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How a Distribution or Fulfillment Center Affects the Cost of Goods by [Walmsley](#)

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Ever wondered how those goods on the store shelves are priced? Surely, the store owners didn't just snap their fingers and make those goods and their prices appear there, complete with smoke effects and loud "Poof!" sounds. Those goods were stored in warehouses, and their costs are influenced by certain factors.

Warehouses are also called distribution centers and fulfillment centers. Warehouses are considered the foundation of the supply network of goods. Warehouses can distribute to wholesalers, retailers, or directly to customers. A warehouse can be seen as a manufacturing or production operation. The manufactured goods arrive in bulk, then stored and retrieved when needed and assembled to be shipped.

The main function of a warehouse is to store goods until they're needed. Warehouse management also includes inventory management. The final cost of each shipped product is dependent on the warehouse's efficient management of inventory, among other things.

Normally, businesses have unsold inventory at the beginning and end of an accounting year, which may or may not follow the January to December period. To calculate the cost of what they sell for a year, they sum up their beginning and additional inventory and deduct their unsold inventory during the year. The ending inventory of Year 1 becomes the beginning inventory of Year 2, and so on. Accountants use methods like First In First Out (FIFO) and Last In First Out (LIFO) to take into account fluctuations in the prices of inventory during the accounting year.

The inventory of a distribution center is only one factor affecting the cost of the final product. The cost of raw materials used also impacts the final product's price. If raw materials are managed properly, the cost of raw materials can be reduced and to lower the price of every unit stored in the warehouse.

The cost of the products stored in a fulfillment center is also affected by labor costs. Machines have made the manufacturing process easier, faster, and cheaper. Costs of machinery include repair, maintenance, and depreciation. Depreciation is considered an expense because the manufacturer "pays" for the wear and tear of the machine.

If you have a business and don't have a warehouse of your own, you can outsource the services of a fulfillment company for the purpose of storing your goods. Fulfillment companies can be cost-effective, as they have access to bulk rates that are usually not available to budding producers. These companies also have e-commerce systems, which can be integrated into the ordering system of clients. If you want to know more about choosing fulfillment companies for your business, read resourcenation.com/buyers-guides/buyers-guide-choosing-fulfillment-company.

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