



Physical Resources

● Physical resources include:

➤ Premises

- Location
- Storage facilities – e-commerce
- Buy or rent?

➤ Plant, Machinery and Equipment

- When to purchase
- Buy or lease?

➤ Materials and Stocks

- Efficient purchasing
- Just – in – Case Stock Control
- Just – in – Time Stock Control





Premises: Location

- The Choice of location will depend upon the type of business being set up:



Offices

E.g. Solicitor

Will often be located near to workers

Shops

E.g. Clothes Shop

Must be located near to customers

Factories

E.g. Shoe Manufacturer

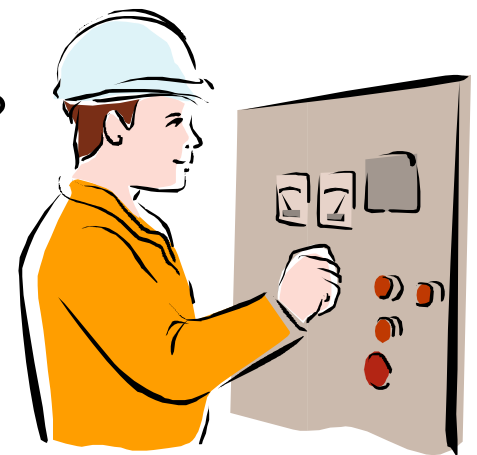
Often located near to good transport links

- Local estate agents can give details of costs and availability of business premises



Plant, Machinery & Equipment: When?

- Acquiring machinery and equipment requires a careful planning process
- It must be done in conjunction with the **cash flow forecast**
- There will be a tendency to buy all the equipment at once
- However financially this would be unwise
- As such it is important to consider the following factors when deciding when to buy equipment:
 - Which pieces of equipment are necessities?
 - How much will they cost to buy AND maintain?
 - How much money is available?





Materials & Stocks: Stock Control

- The word “stock” can refer to a number of things:
 - **Raw materials and other components**
 - things that go into the production process
 - **Work-in-progress**
 - products that are not yet finished, but where the production process has started
 - **Finished goods**
 - products that have been completed to the right quality – and are waiting to be delivered to customers
 - **Spares**
 - in case of machinery break down





Problems of Holding Too Much Stock

- Businesses want to hold as little stock as possible due to
 - **Higher insurance costs**
 - Since the value of the company on paper is higher
 - **Shrinkage**
 - Instances of theft are less noticeable
 - **Obsolescence**
 - Stock may go out of date, or be superseded by new technology
 - **Storage Costs**
 - Stock must be stored – so larger warehouses are needed
 - **Finance**
 - Many firms buy supplies using trade credit. If the stocks are not sold before payment is due it could create cash flow problems
 - **Opportunity Cost**
 - Money tied up in stocks cannot be used elsewhere





Problems of Holding Too Little Stock

● If insufficient stock is held a business may encounter:

➤ **Lost Sales**

■ Customers are likely to go elsewhere, and may not return!

➤ **Loss of Goodwill**

■ Business will get a reputation for being unreliable

➤ **Longer Lead Times**

■ Customers will be expected to wait if they don't go elsewhere

● This problem can be overcome in 2 ways:

