

MKT 4465 Current Event in Supply Chain Management

By Frank Thompson

SOURCE: Page, P. (April 11, 2018). *The Wall Street Journal Logistics Report*.

ARTICLE: Phillips. E. E. (April 10, 2018). U.S. Warehouse Market Getting Close to Balance. *The Wall Street Journal*.

1. Article as reported in the email version of the WSJ Logistics Report:

Warehouse developers appear to be catching up to e-commerce-fueled demand. The supply of new industrial real estate in the U.S. edged closer to total demand in first quarter, according to brokerage CBRE Group Inc. WSJ Logistics Report's Erica E. Phillips writes that developers completed more than 216 million square feet of new warehouse space in the quarter, a growth pace that brings [the overall market closer to equilibrium](#). There hasn't been much sign of prices leveling off from rapid growth trends, however, although the real estate group noted sharp increases in availability in some big markets from the fourth quarter to the first, including Atlanta and Dallas. CBRE sees an overall "strong supply pipeline" of warehouses in development. But the group expects rapid economic growth and the continued big expansion in e-commerce to absorb that capacity and more for the rest of the year.

2. Article Synopsis:

Warehouse availability has been tight for several years as companies scrambled to meet the need for fulfillment centers. Online shopping preferences and the improved economy have been cited as reasons for this demand for space. Warehouse developers have picked up the pace on new building construction. In 2017 the gap of between demand and supply was 20 million square feet, this was down from the 2016 gap of 130 million square feet. The market is still tight and with the fiscal stimulus from new tax laws, the availability should remain low and rent levels high.

3. How this is supply chain related:

Supply chain management is all about getting the right product to the right place at the right time. With the increased expectation for quicker deliveries, locating warehouses and fulfillment centers closer to the customers appears to be required. 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.

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. Availability of space may become a greater challenge. As companies move more toward Internet sales, demand for quicker delivery, and an improving economy 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.
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