

# [Selective inventory control](https://assignbuster.com/selective-inventory-control/)

ABC analysis: ABC analysis is a business term used to define an inventory categorization technique often used in materials management. It is also known as Selective Inventory Control. The ABC classification process is an analysis of a range of objects, such as finished products, items lying in inventory or customers into three categories. It’s a system of categorization, with similarities to Pareto analysis. Popularly known as the “ 80/20” rule, ABC concept is applied to inventory management as a rule-of-thumb.

It says that about 80% of the Rupee value, consumption wise, of an inventory remains in about 20% of the items. When carrying out an ABC analysis, inventory items are valued (item cost multiplied by quantity issued/consumed in period) with the results then ranked. The results are then grouped typically into three bands. These bands are called ABC codes. ABC codes 1. “ A class” inventory will typically contain items that account for 80% of total value, or 20% of total items. . “ B class” inventory will have around 15% of total value, or 30% of total items. 3. “ C class” inventory will account for the remaining 5%, or 50% of total items. XYZ XYZ analysis is one of the basic supply chain techniques, often used to determine the inventory valuation inside a Store. A system of categorization, with similarities to Pareto analysis, the method usually categorizes inventory into three bands.

Although different criteria may be applied to each category the typical method of “ scoring” an inventory item is that of annual stock value of said item X class items represent 70% of the stock value (although they may account for 20% number wise) Y class items fall between 70% and 90% of the annual stock value. C class the remaining. The results of the XYZ analysis provide information that helps evaluate how each inventory part should be monitored and controlled. These controls are typically:

X class items which are critically important and require close monitoring and tight control – while this may account for large value these will typically comprise a small percentage of the overall inventory count. Y class are of lower criticality requiring standard controls and periodic reviews of usage. Z class require the least controls, are sometimes issues as “ free stock” or forward holding. Based on the ABC and XYZ analysis there is another control mechanism , popularly known as AX control.