

Postponement: A Delayed Product Customization Strategy in Supply Chain



Applies to:

SCM 4.1 onwards. For more information, visit the [Supply Chain Management homepage](#).

Summary

In the times when business environments are changing dynamically, customers are demanding for more and more sophisticated products and unwilling to pay more and wait for longer times. The concept of Postponement has helped the companies in meeting the variety of customers demand without much increase in their inventory holdings. This article explains the concept of postponement and challenges faced in implementing this strategy.

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Introduction

In the age of globalization to stay ahead in competition companies are penetrating into various international markets. Volatility in the global market and increased complexity in the customer demands forced companies to search for strategies where by they produce variety of products to meet diverse needs of global customers while keeping their inventory levels minimum.

The strategy of postponement has emerged in order to meet uncertainty in customer's demand without much escalating the production cost or expanding the capacity. Companies which have long production and distribution lead times have redesigned their business processes in order to meet the customer's delivery requirements.

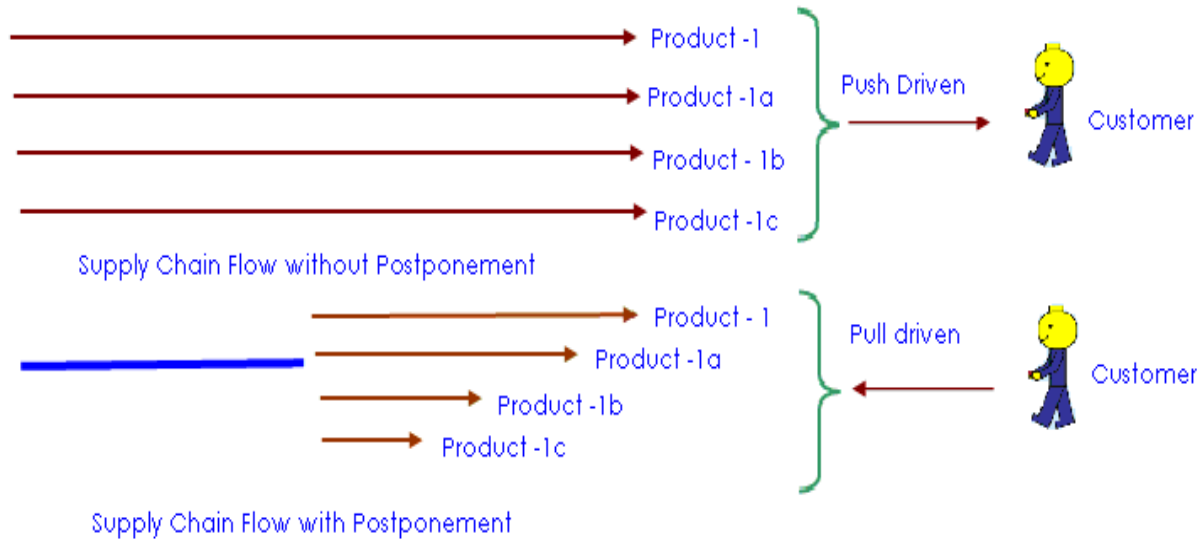
Postponement Strategy

Postponement is an adaptive supply chain strategy which mainly concentrates on delaying the product differentiation very close to the customer. In this way companies are reducing their costs incurred in holding finished goods inventory. Customer service levels are also increased as the products are customized only once the actual customer demand is known.

This concept has gained importance during the past two decades and has now become a powerful strategy for the e-commerce channel. In a consumer oriented market where customers are demanding for high levels of customization, yet unwilling to pay more or wait for longer time this strategy helps companies in being more flexible and responsive to meet the changes in demand from different markets.

Explanation

Postponement strategy is mainly adopted by the companies to serve a large group of customers. However lack of clear understanding has prevented companies in implementing this concept. The skepticism regarding value realization and technology limitations has inhibited the companies in going ahead for this strategy. In the following example we would see the differences in supply chain flows with and without postponement.



