

What is the value of keeping an accurate inventory



**ASSIGN
BUSTER**

Inventory keeping plays an important role in the supply chain of many companies and organizations. Efficient inventory control and management to a large extent depends on the way and manner inventory records are kept. Good record keeping makes it easier for inventory to be kept properly, whereas bad or inaccurate record keeping unduly stalls movement of raw materials and finished goods in the supply chain. In this paper, an attempt shall be made to highlight the value of keeping one's inventory accurate.

Helps in achieving Operational excellence

The value of keeping one's inventory records accurate has been emphasized by several research workers (Kok and Shang, 2006; Smaros, Lehtonen, Appelgyist and Holmstrom, 2003; Cachon and Fisher, 2000). Commenting on this subject, Kok and Shang (2006) for example, pointed out that inventory record inaccuracy is a major obstacle to achieving operational excellence. To these authors, for one to achieve operational excellence, every effort should be made to keep one's inventory records consistently accurate. Helps in lowering total distribution costs

According to the Chartered Institute of Marketing (CIM) (1994), total distribution cost is the summation of the costs incurred in transporting, warehousing, order processing and documentation, inventory, packaging, lost sales for failing to meet set standards of goods. The relationship between these variables and distribution can be expressed mathematically as: $D = T + W + O + I + P + S$ where: D is total distribution cost T is transportation cost W is warehousing cost O is order processing and documentation cost I is inventory cost P is packaging cost. S is lost sales as a result of failing to meet required standards From this formula, any

undertaking which lowers the cost of these variables in the supply chain would also contribute in making the total distribution cost lower and therefore more cost-effective. Keeping a company's inventory accurate therefore helps in this direction. The reverse is what takes place when inaccurate inventory is kept. Distribution is component of the classical marketing model known as the 4Ps. Distribution can therefore be a good source of competitive advantage at the marketplace.

Companies that make their distribution network more cost-effective can have a huge advantage over their competitors. Helps in building trust in the supply chain In today's business world, it is not uncommon to find companies share their inventory records with partners, some of which could even be competitors. Some of these information exchanges take place in real time and also defies geographical boundaries. Many of these relationships and arrangements are founded on trust. As such, the value of keeping accurate record cannot be over-emphasized.

This is because inaccurate presentations do not only undermine the work of the company in question but also all the significant others which used that piece of information to plan and manage their work. Helps in demand estimation For existing companies, past inventory records greatly assist in estimating future Demand for goods and services at the beginning of the financial year. From such information, the quantity of goods that should be manufactured at any given time can be estimated accurately. Helps in sourcing and procurement for cheaper raw materials.

Accurate inventory records also help in sourcing for and procurement of cheaper raw materials for the company. The cost savings from such undertakings can then be passed on to the final customer in cheaper prices. On the other hand, inaccurate records hinder procurement departments in establishing present stock levels and the replenishments that must be procured. Helps in the arrangement of logistics Similarly, inventory records assist the distribution outfit of the company to arrange for transportation and other logistics to convey the manufactured goods to the final customers in the value-chain.

In situations therefore, where the inventory information provided to the aforementioned departments are inaccurate, it can seriously hamper their work which can be lead to severe losses to the company. Let us consider a scenario where the company's stocks are full at the storage depots but her significant partners are informed that stock levels are at 50 percent. A raw material supplier to this company would make arrangements for materials to be sent to this company, only to be told that the company does not need these materials until the present stocks have been cleared.

Equally, the company's outsourced logistics partner would restrict herself to transporting goods equivalent to half the capacity of the company's warehouse to the retailing units. The transporters get to the warehouse to find that they are not adequately resourced to carry out the logistical task ahead. If they are not fortunate to find that all the available transports have been booked, clearing the warehouse of existing stocks would be a Herculean task, if not impossible to the outsourcee company. Helps in Business planning and coordination.

<https://assignbuster.com/what-is-the-value-of-keeping-an-accurate-inventory/>

Apart from helping to estimate demand accurately, keeping accurate inventory records also help in business planning and coordination itself. With accurate inventory records, it is easier for a company to plan its way forward. For example, if it is learnt from past inventory records that the company obtained its highest sales in the first quarter of the year and not the last quarter, it can plan to augment its sales personnel during this period. By employing several part-time and temporal workers, it can comfortably fulfill customer demands at such peak periods.

Similarly, it can use the low-through periods to train its staff or allow them to take their vacations. Wilson (1995) has pointed out that susceptibility of materials planning systems to record errors reduce their effectiveness. Thus, in situations where remedial steps such as cycle counting programmes are not implemented to correct deficiencies, the performance of the company can seriously deteriorate. Helps in production scheduling The importance of keeping accurate inventory records to the producer in sourcing for raw materials has already been stressed.

