

# What is inventory management?

[Business](#), [Management](#)



Inventory management is an important part and key strategy in order to success in business. Normally, inventories represent the principal and highest area of costs in any commerce or company. Clearly, inventory management strategies will help the system keep moving, as having control over tracking and maintaining detailed lists of all the items in stock and the ones needed to be ordered or demanded by customers. The aim of inventory management is based on the effectiveness from processes.

Some advantages of an inventory management system are: meet customer demands, prevent loss of sales, and be prepared to meet unpredicted increase in actual demands. Even though, there still some disadvantages that we need to consider such as the money invested – enclosed- in inventory, obsolescence and waste of money/costs. These losses can define the success or failure of the business company. Operations Managers play a key role by establishing good and adequate systems for managing inventory, mainly for classification and maintenance accuracy of inventory.

Organized and controlled inventory will present competitive advantages for organizations, instead of some disadvantages mentioned above. There are many firms or successful companies that use inventory management systems. Wheeled Coach is an example of these. It is a well known ambulance manufacturing and chassis supply industry. They have expanded their organization from local to national and international sales and delivery services. Due their higher demands, they must be prepared to manage adequately their inventory in order to avoid losses.

They used two commonly inventory managing strategies: ABC Analysis and Cycle Counting. It is good to remember the importance in designing and <https://assignbuster.com/what-is-inventory-management/>

choosing the correct and convenient strategies. Before implementing any inventory policy, we should know what is needed or what is known as Bills of materials (BOM). BOM is defined as “ the list of all raw materials, parts, intermediates, sub-assemblies, etc. , (with both quantities and description) required to construct, overhaul or repair something” (Business Dictionary, 2010).

Moreover, ABC analysis assists the company to develop and establish some procedures or policies. It is divided in three different categories of depending on quantities and demands. First, in the group of “ A” are the highest priority and expensive items. The logic for this is the time it takes to be delivered and projection of economical support/ expenses of the business. Sometimes there are materials that require to be ordered with certain time of anticipation. Besides timing, taking advantage of discounts for bigger orders and sporadic offers also helps saving money. Read the discuss a new inventory tracking system

Secondly, there is the “ B” group, which be less expansive and need less control inside the company. Final group, “ C”, are those with less required control or monitoring, but are locked to ensure security of items. Security is a necessary investment within a company (Perkins, 2010). Some managers recommend having two different groups/ staff working on the inventory; the ones in charge of finances and requisitions, and the other working/ attending customers. There have been many cases were the personnel working in both roles, is where most of the losses of materials occur.

This fact can have a significant impact on the economy of business; lower earnings versus higher losses. Wheeled Coach implemented ABC Analysis as <https://assignbuster.com/what-is-inventory-management/>

described above. In addition, they have a Cycle Counting policy. This will determine how often we will look at the inventory and ask for requisitions. The materials in group “ A” have a short cycle, similar to one month, for ordering new ones. “ B” materials will be monitored less frequently, as every two months, to ensure accuracy. Final, “ C” group will be monitored and ordered by a period of three months or so.

The combination of ABC Analysis and Cycle Counting ensure Wheeled Coach to success, by attending customer services and controlling costs in their inventory. In order to ensure business “ strength” it is essential to balance costs with benefits of storing and ordering necessary supplies. In view of taking over as inventory control manager at Wheeled Coach, there are few points and additional policies to consider. Stock rotation would ensure the older product will be sold. This could be by moving out an older product to sales floor or to customer ordering process. Outdated and useless products are part of losing goods.

Besides, it is good to implement a systematic stocking agenda which provide for organization. This could be combining with inventory management software to assist tracking of quantity costs and location of materials; giving for a clear idea of how rapidly we need to reorder. One approach not mentioned by Wheeled Coach is labeling. Labeling products will assists on organization, telling which products are going out first, value of merchandise, balance space available, etc. Labeling, as bar codes, will also be part of security, as well guards and security devices.

Furthermore, inventory record accuracy (IRA) is not reach based on separate tasks or approaches. IRA is the measure of error between the official

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inventory records and the actual inventory. Cycle counting can be combined with IRA, but it needs to look further counting investments (in dollars) or stock units. Accuracy is very important in inventory record management. It helps preventing interruption of production and delivery delays due stock-outs. This creates sequence of faults such as waste of time by looking missing pieces and compensations to customers in order to maintain their satisfaction.

Besides Cycle Counting, there are other approaches that can help to achieve accuracy, as continuous processes improvement and transaction reduction. By examining transaction processes continuously, help recognize chance of errors. The earlier we fix an error, the better results and fewer complications. Inventory and transaction volume can be reduced by incline more to manufacture. Other approaches not directly related with inventory, could also help in controlling stock items. As an example, “kanba” is the tactic focused on scheduling indicating what, when and how much to produce.

It correlates with BOM simplification and cellular manufacturing. Cellular manufacturing is a model of how characteristics, areas or services can be divided among certain groups. Effectively, improve organization which results in an easier way to achieve record accuracy. Items or materials are divided by their similarities and assigned to multi-tasks personnel. Employee training and redefinition or relocation of occupation will be needed to implement cell manufacturing system. Some of the advantages will be as more balance in processes and increase of productivity due reorganization.

Besides, some procedures will be reduced such as movement of items (missing or misplacement), service and waiting times. The time reduced in

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these functions, could be taken to improve other services, besides inventory management. By improving managing inventory accuracy, we need to think about producing what is required, when is needed. Even the implementation of any approach of system will results in expenses, the net result will be lowering costs and achieving control over operations. In conclusion, managing inventory in such an important company, as Wheeled Coach, is an essential for its success.

There can be other approaches besides the ones presented, Cycle Counting and ABC Analysis strategies. Employee training, Cellular manufacturing and rearrangement of items by similarities are some of the strategies to implement in order to improve the system. Efficiency and accuracy are just of manygoalswe can address with these techniques. References Kum-Khiong Yang, Robert A Ruben, & Scott Webster. (2003). MANAGING VENDOR INVENTORY IN A DUAL LEVEL DISTRIBUTION SYSTEM. *Journal of Business Logistics*, 24(2), 91-108.

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