

What is Inventory Management?

Inventory management can be defined as a whole lot of activities done to maintain an optimum number of inventories to ensure uninterrupted production, sales, high customer satisfaction, reduced inventory handling cost and so on.

In simple words, inventory management is all about striking the balance between overstocking and understocking. Overstocking will lead to cash flow blockage and additional cost for managing excess stock. On the flip side, understocking leads to loss of sale due to non-availability of stock at the right time.

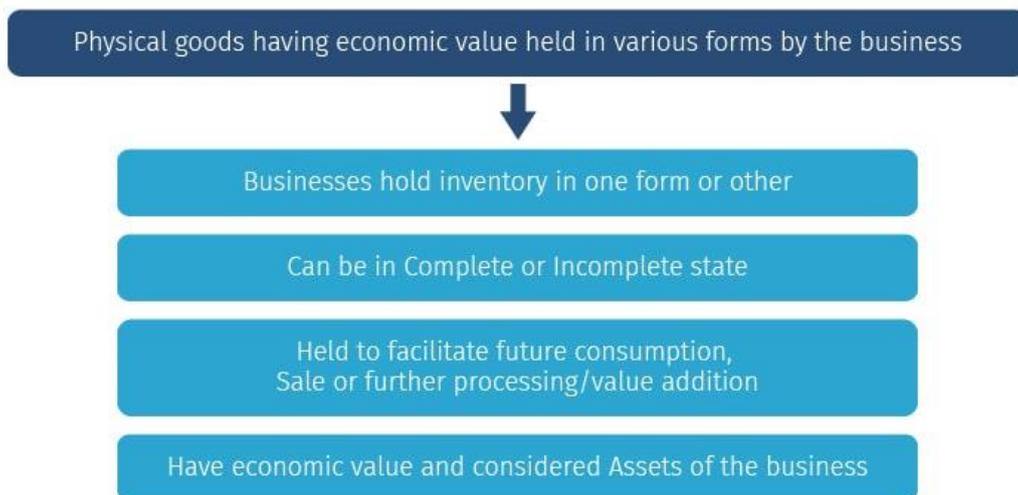
Thus, it's all about maintaining the right level inventories at the right time and keeping the inventory handling cost at low.

What is Inventory?

Inventory is an idle stock of physical goods that contain economic value and are held in various forms by an organization. Inventories are held in various forms, it can be a stock awaiting packing, processing, transformation, use or sale in a future point of time.

Any organization which is into production, trading, sales and service of a product will necessarily hold inventories to aid in future consumption and sale.

From the above definition of inventory, you can list down the following:



Inventory Types

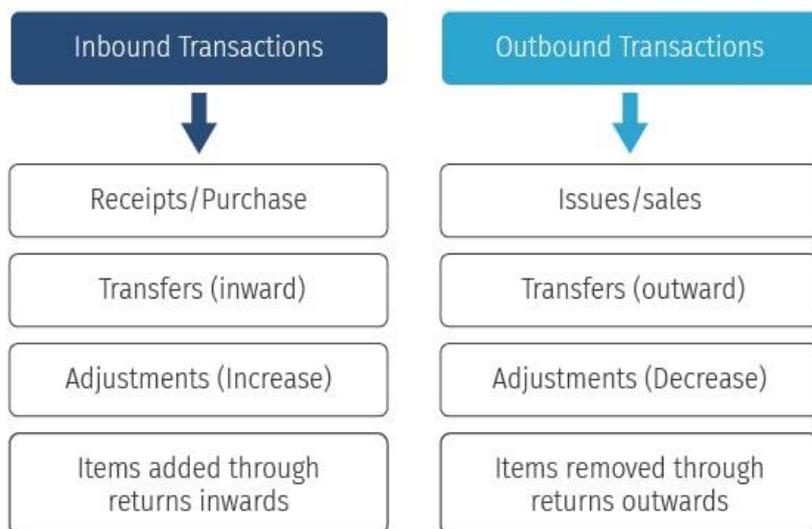
One of crucial for efficient inventory management is to know and understand the different types of inventories you deal with. This because, importance, requirements, inventory level, treatment etc. differs basics the type of inventory. For example, the way you look at raw material differs from the finished product.

The following table explains the different types of inventory along with the examples.

