

Inventory Management

Inventory may be defined as the physical stock of items that a business of production organization keeps in hand for efficient running of affairs of its production.

Inventory management may be defined as “the systematic control over the procurement, storage and usage of material so as to maintain an even flow of materials and at the same time avoiding excessive investment in inventories”.

NATURE OF INVENTORY

1. Raw materials
2. Work in process
3. Finished goods

NEED TO HOLD INVENTORIES

1) Transactions motive

The transactions motive to maintain inventories to facilitate for smooth production and sales operations.

2) Precautionary motive

Precautionary inventories to guard against the risk of unpredictable changes in demand and supply forces and other materials.

3) Speculative motive

Speculative motive influence the decision to increase or reduce inventory levels to take advantage of price fluctuations.

Inventory Management Techniques

The firm's objectives should be in consonance with the share holders, wealth maximization principle. To achieve this firm should determine the optimum level of inventory efficient controlled inventories make the firm

1. Determination of stock levels
2. Economic Order Quantity
3. ABC Analysis
4. VED Analysis & FSN analysis
5. Inventory Turnover ratios