

EXAMPLE

MKT 4465 Current Event in Supply Chain Management

By Frank Thompson

SOURCE: Page, P. (April 20, 2016). *The Wall Street Journal Logistics Report*.

ARTICLE: Prologis warehouse rent jump as space remains tight. Whelan, R. April 19, 2016. *The Wall Street Journal*.

1. Article as reported in the WSJ Logistics Report:

Prologis Inc. isn't about to upset the balance of power in a warehouse market that's decidedly in favor of building owners. [The world's largest owner of warehouses and distribution centers counted a record 20.1% increase in rents in the first quarter, gains the company attributes to extremely tight capacity in the face of rising demand](#), WSJ Logistics Report's Robbie Whelan writes. Even with vacancy rates approaching all-time lows, however, Prologis expects to trim its 2016 construction budget to maintain its profitable leverage in a seller's market. That makes the company, and the broader warehouse business, an outlier in a logistics sector where asset-owners have been coping with excess capacity and thin margins in a range of operations. Brokerage firm CBRE Group Inc. says warehouse space in the U.S. have gotten tighter for 24 straight quarters, a trend the industry's biggest provider doesn't want to reverse.

2. Synopsis:

Using a third party to outsource warehousing is an option for companies that can increase supply chain surplus provided it lowers costs to the company. With vacancy rates in warehousing approach all-time lows one company is reducing its 2016 construction budget. Prologis Inc. is the world largest owner of warehouse and distribution centers and will keep its company's inventory tight for 2016. This helps the company maintain a profitable leverage in a seller's market. For the past 24 straight quarters, the US warehouse market has gotten tighter and by cutting back new construction, Prologis Inc. hopes to keep it that way.

3. How this is supply chain related:

As stated in the text, using third parties can increase supply chain surplus. It makes sense when value for the customer is increased or the cost relative to a firm performing the task in-house is reduced. Third party warehousing availability provides the company flexibility in logistics when faced with uncertainty in demand. If availability of space continues to tighten the excess capacity in the market will continue to decline and prices for space can start to increase (Chopra and Meindl, 2016).

Also, warehouse availability involves the issue of response. E-commerce provides customers the ability to make purchases any time of the day and with little physical effort (Colla and Lapoule, 2012). Consumers have come to expect a quick response time with the time between placing orders and receiving merchandise (Chopra, 2003). Customers also expect complete deliveries including all items ordered in satisfactory condition (Colla and Lapoule, 2012). Companies must build such a competitive advantage to stay competitive to stay ahead of its competition (Kucera, 2013).

4. **My thoughts:**

E-commerce and customers' expectations make having the product warehoused closer to the customer imperative. As an example, Amazon is investing \$13.9 billion in warehouse construction for the very purpose of getting the product to the customer quicker (Kucera, 2013). Amazon is also aware and attempting to stay ahead of competition from eBay and Walmart (Kucera, 2013). Not all companies are the size nor have the resources these massive companies have. However, they are still filled with customers' expectations. Third party warehousing may be one solution.

Supply chain managers will need to monitor the situation and their competition closely. The use of techniques such as decision trees can help in the decision making process. Through this, decisions on whether to tie up longer term warehousing space or depend upon the spot market option. With owners of warehouses such as Prologis Inc. looking at cutting back, availability of space may become a greater challenge. As companies move more toward Internet sales and quicker delivery, third party warehousing may be needed. If availability becomes tighter the supply chain strategy and planning become even more important. Without it as competition grows, a company could be left behind and left out.

5. **References:**

- Chopra, S. (2003). Designing the distribution network in a supply chain. *Transportation Research Part E* 39, 123-140.
- Chopra, S. & Meindl, P. (2016). *Supply Chain Management – Strategy, Planning, and Operation. Sixth edition.* Pearson.
- Colla, E. & Lapoule, P. (2012). E-commerce: exploring the critical success factors. *International Journal of Retail & Distribution Management*, 40(11). 842-864.
- Kucera, D. (2013). Amazon ramps up \$13.9 billion warehouse building spree. Bloomberg. <http://www.bloomberg.com/news/articles/2013-08-20/amazon-ramps-up-13-9-billion-warehouse-building-spreed>.