

E-Content

**Inventory  
Management  
Sem-III**

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# INTRODUCTION

All materials parts, expense tools, supplies and in process inventory, finished products maintained in stores is known as Inventory.

- ✓ It is an idle resources that posses economic value .



## INVENTORY MANAGEMENT

“The process of designing or determining systems to exercise control over the inventories is known as **Inventory Management.**”

# TYPES OF INVENTORIES

RAW  
MATERIALS

WORK IN  
PROGRESS

FINISHED  
GOODS

SUPPLIER/  
STORES/  
SPARES

COMPONEN  
TS & PARTS





## REASONS TO HOLD INVENTORY

### Meet variations in customer demand

- ✓ Meet unexpected demand
- ✓ Smooth seasonal or cyclical demand

### Pricing related

- ✓ Temporary price discounts
- ✓ Hedge against price increases
- ✓ Take advantage of quantity discounts

### Process & supply surprises

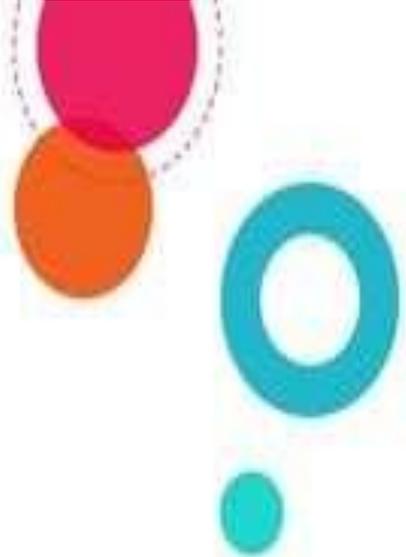
- ✓ Internal – upsets in parts of or our own processes
- ✓ External – delays in incoming goods



# OBJECTIVE OF INVENTORY MANAGEMENT



- ✓ To maintain a optimum size of inventory for **efficient** and **smooth production** and sales operations.
- ✓ To maintain a **minimum investment** in inventories to **maximize the profitability**.
- ✓ Effort should be made to place an order at the **right time** with **right source** to acquire the **right quantity** at the **right price** and **right quality**.



# FUNCTIONS OF INVENTORY MANAGEMENT

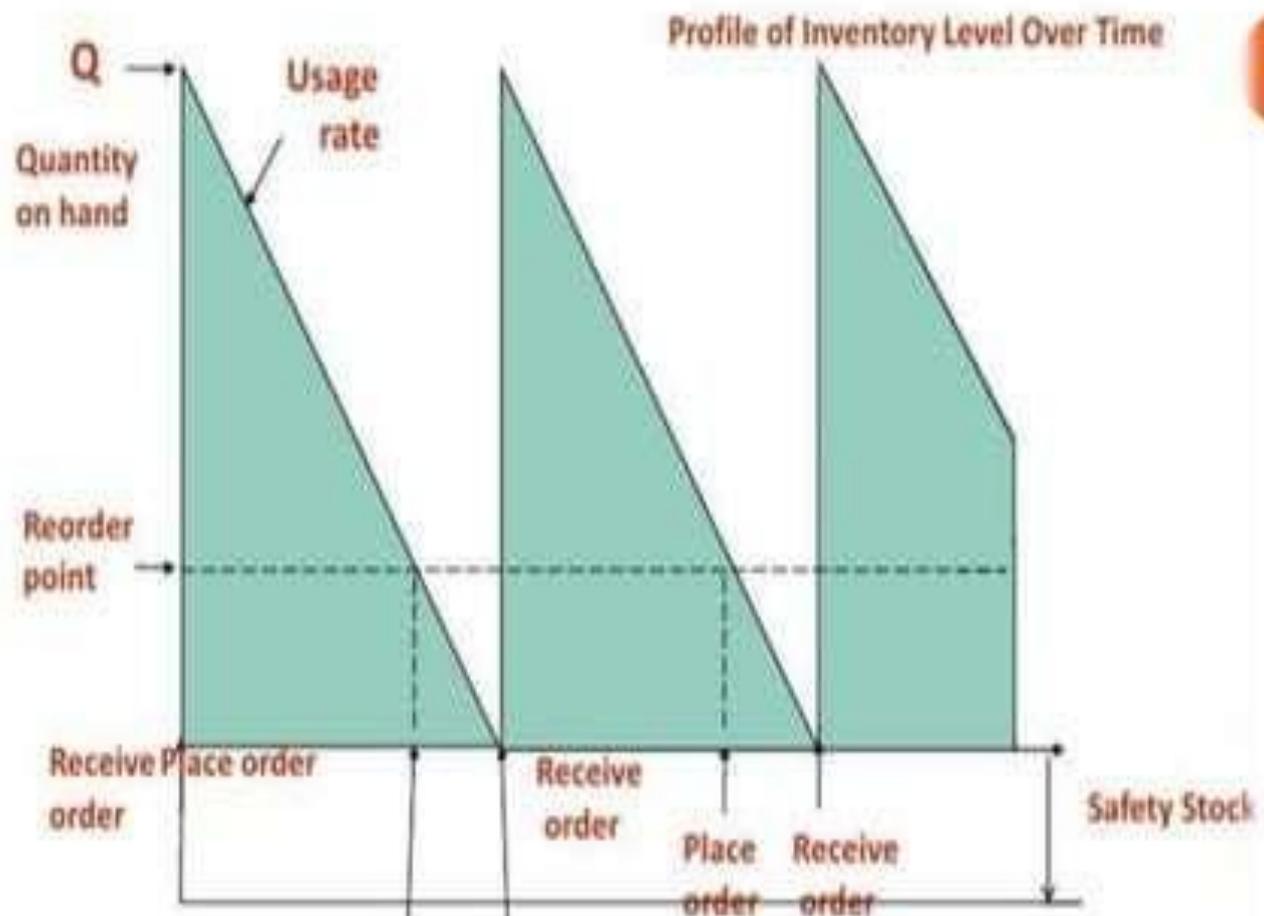
- ③ Track inventory.
  - ③ How much to order.
  - ③ When to order.
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A decorative graphic on the left side of the slide features several overlapping circles and rings in various colors: a large yellow ring, a pink circle, a small orange circle, a green circle, a blue circle, and a light green ring. On the right side, there are more circles in shades of green, orange, and yellow, some with dashed outlines.

## AN EFFECTIVE INVENTORY MANAGEMENT SYSTEM

- ✓ Ensure a **continuous supply** of raw materials to facilitate uninterrupted production.
- ✓ Maintain sufficient stocks of raw materials in periods of short supply and **anticipate price changes**.
- ✓ Maintain sufficient finished goods inventory for **smooth sales operation**, and efficient customer service.
- ✓ Minimize the **carrying cost and time**.
- ✓ Control investment in inventories and keep it at

# INVENTORY CYCLE



# AN OPTIMUM INVENTORY LEVEL INVOLVES THREE TYPES OF COSTS

## ① ORDERING COSTS:

- ✓ Quotation or tendering
- ✓ Order placing
- ✓ Transportation
- ✓ Receiving, inspecting and storing
- ✓ Quality control
- ✓ Clerical and staff

## ② CARRYING COSTS:

- ✓ Warehousing or storage
- ✓ Handling
- ✓ Insurance
- ✓ Interest
- ✓ Taxes
- ✓ Cost of capital

## ③ STOCK-OUT COST:

- ✓ Loss of sale
- ✓ Failure to meet delivery commitments



Thank You!