Inventory Control and its Techniques: A Study

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Inventory control

Inventory control is an approach which helps to determine how much quantity to order, when to order and how much of inventory to be kept as reserve so that cost of ordering and storage cost is kept minimum without disturbing production and sales.

According to Gordon Carson,

"Inventory control is the process where by the investment in materials and parts carried in stocks is regulated, within pre-determined limits set in accordance with the inventory policy established by the management."

Inventory Control mostlyfocuses on aspectsuch as location, storage, and maintaining the records of inventories.It helps to conduct smooth supply of inventories to different departments whenever it is demanded. The records of inventory issued to the department can be maintained effectively with the help of inventory control.It also helps to maintain inventories at lowest costs.It helps to differentiate high-value and low-value stock of goods. It helps to avoid over-stocking and under-stocking of raw materials.

Importance of Inventory Control:

- It helps in reducing the risk of shortage at the time of production as there is timely availability of raw materials.
- It helps to reduce the order cost as the orders are placed economically.
- The funds are not blocked in inventories.
- It helps to achieve efficient production scheduling.
- The benefits of discounts are available and the bulk quantity is ordered at a time.

Techniques of Inventory Control:

1. ABC Analysis:

In A-B-C analysis, the materials are classified based on three categories viz. A', 'B' and 'C'.'A' items are more important and hence the value of investment in those items is high. The items in B caterogy are of less important hence it doesnot constitute majority of investment in rupee. The C group are items which has lesser amountof investment in rupee as it is available easily in the market. It is important tool for controlling raw materials. The classification is based on the annual consumption value and it should be reviewed on continuous basis so the correct figures could be allocated to each group of items.

2. Ved Analysis:

VED stands for Vital Essential and Desirable. In order to control the spare parts inventory this type of technique is used by the enterprises. The stock of vital items should be always maintained in the organisation as it will hamper the process of production. Ultimately this will result in fall of output and profitability for short period of time. At the same time the stock of essential items should be also maintained in order to coduct smooth flow of production process. The non-availability of these items will slow down the production process. Desirable items are not often required for production preocess and hence low levelofinentory can be maintained by the organisation. It will not have major impact on the production process.

3. Fast, Slow & Non-Moving (FSN) Method:

F-S-N (Fast moving, Slow moving,Non moving) analysis is based on the movementand consumption of the items. For the purpose of classification, the quantity and rateof consumption are analysed. The last date of receipt or issue which ever is later, istaken to determine the number of months since the last movement. Generally, the itemsare grouped in the period of 12 months.

Fast moving inventories are required quite regularly, the slow moving ones veryoccasionally while the non moving inventories may become obsolete and notrequired for year's altogether.

4. Economic Order Quantity (EOQ):

Economic Order Quantity technique helps to know how much of quantity of inventory to be ordered at a time. The moment it reaches to the minimum level the order is initiated by the purchase department. There are two componenet in EOQ model viz. ordering cost and carrying cost. This model helps to save both the costs. It also helps to know how much ordes to be placed in a year. The EOQ model helps to purchase

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right quantity of material at right point of time.

5. SDE Classification:

Under this analysis, 'S' stands for scarce items which are in short supply, 'D' refers to those items which are available easily in the market but they are difficul to acquire while 'E' represents easily available items, these items can be purchased easily from the local market.

6. HML Classification:

In HML analysis H stands for High value items, M stands for Medium value items and L stands for Low value items. Items are classified based on the unit value of the items.HML analysis helps to keep a control on consumption of materials at departmental level.

7. SOS Analysis:

'S' stands for Seasonal items and 'OS' stands for off-seasonal items. The enterprise will be able to enjoy the benefits of favourable market conditions if they purchase the inventory during off season as the cost of ordering will be reduced. During off season those inventories may be processed and sold in the market and they may earn higher profits.

Conclusion

Conclusion Inventory control is one of the important aspects of inventory management. The inventory control techniques are used by the companies to control the flow of inventories. It is important because it has impact on profitability of the business enterprise. It also leads to increase in the cost of storage. The techniques help to improve the efficiency in production and help to improve the output of the firm.

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