

Inventory



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Inventory functions to enable an organization to multi-task successive operations or anticipate changes in demand. They also assist a firm to produce goods at some distance from the actual consumer. Investment in inventory represents one of the largest single uses of capital in a business (Pg 118).

There are four types of inventories that a firm should have and they include; Transit stock inventory (pipeline inventories) which depends on the time to transport good from one destination to another; cycle stock; which exists when large quantities orders are made that normally to satisfy immediate requirements; safety stock-which provides protection against irregularities and uncertainties; or Anticipation stock-which is needed for products with seasonal patterns of demand and supply. Order preparations and inventory carrying costs are inventory related cost incurred when managing inventories stated above.

Companies frequently bear such large costs when maintaining files, controlling quantity, verifying accurate receipts and capital costs. The cost incurred as a result of not having the right inventory occurs when demand exceeds the available inventory for an item. They are referred to as shortage or customer service costs. The cost of these is difficult to measure than the proceeding two costs above. A failure to keep track record on customer demands definitely leads to a customer purchasing the same from a competing firm therefore reducing sales.

When managing inventory two decisions are made they answer the question of how much to order (size) and when to order (timing) These decisions are made by using inventory control decision which involves placing orders for

either a fixed or a variable order quantity with either a fixed or a variable time between successive orders. This decision enables the management to plan properly the orders that are urgent and thus facilitating their delivery to customers. The relation is similar to the competitive priorities and operation strategies that consider customer priority as the first process.