Types of Inventory		
INPUT STAGE	PROCESS STAGE	OUTPUT STAGE
Raw Materials	Work-in-progress	Finished Goods
Consumables required for processing & manufacturing · Fuel, Stationary · Bolts & Nuts etc.	Semi-Finished Production in various stages, lying with various departments like · Production · WIP Stores · QC · Final Assembly · Paint Shop · Packing · Outbound Store etc.	Finished Goods at Distribution Centers throughout Supply Chain
Maintenance Items/Consumables	Production Waste and Scrap	Finished Goods in transit
Packing Materials	Rejections and Defectives	Finished Goods with Stockiest and Dealers
Local purchased Items required for production		Spare Parts Stocks & Bought Out items
		Defectives, Rejects and Sales Returns
		Repaired Stock and Parts
		Sales Promotion & Sample Stocks

Transaction Types

Inventory transactions are used to track the quantities & movements of inventories. It's not just your purchase or sale that becomes part of your inventory transaction types. While these are most frequent, but you got to deal with different inventory transaction types in accordance with the situation. The input from this becomes part of the key reports required for optimum inventory management.

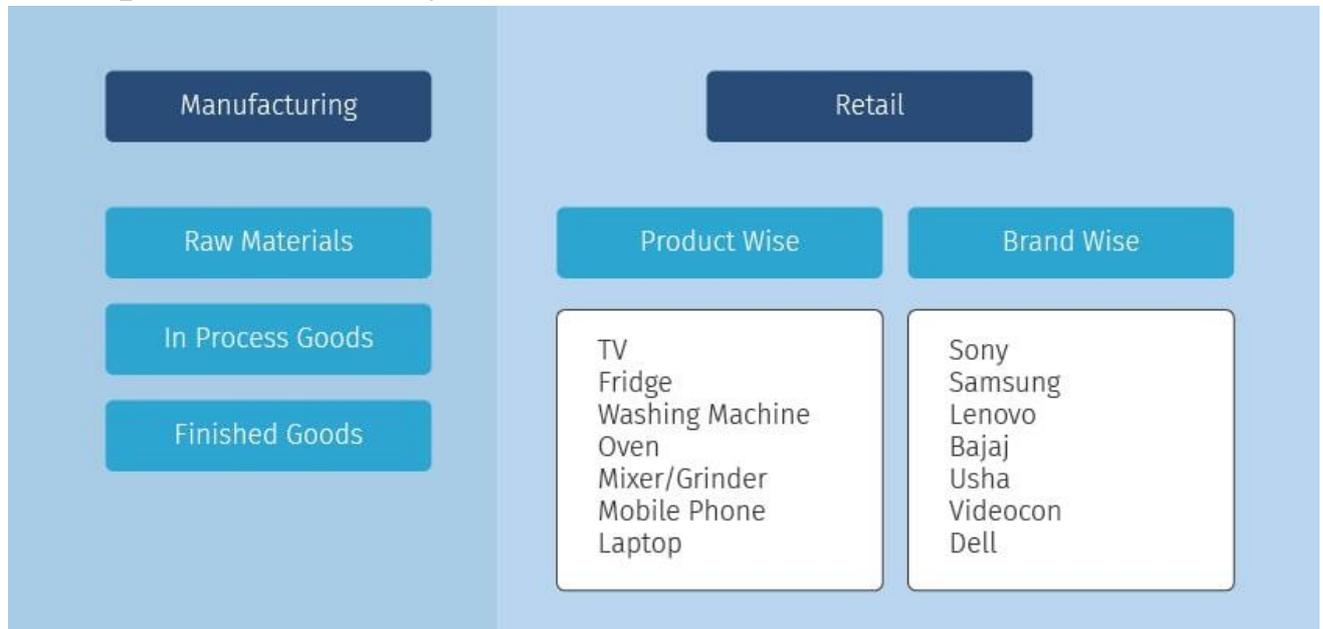


Inventory Classification

Inventory classification refers to the grouping of inventory for ease of identification, accessibility and differentiation by the nature of the stock, value, durability, etc. While there no standard that guides how once should classify the inventories but it is recommended that classification should be carried out basis the end objective you would like to achieve through this.

For example, if you would like to see the basis of the report the type of inventories, you can classify it as raw materials, work-in-progress and finished products. Similarly, you can classify it by brand, nature, size, colour etc.

Examples of Inventory Classification



As shown in the above example, manufacture would classify the inventory basis the inventory types while a trader may classify based on the type of product or the brand he is dealing with. It is important to keep in mind the end objective while classifying the inventories. The better you classify your inventories; it becomes easier for you to read through the inventory reports.