In an addition to the cost benefits, J. I. T may help firms to improve goods quality. The defective raw material can be spotted away instantly since the inventory enters straight to the production process instead of warehoused. The defective parts also can be traced to the supply source and fixed before more defective products are produced. If the defective parts go through warehousing before production will allows many defective parts to be produced before a problem is recognized.

Moreover, J. I. T may help to increase emphasis on close coordination between suppliers and firms to maximize the relationship between manufacture and sales levels and inventory, then reducing carrying cost. It is important that the business informs suppliers of inventories requirements in advance, and that suppliers, in their turn, deliver materials of the needed quality at the exact times. Failure to do so would lead to a dislocation of production or supply to customers and could be very costly.

Supplier would also gain benefit from close relationship that enables them to schedule their own production to that of their customers. This should mean that between supplier and customer there should be a net saving in the

amount of inventories to held, relative to that would apply were J. I. T not in operation. JIT systems are often linked with computerized point-of-sale systems so that inventory levels can be monitored and maintained via automatic reordering systems to minimize the number of out-of-stock items in a store. (Dun & Bradstreet Credibility Corp, 2011)

J. I. T can ensure production scheduling and work hour is consistent with demand. If there is any sudden changes on the demand of products in the market, firms can react instantly by reduce the quantity of finished product. Workers also do not have to work is there is no demand for certain goods at the time. It may avoid firms form overproduction that may seem as a waste of capital.

With J. I. T system, employees with multi skills are used more efficiently. Employees are required to being trained for work on different parts of the manufacturing side allows firms to transfer workers where they are needed. Employees have to be able to operate different machine depending on production requirement. Hence, this may increase productivity and flexibility of the firms in production line.

There is an expectation for J. I. T that the manufacturing process will operate at the maximum efficiency. This means there will be no production breakdowns and the queuing and storage times of products manufactured will be eliminated, as only that time spent may be impossible to achieve, they do help to create a culture that is dedicated to the pursuit of excellence and quality.

Finally, J. I. T may also reduce set-up times in warehouse significantly in the factory. The firms may fully utilise the time for others purpose such as improve their bottom line, production efficiency, and focus on areas that need improvement. There are also some instituting tools to help on reducing set-up times such as “ Single Minute Exchange of Die” (SMED) that may convert the production process from product A to product B in a short period of time.

Disadvantages of J. I. T

The drawback of a J. I. T is that it leaves a firm without a buffer stock of inventory. Although buffer stocks are expensive to store, they can help a firm respond quickly to increases demand and tide a firm over shortages brought about by disruption among suppliers.

For example, there is a disruption occurred after September 11, 2001, attacks on the World Trade Centre, when the subsequent shutdown of international air travel and shipping left many firms that relied upon globally dispersed suppliers and tightly managed “ just-in-time” supply chains without a buffer stock of inventory. A less pronounced but similar situation occurred again in April 2003 when the outbreak of SARS (severe acute respiratory syndrome) virus in China resulted in the temporary shutdown of several plants operated by foreign firms and disrupted their global supply chains.

Low inventory storage may help firms in reducing cost, but yet also increase the risk when there is supply shock and no buffer stock to keep the production process moving. As the suppliers will be required to hold

inventories for the business, they may try to recoup this additional cost through increased prices, The close relationship is necessary between the business and its suppliers may also prevent the business from taking advantage of cheaper sources of supply if they become available.

There were also seasonal demand fluctuations or even demand fluctuations due to unpredictable disaster or event. If the firms rely fully on J. I. T may cause factory facing supply shock when there is overwhelming demand in seasonal market at different times in a year for seasonal goods. J. I. T works better with mass manufactured and highly automated goods rather than custom made goods.

Conclusion

There are ways of reducing the risks associated with a global supply chain that operates on J. I. T principals. To reduce the risks associated with depending on one supplier for an important input, firms should have strong relationship with several suppliers located in different country. Before deciding to apply a J. I. T system into business, firms should communicate with their current and potential supplier to verify their ability in fulfilling firm's requirement.

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Question 2

Are there benefits in vendor managed inventory (V. M. I) for manufacturers and distributors? Discuss also on disadvantages.

Introduction

Advantages of V. M. I

Disadvantages of V. M. I

Conclusion

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