

Research Paper

Effective Inventory Visibility- Its Impact on Profitability



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A B S T R A C T

In accounting, inventory or stock is considered an asset. Today's business environment is a competitive market with every organization aligning its resources towards achieving a niche position in the marketplace, and in the minds of its customers. With the entry of more and more companies in the market offering similar products, the market share of existing organizations has reduced. Inventory Analysis has, therefore, attained limelight considering the investments involved in maintaining and managing inventories. Poor inventory management may result in under-stocking, overstocking as well as high inventory total cost. Inventory management is an important part of the working capital management of an organisation. This paper focus on the ideas for the effective inventory management.

Keywords: Marketing Effectiveness, Inventory Analysis, Practical decisions, working capital management

Shape of Inventory:

Inventory management is primarily about specifying the shape and percentage of stocked goods. It is required at different locations within a facility or within many locations of a supply network to precede the regular and planned course of production and stock of materials.

The scope of inventory management concerns the fine lines between replenishment lead time, carrying costs of inventory, asset management, inventory forecasting, inventory valuation, replenishment, returns and defective goods, and demand forecasting. Balancing these competing requirements leads to optimal inventory levels, which is an on-going process as the business needs shift and react to the wider environment.

The Inventory Cost:

Inventories consist of raw materials, stores, spares, packing materials, works-in-progress and finished products in stock either at the factory or deposits. It is very important component of total investment. The maintenance of inventory means blocking of funds and so it involves the interest and opportunity cost to the firm. In many countries especially in Japan great emphasis is placed on inventory management. Efforts are made to minimize the stock of inputs and outputs by proper planning and forecasting of demand of various inputs and producing only that much quantity which can be sold in the market.

As against this by and large in India the inventory of raw materials and packing materials is very high and many items become junk or obsolete causing heavy loss to the enterprise. Lack of inventory planning in India has been pointed out by various committees but due to uncertainties in supplies, problem of timely re-

ceipt of railway wagons, lack of planning and unreliable suppliers the investment in inventories is quit high.

There are three basic reasons for keeping an inventory:

1. Time - The time lags present in the supply chain, from supplier to user at every stage, requires that certain amounts of inventory be maintained for use in this lead time.

2. Uncertainty - Inventories are maintained as buffers to meet uncertainties in demand, supply and movements of goods.

3. Economies of scale - Ideal condition of "one unit at a time at a place where a user needs it, when he needs it" principle tends to incur lots of costs in terms of logistics.

The primary objectives of inventory management are:

* To minimize the possibility of disruption in the production schedule of a firm for want of raw material, stock and spares.

* To keep down capital investment in inventories.

Ideas For Better Inventory Management :

Inventory management simply means the methods we use to organize, store and replace inventory, to keep an adequate supply of goods while minimizing costs.

1. Measuring Current Stock

All businesses must know what they have on hand and evaluate stock levels with respect to current and forecasted demands. We must know what we have in stock to ensure we can meet the demands of customers and production and to be sure we are ordering enough stock in the future.

2. Maintenance and Management of Small Items

Inventory is a means to control loss of goods.

Businesses that use large quantities of small items often use an "80/20" or ABC rule in which they keep track of 20 percent of the largest value inventory items. "A" items are the top valued 20 percent of the company's inventory, both in terms of the cost of the item and the need for the item in the manufacturing or sales process.

3. Cyclical Counting

Many companies prefer to count inventory on a cyclical basis to avoid the need for shutting down operations while stock is counted. This means that a particular section of the warehouse or plant is counted at particular times, rather than counting all inventory at once.

4. An effective Control of Supply and Demand

Whenever possible, obtain a commitment from a customer for a purchase. In this way, we ensure that the items we order will not take space in our inventory for long. When this is not possible, we may be able to share responsibility for the cost of carrying goods with the salesperson, to ensure that an order placed actually results in a sale.

5. Maintenance of Accurate Records

Any time items arrive at or leave a warehouse, accurate paperwork should be kept, itemizing the goods. When inventory arrives, this is when we will find break-

age or loss on the goods we ordered.

6. Managing Employees

Buyers are the employees who make stock purchases for our company. Reward systems should be set in place that encourage high levels of customer service and return on investment for the product lines the buyer manages. Warehouse employees should be educated on the costs of improper inventory management.

Conclusion:

Nowadays, in order to be competitive, a company must seek ways to reduce costs, to increase productivity and to integrate their supply chain without leaving the customer service aside. Inventory management should be a part of the overall strategic business plan. Inventory management is more than a means to control costs; it becomes a way to promote the business. Inventory management, therefore, should strike a balance between too much inventory and too little inventory. The efficient management and effective control of inventories help in achieving better operational results and reducing investment in working capital. It has a significant influence on the profitability of a concern.

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