

## Inventory Management

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### Abstract

Inventory is anything that a business holds for resale in future or to satisfy present needs. Inventory is required in almost every business at different levels. Keeping inventory is not an easy task as there are several risks associated with it. Inventories can be usually classified into two types i.e. raw materials and finished goods. Usually raw material is for manufacturers which they have to keep as inventory so as to facilitate production, it can be raw material from forest or agriculture, mining product or it can even be a finished good. For example, tyre can be a finished product for a firm but for a car company it is a raw material. Inventory of final goods Showa that the production is in last stage it is a collection of products which are ready to be sold after meeting certain standards. Inventory management is not an easy task as it involves several risks. It also involves blockage of funds, therefore a person maintaining inventory should be prepared for the same.



**Figure 1**

**TYPES OF COSTS INCURRED**

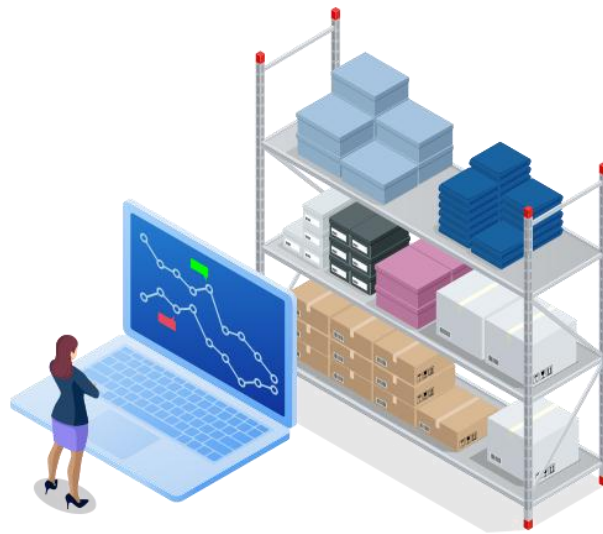
As told earlier inventory management is not an easy task as it involves certain risks which are as follows -

- **PURCHASE COST**- it involves nominal cost of inventory i.e. purchase price of items or raw materials, it can even be production cost if procured within the organisation.
- **SERVICE COST**- it depends upon the volume of the inventory, more the inventory more the service cost as it involves insurance as well as other general storage and maintenance costs. It also involves cost of storage area along with the property's maintenance.
- **SECURITY COSTS**- both inventory as well as the storage location has to be secured from floods, fire, theft, etc. It is usually done by insurance or security program which usually has to be purchased.
- **AGE COSTS**- there are certain products which become obsolete or unfit for sale over a period of time such as medicine, food, etc have expiry dates beyond which they become unfit for sale, so this cost of keeping inventory beyond the expiry date is called age cost.
- **OPPORTUNITY COSTS**- this cost involves lack of opportunity or investment alternative which will arise due to lack of capital as the capital gets invested into inventory and its related investments.

**MANAGEMENT OF INVENTORY**

There are several techniques to manage inventories in efficient ways either by holding or by ordering it. It also affects value of a firm thus having economic consequences for a business so it also has to be studied from financial point of view. Few most common inventories management techniques are -

- **THE ECONOMIC ORDERING QUANTITY** - It uses simple mathematical to determine the perfect quantity for each order so as to reduce total carrying as well as the total order cost.
- **THE ABC TECHNIQUE** - In this method the inventories are categorised as A, B and C with A as the most important one and C as the least valuable.
- **THE AUTOMATED SYSTEM OF INVENTORY CONTROL** - This system of inventory management is used by firms having many products that decides the most desirable quantity to be ordered. This system is dynamic so it easily gets adjusted according to a company's needs.



**Figure 2**

**REFERENCE**

- [1] <https://en.wikipedia.org/wiki/Inventory> <https://www.zoho.com/in/inventory/?network=g&device=c&keyword=inventory%20management&campaignid=620877>