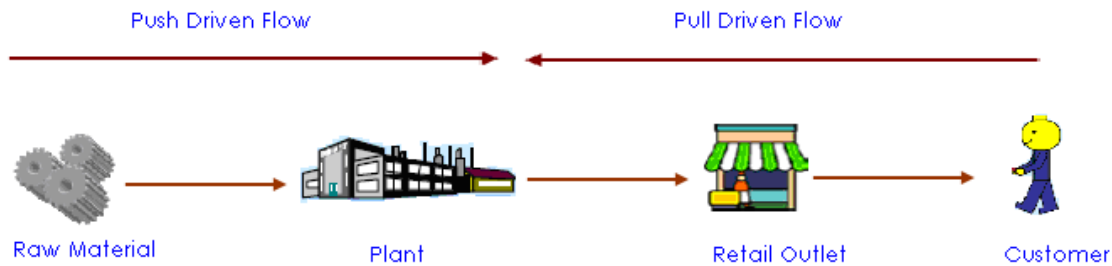
In the above example when the supply chain operates without postponement strategy the companies pile up inventory of finished goods of the same product with different attributes in equal quantity expecting equal demand for all the products. However when the supply chain operates with postponement strategy activities relating to aggregate forecast is done before product differentiation. Individual product forecast is shifted close to the actual time of sale when demand is known with certainty. In this way postponement helps in matching supply with demand.

Postponement Types

Postponement strategies can be broadly classified into two categories manufacturing postponement and logistics postponement. Manufacturing postponement mainly deals with form postponement and logistics postponement covers the aspect of time postponement.

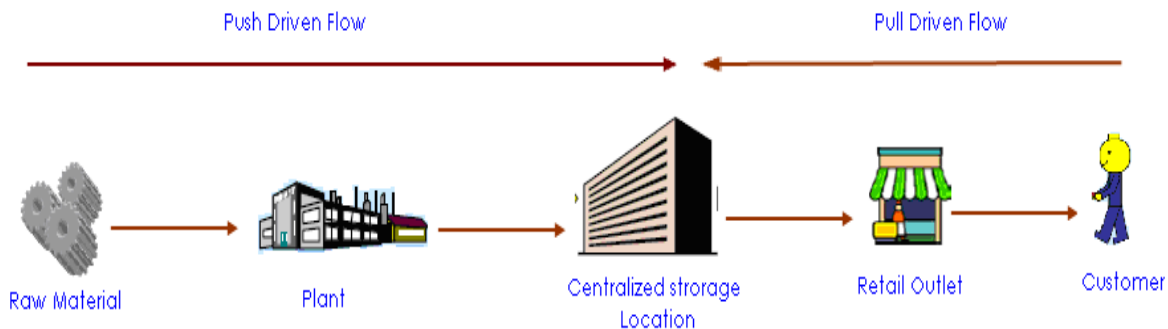
a) Form Postponement

Form postponement deals with building up a generic product initially and delaying the finalization of product features until a customer order is received. This can be possible by standardizing the upstream product process and dividing the entire manufacturing process into various stages so that product differentiation can be delayed. This kind of postponement strategy is used by companies which ship their products to different markets. The components which are of high value are specific to a particular market are added only after the customer order is received. This strategy would help in reducing the waiting time and improved customer service by customizing the product to meet the specific market needs.



b) Time Postponement

Time postponement concentrates on delaying the implementation time of activities like distribution or the actual delivery of the product till the customer demand is known to certainty. In this kind of strategy company reduces its inventory held up at the retail outlets and centralizes the inventory from its dealers in its own distribution center. Mostly companies rely on direct distribution to customer location there by responding to customer's orders immediately.



Challenges Faced in Implementing

The concept of postponement strategy is intimidating the companies in implementing it due to the following challenges.

- 1) Complete visibility of the supply chain is required to understand “*where, when & how*” to postpone.
- 2) Complete understanding of the risks involved in the design and execution of the strategy.
- 3) Successful implementation would involve fundamental changes in the manufacturing process and internal operations which demand for top management involvement.
- 4) External collaboration with suppliers is critical as they have to respond to changes that arise due to its implementation.
- 5) Company should have good information technology resources in order to successfully implement this strategy.

Conclusion

The need to have a competitive advantage in the continuously changing business environment is forcing the companies to implement some aspects of postponement in their supply chain network. In spite of technological advancements acting like a key driver in implementing such strategies many other metrics are creating hurdles for its successful implementation.

Related Content

- 1) [Knowing when to use postponement](#)
- 2) [Postponement strategies Classification](#)
- 3) [Postponement for Profitability](#)
- 4) [Postponement Strategy](#)
- 5) Supply Chain Management – Strategy, Planning & Operation – Sunil Chopra and Peter Meindl

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