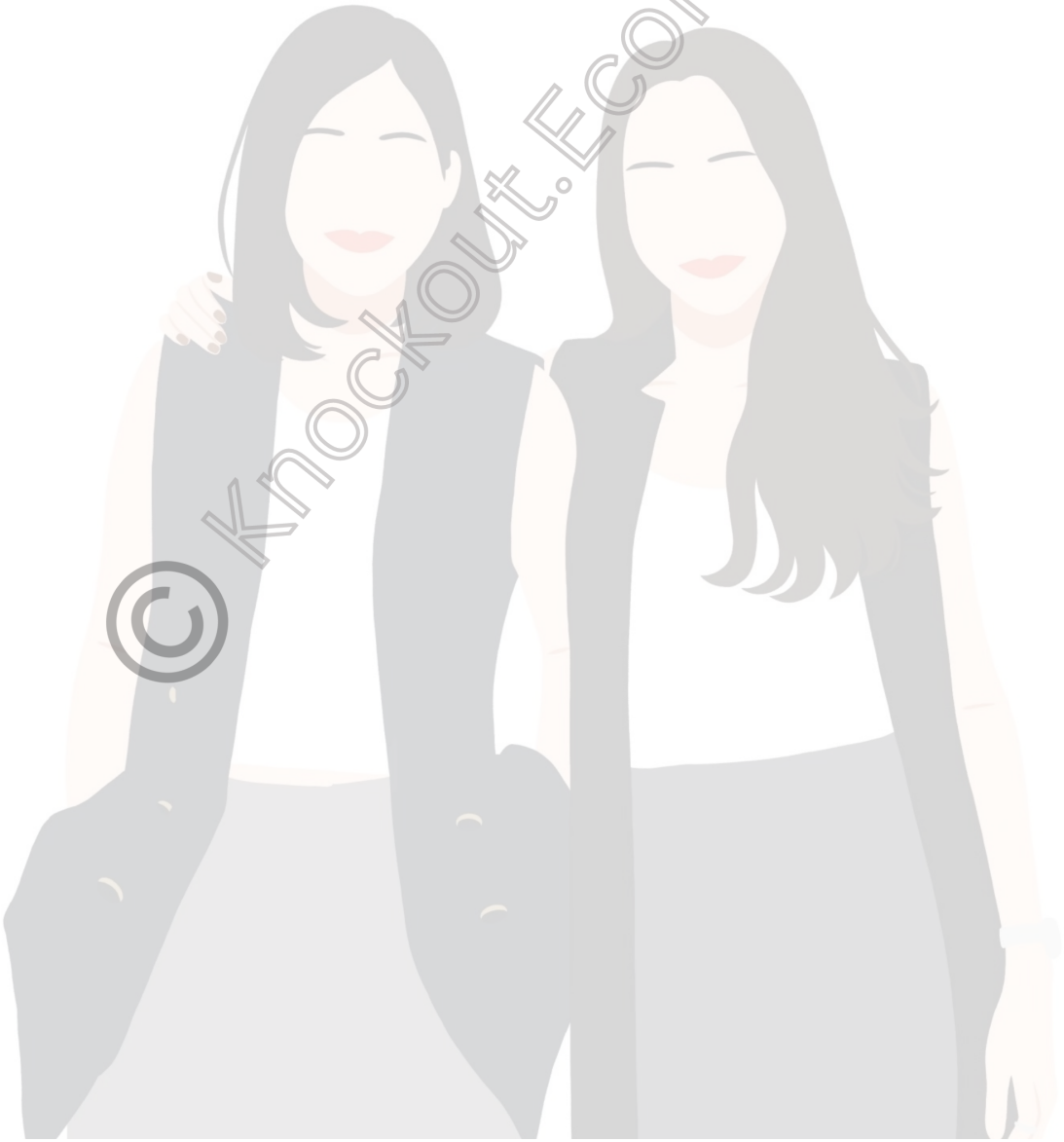
Chapter 39 Inventory control

Key terms

1. Buffer stocks: stock held as a precaution to cape with unforeseen demand.
2. Kanban: a card or an object that acts as a signal to move or provide resources in a factory.
3. Lead time: the time between placing the order and the delivery of goods.
4. Re-oder level: the level of current stock when new orders are placed.
5. Re-oder quantity: the amount of stock ordered when an order is placed.
6. Stock rotation: the flow of stock into and out of storage.
7. Work-in-progress: partly finished goods.



