

## **OBJECTIVES OF INVENTORY CONTROL**

- As inventory is an essential part of any organisation, it consists of many items running into thousands. Systematic management and control of inventory for all the items is a challenging job. Main objectives of inventory control are:
- To maintain the overall investment in inventory at the lowest level, consistent with operating requirements.
- To supply the product, raw material, sub-assemblies, semi-finished goods, etc. to its users as per their requirements at right time and at right price.
- To keep inactive, waste, surplus, scrap and obsolete items at the minimum level.
- To minimize holding; replacement and shortage costs of inventories and maximise the efficiency in production and distribution.
- To treat inventory as investment which is risky. For some items, investment may lead to higher returns and for others less returns.

## **CLASSIFICATIONS OF INVENTORY**

Inventory may be classified into manufacturing, service and control aspects. A detailed discussion of the classification is discussed below.

### **1) Manufacturing Inventory**

Inventory held by a manufacturing concern is mainly of five types:

#### **a) Production Inventory**

Items going into final product such as raw materials, components and subassemblies purchased from outside form production inventory.

#### **b) Work-in-Process Inventory**

Under this all items in semi-finished form or, products at different stage of production

#### **c) Finished Goods Inventory**

This includes the products ready for dispatch to users or to distributors

#### **d) MRO Inventory**

Maintenance, repairs and operating supplies like spare parts and consumable stores, that do not go into final product but are consumed in the production process.

### **e) Miscellaneous Inventory**

Items other than these mentioned above, such as scrap, obsolete, and unsaleable products arising from main production, stationery used in office and other items needed by office, factory and sales department, etc.

## **2) Service Inventory**

This consists of four classes:

### **a) Lot size**

This means purchasing in lots. This is resorted to obtain quantity discounts reduce transportation and purchase costs minimize handling and receiving costs It would be uneconomical for a textile unit to buy cotton everyday rather than in bulk during the cotton season.

### **b) Anticipation Stocks**

These are kept to meet predictable changes in demand or in availability of raw materials. The purchase of potatoes in the potato season for sale of roots preservation products throughout the year is an example of this kind.

### **c) Fluctuation Stocks**

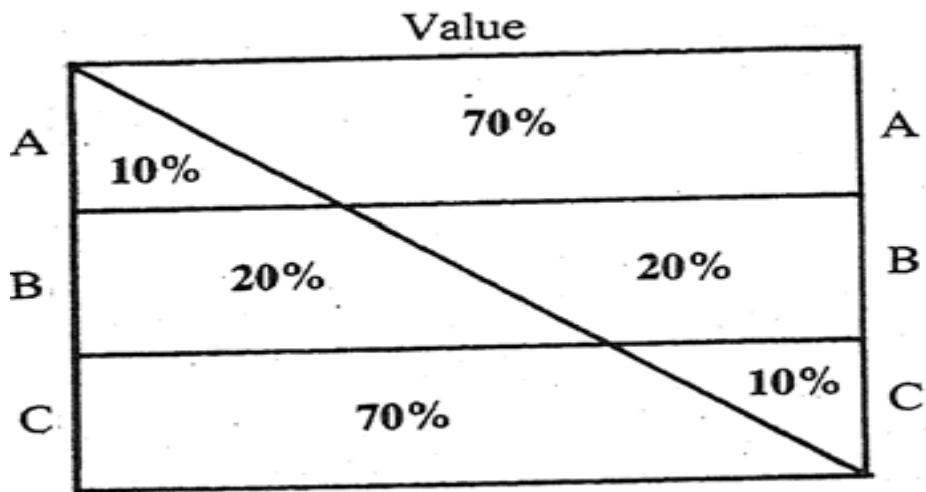
These are carried to ensure ready supplies to consumers or customers in the face of irregular fluctuations in their demands.

### **d) Risk Stocks**

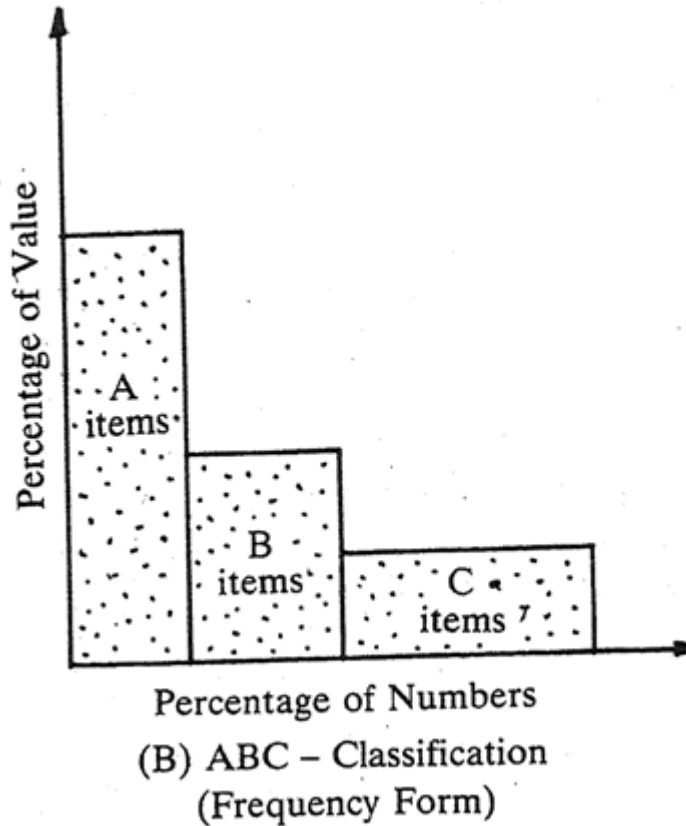
These are the items needed to ensure that there is no risk of complete breakdown of production. These are -items with long lead time for supply but are vital and critical for production.

## **Control of Inventory (ABC classification)**

A good start in examining an inventory control system is to make ABC classification. It is known as ABC analysis which means the 'Control' will be 'Always Better' if we start with ABC of inventory. This concept divides inventories into three groupings in terms of percentage of number of items and percentage of total value as given in Figure.



**Numbers**  
**(A) ABC – Classification**  
**(Tabular Form)**



A-items group constitutes 10% of the total number of items and 70%, of the total money value for all the items.

B-items group constitutes 20% of the total number of items and 20% of the total money value for all the items.

C-items group is just opposite of A-items group. It constitutes 70% of the total number of items and 10% of the total value.

This classification provides clear cut indications for fixing priorities of control to the items. A class items must receive the attention first in every respect of the control i.e. tight control, sound operating doctrine, attention to security etc.

**ABC classification coupled with VED classification (Vital, Essential and Desirable)**

enhances the efficiency of control on inventories. It may be noted that ABC classification is based on the logic of proportionate value while VED classification is based on judgement, experience etc. As illustrated in total number of categories become nine.

	V	E	D	Total
A	3	5	2	10
B	5	7	8	20
C	10	40	20	70
Total	18	52	30	100

**Figure ABC/VED Classification (values expressed in percentages-a particular case)**