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A Study of Techniques and Management of Inventory

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Abstract

Inventory management is an integral part of a successful business. Inventories typically consist of goods, raw materials and finished products. Each of these elements translates into money for the business owner. The key to profitability is a carefully balanced inventory. Balanced inventories are important because many businesses rely on its stock of items to make a profit. Stockpiles that never move from the shelves do little good for the company. A proper balance is of the utmost importance. At the same time, there are issues with inventory control when there isn't enough stock on hand. One common problem is running out of inventory, which is caused by trying to reduce inventory costs too much. This is something that no business wants to have happen, but it happens to virtually all of them at some point. Even the largest stores run out of certain products from time to time when they sell or use more than they expected. This can cause financial losses when inventory is not available for customers to purchase. Part of inventory control is trying to minimize shortages so these are rare occurrences. Most businesses expect they will have shortages on occasion and they have calculated that the small loss is worth the money saved by not having an overstock.

1. INTRODUCTION

Inventory control means keeping the overall costs associated with having inventory as low as possible without creating problems. This is also sometimes called stock control. It is an important part of any business that must have a stock of products or items on hand. Correctly managing inventory control is a delicate balance at all times between having too much and too little in order to maximize profits. The costs associated with holding stock, running out of stock, and placing orders must all be looked at and compared in order to find the right formula for a particular business.

It is impossible to have an unlimited supply on hand, for a number of different reasons. Many businesses simply don't have enough money to keep excessively large inventories. There are costs associated with purchasing the items as well as storing them, and having too many products leads to further losses when they don't move off of the shelves.

Another important element of inventory control is called reorder point. Businesses need to think ahead and calculate the best time for reordering products. Doing so too soon may cause financial difficulties or running out of space. On the other hand, waiting to long to reorder will result in a shortage and running out of inventory before the next shipment arrives. When figuring out a reorder point, it's necessary to calculate how long it will take the shipment to arrive and the amount of demand for a particular item. The overhead costs, fees, and shipping expenses of ordering large versus small quantities should also be looked at.

Inventory control is an ongoing process that is rarely, if ever, executed perfectly. Experience, expertise, and practice help people to make the best decisions regarding stock, but there are always unknown circumstances and variables. Stores can make good estimates about how many of a specific product they will sell, but they get things wrong from time to time. This is unavoidable. Inventory control can break a business if it is executed poorly, because either expense will be too high or customers will get tired of dealing with shortages and find another place to spend their money.

2. TECHNIQUES AND MANAGEMENT OF INVENTORY

Learning to manage inventory efficiently and correctly will allow a company to stock a sufficient quantity of product to meet customer needs. Not enough inventory causes delays and is bad for business. Excessive inventory costs a business money. A retail business only makes money when its stock is sold; maintaining the point inventory until it has sold incurs certain expenses. These expenses include:

- Interest on any loans used to purchase goods.
- Cost of storage space.
- Cost of moving stock and arranging it for display.
- Cost of time spent managing the inventory.
- Any cost of damaged or stolen inventory.
- payroll

A large amount of a business's money may be tied up in inventory. It is possible to manage inventory so that profits are maximized and costs are minimized.

3. PURCHASE THE RIGHT PRODUCTS

- Use market research to identify the proper products for each target market.
- Analyze sales from previous years.
- Look for new products for each target market.
- Study the economy forecast for the coming period and determine how target market purchasing power might be affected.
- Compare the effects competitors sales have on your sales.
- Learn from experience what products to buy and in what quantities to buy them.

4. BUYING CORRECT QUANTITIES

It is necessary to maintain the proper variety and quantity of inventory to satisfy the target market. At the same time it is important to not get caught with an overstock of obsolete items. To do this you must:

- Know what product to order
- Know how much product to order
- Know when to order the product
- Know when to expect the products to arrive
- Know what quantities of product should be in stock during the business cycle
- Know when reorders should no longer be submitted
- Know when products should no longer be in stock

5. MANAGING INVENTORY

The easiest way to manage inventory is with a computer inventory management system. The time required to accurately manage inventory will be minimized by using one of these systems:

- Point-of-sale terminals-automatically update computerized inventory levels
- Job costing and inventory systems-automatically update computerized inventory levels
- Barcodes and barcode readers-allow inventory to be input and stock takes to be completed quickly
- Electronic Supplier product catalogs-allow inventory details to be loaded automatically either via the internet or CD/DVD

Once you ensure the stock management system and its reports accurately allow you to manage inventory:

- Remove all goods from the system as soon as they are sold.
- Check regularly to make sure the stock system is accurate against physical stock quantities with spot checks and stock takes.
- Review stock reports weekly and identify products that are not selling so that appropriate steps may be taken.

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Properly managing supplies requires the ability to create a balance. Part of the balancing approach should include aspects of inventories that many business owners fail to recognize. Issues that may be underestimated include:

- Storage cost
- Insurance
- Taxes
- Ordering dilemmas
- Pricing

Storage costs, insurance and taxes are important aspects of stocking shelves and keeping necessary supplies at hand. These costs should be figured into the purchasing budget for the stock. The upfront purchasing costs are complicated with ordering dilemmas and pricing considerations.

6. ORDERING AND PRICING

Managing inventories can be complicated, but some considerations can make the process much easier. Management may be concerned primarily with having a balanced stock while keeping supplies readily available without overstocking the shelves. Other considerations are important as well.

- Balanced assortment of items
- Quick, efficient turnover
- Maintaining service quality
- Stocking up-to-date items
- High volume purchases
- Cost control

7. CONCLUSION

The latest technologies for businesses offer a wide range of benefits that make managerial tasks much easier. The intricacies of balancing supplies can be as simple as reviewing a tracking summary. Collected data may include the latest purchasing trends and higher demands for specific services. Technological advances in the realm of inventories provide the necessary tools to help managers make reliable decisions according to current trends in their industries. Software products have a significant impact on the efficiency of a company's performance. Well-balanced inventories translate into profits and effective inventory management can be very lucrative. A successful inventory system makes keeping up with supplier deliveries and filling customer orders easy while still keeping the overall worth of the inventory within acceptable parameters.While implementing an inventory system is a great step forward in keeping up with transfers into and out of your inventory, don't consider your job complete. As part of the ongoing dedication to managing resources with the greatest degree of efficiency, it is necessary to check on how well your system is working. That means taking time to evaluate the performance level of several key functions within the system and adjusting those functions as needed. Here are examples of how you can measure the success of your inventory system and make sure the system is functioning at optimum efficiency. In order to measure the success of any inventory system, it is necessary to periodically evaluate what is known in many companies as key performance indicators. Because the exact structure of inventory systems will vary slightly from one situation to another, it is important to measure the level of performance as it relates to the goals and general operating procedures of your company. However, there are a handful of key performance indicators that are useful in almost every situation. Successful inventory management may seem as if it requires psychic abilities, and while a peek into the future can help, managers can fare pretty well by addressing managerial performance. Creating realistic goals backed by evaluations can be beneficial. The data collected in evaluations can give managers insight into the best approach for purchasing stock in the future.

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