1. What is inventory?

- Inventories also called stocks, are used to make products.

2. Inventory control

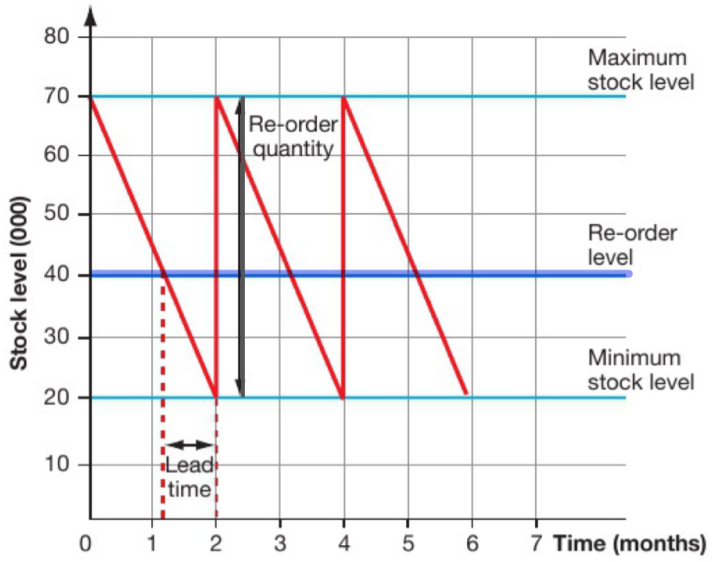
- Inventory control is to maintain the right level of inventories.
- **Factors influence inventory levels**
  1. Demand ⇒ Business held inventory for unforeseen rises in demand.
  2. Stockpile goods ⇒ Business have inventory ready for higher demand in some period
  3. The costs of inventory holding
  4. Amount of working capital available
  5. The type of inventory ⇒ Perishable product should be hold by small amount.
  6. Lead time ⇒ The longer the lead time, the higher minimum level of inventory needed.
  7. External factors ⇒ fear of future shortage ⇒ hold higher raw materials.

3. Interpretation of a stock control diagram.

- **Re-order quantity;** the amount of stock ordered when a new order is placed.
- **Re-order level**; the level of stock currently held when an order is placed.
- **Buffer stocks**; stock held as a precaution to cope with unforeseen demand.

  ↳ e.g. holding buffer stocks of important raw materials.

  ↳ keeping buffer stocks to give them a competitive edge-if they can respond to customer order quickly.



▲ Figure 1 Stock control diagram

4. Implications of poor inventory control

1.) Holding too much inventory

↳ storage cost

↳ opportunity cost ; money used to buy inventory can be used for something else.

↳ the quality of some inventory may deteriorate overtime.