➤ **The use of EPOS**

■ Common in retail industry

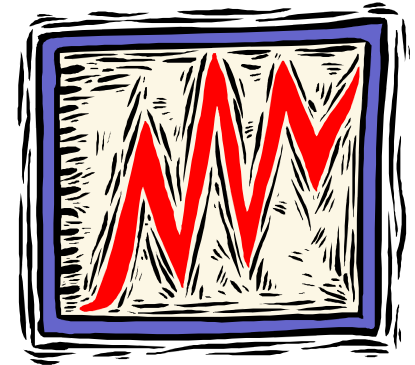
➤ **The use of Stock Control Charts**





Stock Control Charts

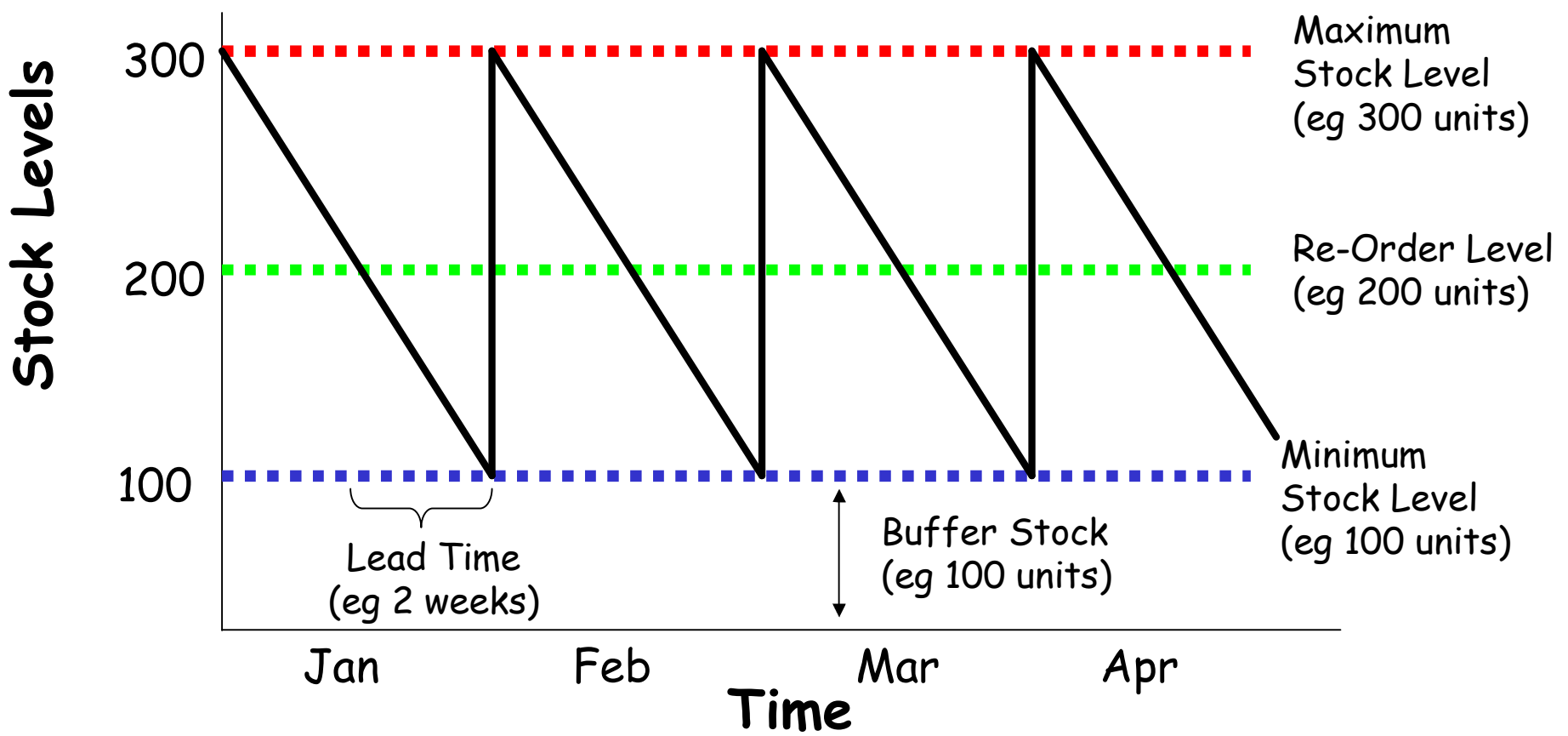
- These are used to maintain favourable stock levels
- They are based upon 3 assumptions:
 - All deliveries are made correctly and on time
 - There are no faulty stocks
 - Stock is used up at a constant rate
- The chart will show:
 - **The Maximum Stock Level** – the most stock a firm wants to hold
 - **The Re-Order Level** – the level at which a new order is placed
 - **The Minimum (Buffer) Stock Level** – the least stock a firm wants to hold
 - **Re-Order Quantity** – the number of items that are ordered
 - **Lead Time** – the time between placing the order and receiving it





Stock Control Charts

● A typical stock control chart will look like this:





Just-In-Time Stock Control

- An idea developed by the Japanese at Toyota in the 1950s
- They recognised that efficiency could be maximised if stocks were always at an absolute minimum
- It therefore involves deliveries taking place just as stocks are required
- It has become very popular, particularly in the automotive industry and it has been adopted by





The Advantages of Just-In-Time

- Better cash flow since money is not tied up in stocks
- Reduced waste, obsolescence and damage
- More factory space is available for productive use
- Improved relationships with suppliers
- Motivation of workers is improved, since they are given more responsibility





The Disadvantages of Just-In-Time

- Rely very heavily on suppliers
- Increased administration costs, due to increase in orders
- May lose advantages of bulk buying
- Problems if breakdowns occur
- Difficult to respond to changes in demand
- Loss of control on the ability to meet deadlines