Another value such an undertaking brings to the producer or manufacturer is in the area of scheduling the production itself. Mass customization of goods has become the order of day in many market sectors and industries.

Whereas this system de-emphasizes storage of goods, in some instances it depends on inventory records to determine whether a specific request should be manufactured or one is ready available to be sent to the customer.

In that respect, accurate inventory records contribute greatly in scheduling production of goods cost-effectively. Helps in Inventory control.

Accurate records help in controlling inventory itself. According to Lamb, Hair and McDaniel (2000) an inventory control system develops and maintains an adequate assortment of materials and products to meet the demands of manufacturers and the final consumer. If the input furnished the inventory is inaccurate, that deficiency can seriously affect the manufacturer and the customer alike. A typical example of this distortion is when too many goods are kept in the inventory. This development leads to increases in storage cost and in some cases losses attributable to theft and spoilage.

In the same vein, when goods are under stocked, it can lead to severe shortages and also angry and unfulfilled customers. A reflection of Managerial capabilities The way and manner inventory records are kept in a company is also a reflection on inventory managerial capabilities of the management team of the company or the logistics and distribution department. If available records are full of errors and inconsistencies, it simply tells any cursory reviewer that sufficient supervisory oversight is not being administered.

On the other hand, an accurately kept inventory records is indicative that the managerial staff are up to the task. Helps in warehouse management Warehouse management plays a vital role in the supply chain of some companies. They serve as an effective link between manufacturers and market intermediaries such as wholesales, middlemen, retailers, etc. Accurate keeping of inventory records constitutes an integral part of warehouse management. It is difficult to manage warehouses properly if records of inventory are not properly kept.

If that occurs the warehouses could be receiving newer stock when in fact they should be rejecting on the basis of present stock levels. In like manner they could be rejecting stocks when they should be accepting them. Any of these scenarios place additional costs to the warehouse manager. In the same vein, it also makes the handling of materials difficult. Helps in the identification, sorting and labeling of goods Accurate inventory records helps in identifying, sorting and labeling goods (Lamb, Hair and McDaniel, 2000) either for storage or to the distribution and manufacturing centers.

Goods that are properly identified sorted out and labeled are easier to handle than those which are not. They also save material handlers or workers valuable time and thereby increase their productivity. Helps in securing financial assistance As with every segment of a business entity, good record keeping, including that of inventory, helps greatly in securing financial assistance. For existing companies, the financing institution may review existing records to gain insight into how the company has been managed.

If inventory records have been badly kept, it indirectly tells how the company has been managed. Furthermore, if management of inventory were one the criteria being used to decide whether financial assistance should be extended to the company or not, it is obvious that the company with an accurately kept inventory shall receive the assistance whereas those with improperly kept data refused the needed financial help. Inventory records themselves are also useful in the preparation of business proposals and plans for financial assistance.

Helps in order processing Keeping accurate inventory records also helps in processing received orders correctly. If an order is received and the information is relayed to the manufacturing centre, whether that order gets fulfilled immediately depends on whether accurate inventory records have been kept. If the inventory records are inaccurate, the customer may be sold a good that does not match his requirements or the fulfillment of that order may be unduly delayed. Helps in Replenishment of stocks

Accurate inventory makes replenishment of goods either at the warehouse or in store shelves easier to suppliers, be they manufacturers, wholesalers or retailers. Whereas, if doubts are expressed about inventory records, they make replenishment extremely difficult. The difficulty stems from the fact one is not entirely sure about the quantity of goods that should be supplied at any given period. Consequently, over- and under-replenishment becomes common. This development has cost implication to the supplier.

For example, if goods are sent to their desired destination and it is found that there is no space to accommodate them because stock levels were understated, those goods would have to be transported back to the supplier. On the other hand, if inventory records were accurate, the goods supplied would be delivered with no extra cost to the supplier. Helps in lowering supply chain costs Generally, it has been established that accurate inventory records reduces order processing and supply chain costs (Cachon and Fisher, 2000).

For example, if the time taken to identify inaccurate inventory records and have them rectified is 20 percent of the total time spent at customer-seller

interface by the customer, that figure represents the extent of convenience and also loss of man-hours experienced by the customer and sales personnel, respectively. Helps in providing excellent customer service
Accurate inventory records also help in providing excellent services to customers. It makes it easier for goods actually needed by customers to be known and supplied with.

Furthermore, it enables the needs of customers to be identified and promptly catered for. It also prevents wastage of store shelves by filling them up with goods that are in great demand by customers. Conclusion From the foregoing account, it has been clearly shown that keeping a company's inventory accurate is a valuable undertaking. Companies with inventory that adhere to set inventory practices reap several benefits, whereas those which do not incur losses. In an era where inventory building is being de-emphasized, the need for companies to keep their inventory records accurate has become even more paramount.