SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 406(A)
SUBJECT NAME: INTERNATIONAL FINANCIAL MANAGEMNT

TOPIC NAME: INVENTORY MANAGEMENT

INVENTORY MANAGEMENT

- Inventory means stock of goods.
- Inventory management is the supervision of non-capitalized assets, or inventory, and stock items. As a component of supply chain management, inventory management supervises the flow of goods from manufacturers to warehouses and from these facilities to point of sale.
- Organizations from small to large businesses can make use of inventory management to manage their flow of goods. There are numerous inventory management techniques, and using the correct one can lead to providing the correct goods, at the correct amount, place and time.

THE INVENTORY MANAGEMENT PROCESS:

- Inventory management is a complex process, particularly for larger organizations, but the basics are essentially the same regardless of the organization's size or type. In inventory management, goods are delivered in the receiving area of a warehouse typically in the form of raw materials or components and are put into stock areas or shelves.
- Compared to larger organizations with more physical space, in smaller companies, the goods may go directly to the stock area instead of a receiving location. If the business is a wholesale distributor, the goods may be finished products rather than raw materials or components. Unfinished goods are then pulled from the stock areas and moved to production facilities where they are made into finished goods. The finished goods may be returned to stock areas where they are held prior to shipment, or they may be shipped directly to customers.
- Inventory management uses a variety of data to keep track of the goods as they move through the process, including lot numbers, serial numbers, cost of goods, quantity of goods and the dates when they move through the process.

INVENTORY MANAGEMENT SOFTWARE SYSTEMS:

- Inventory management software systems generally began as simple spreadsheets that track the quantities of goods in a warehouse but have become more complex since. Inventory management software can now go several layers deep and integrate with accounting and ERP systems. The systems keep track of goods in inventory, sometimes across several warehouse locations. Inventory management software can also be used to calculate costs often in multiple currencies so that accounting systems always have an accurate assessment of the value of the goods.
- Some inventory management software systems are designed for large enterprises and can be heavily customized for the particular requirements of an organization. Large systems were traditionally run on premises, but are now also deployed in public cloud, private cloud and hybrid cloud environments. Small and midsize companies typically don't need such complex and costly systems, and they often rely on stand alone inventory management products, generally through SaaS applications.

INVENTORY MANAGEMENT TECHNIQUES & TOOLS:

- Determination of stock levels
- Determination of safety stock
- Selecting a proper system of ordering for inventory
- Determination of economic order quantity
- ABC analysis
- VED analysis
- Inventory turnover ratio
- Aging schedule of inventories
- Preparations of inventory reports
- Lead time
- Perpetual inventory system
- JIT control system

PURPOSE OF HOLDING INVENTORY:

- Every business enterprise has to maintain a certain level of inventories to facilitate uninterrupted production and smooth running of business.
- Generally, there are 3 main purposes or motives of holding inventory:

(i) The transaction motive:- which facilitates continuous production and timely execution of sales order.

(ii) The precautionary motive:- which necessitates the holding of the inventory for meeting unpredictable changes in demand and supply of materials.

(iii) The Speculative motive:- to take advantage of price fluctuations, savings in re-ordering costs and quantity discounts etc.

RISKS & COSTS OF HOLDING INVENTORY:

The holding of inventory involves blocking of a firm's funds and incurrence of capital and other costs. The various costs and risks involved in holding inventory are:

- Capital Costs:- Since holding of inventory results in blockage of funds, the firm has to arrange additional funds to meet the cost of inventories from own resources or external source. The firm incurs a cost on both cases i.e. Opportunity cost and interest costs.
- Storage and Handling costs:- Holding of inventory involves costs on storage and handling of materials. E.g. Godown rent, insurance charges etc.

- Risk of price decline:- There is always a risk of reduction in the prices of inventories. It may be due to increased market supplies, competition or general depression in the market.
- Risk of obsolescence:- The inventories may obsolete due to improved technology, changes in customer taste etc.
- Risk deterioration in quality:- Materials can deteriorate when kept in stores for a long period.

OBJECTIVES OF INVENTORY MANAGEMENT:

The main objective of inventory management are operational and financial.

- The operational objective mean that the material and spares should be available in sufficient quantity so that work is not disrupted for want of inventory.
- The financial objective mean that investment should not remain idle and minimum working capital should be locked.

SOME OTHER OBJECTIVES ARE:

- To ensure continuous supply of materials, spares, finished goods etc, so that the production should not suffer at any time.
- To avoid both over-stocking and under-stocking.
- To maintain investment in inventory at the optimum level as required.
- To minimize losses through deterioration, pilferage, wastage and damages.
- To ensure perpetual inventory control so that the materials shown in the stock ledger should be actually lying in the stores.
- To ensure right quality goods at reasonable prices.