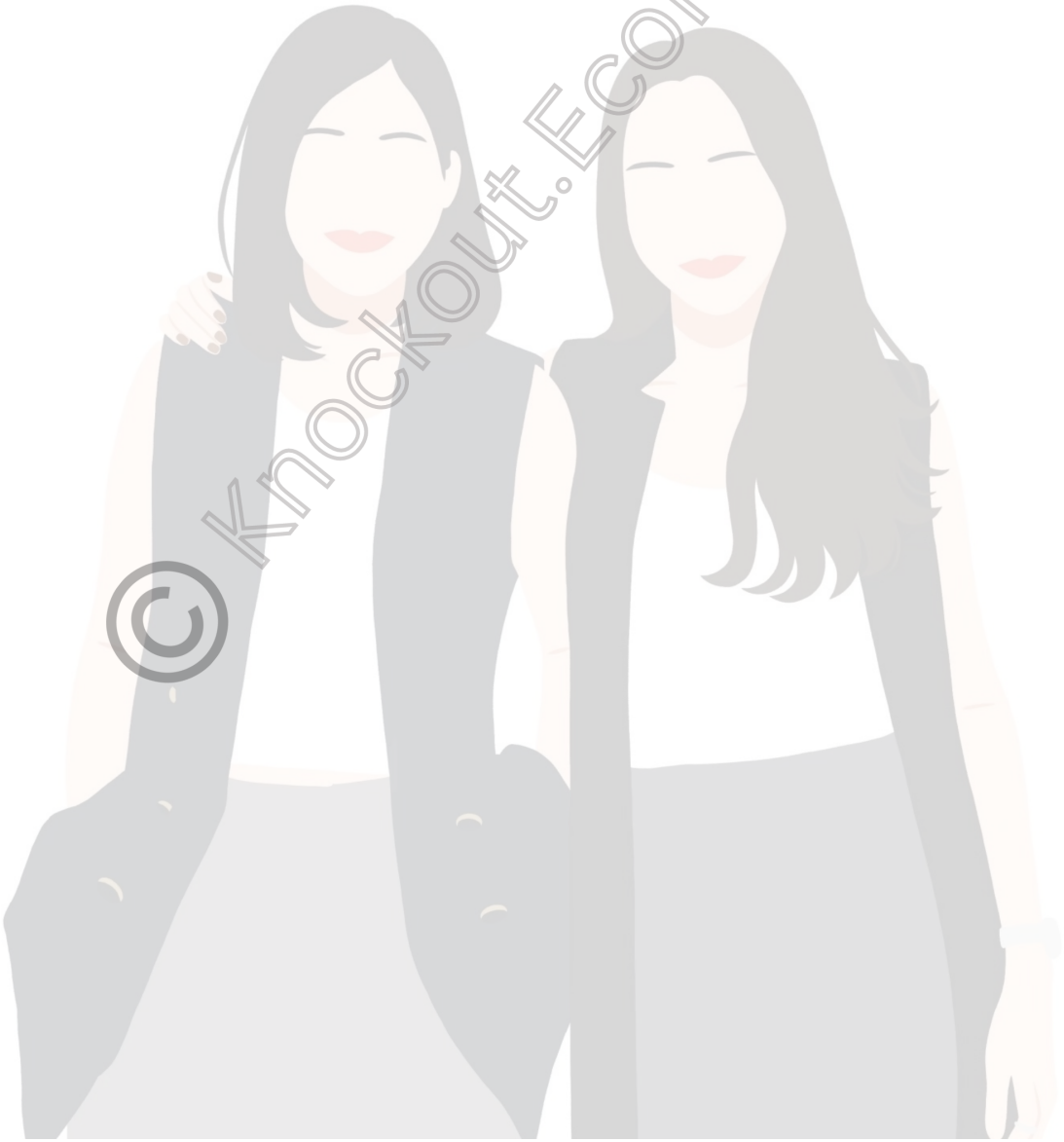
↳ unsold inventory

2.) Holding too little inventory to reduce cost to firms

↳ business might fail to respond an increase in demand.

↳ running out of inventory and have to stop production.

↳ miss out discounts from bulk buying



5. Just-in-time (JIT) management of inventory

- JIT manufacturing is an important part of lean production and Kaizen approach.

Advantages:

- Reducing cost e.g. Inventory cost and storage cost
- Requiring smaller warehouse space.
- Selling the finished product quickly and improving cash flow.

6. Waste minimisation

- Inventory can also be wasted if it has limited lifetime e.g newspaper, magazine, seasonal goods e.g. Mother's day card.
- **Methods to minimise waste**

  1. If goods are perishable, they must be placed in chilled storage e. g. freezer.
  2. Businesses have to be conscientious when forecasting demand pattern for perishable goods
  3. Using FIFO method (first in first out) is used.
  4. Many businesses use computers to manage inventory control.
  5. Sell product by date ⇒ sell at low price to reduce storage.
  6. If transportation can be speeded up then goods will reach the market place more quickly.