



## Study of Inventory management process and its Classification

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### Abstract

One of the most important aspects of inventory management is the discipline of minimizing the expenditures that are involved with inventory management while simultaneously maximizing your capacity to fulfill the requirements of your clients. This can be accomplished by the utilization of a wide range of inventory management strategies, such as minimizing dead stock (for more information on the meaning of dead stock), or determining the ideal reorder point by employing the reorder point formula. Inventory management is the most important part of the process since it requires a concentrated attention on inventory tracking. This is the reason why it is the most important component.

**Key words:** Inventory, management, Google, demand, necessary, etc.

### Introduction

Inventory management is the process of acquiring, storing, and selling goods, whether they are raw materials (components) or finished goods (products). A systematic approach is taken in carrying out this process. When used to the corporate world, the term "inventory management" refers to the steps taken to keep the right amount of goods at the right price, at the right location, at the right time, etc. Management of inventory, a link in your supply chain, involves several moving parts, such as keeping stock storage in excellent repair, keeping tabs on the amount of

items available for sale, and fulfilling customers' requests. An further aspect of inventory management is monitoring and controlling the purchases made by both suppliers and customers. Your company's product line and distribution channels will determine the exact definition of inventory management. The reason behind this is that changing the meaning is a natural consequence. However, if those fundamental elements





are there, you will have something strong to work with. Manual tools such as Excel, Google Sheets, and similar programs are commonly used by small and medium-sized businesses (SMBs) to keep track of inventory database information and make ordering decisions.

#### **Definitions:**

**As per the APICS (American Production and Inventory Control Society) Dictionary,**

*“Inventory is defined as those stocks used to support production, such as raw material and work in Process, supporting activities, such as maintenance, repair, and operating supplies, and finally Customer Service in the form of finished goods and spare parts.*

**According to the Author of Operations Management, Lee J. Krajewski,**

*Inventory is created when the receipt of materials, parts, or finished goods exceeds their disbursement; it is depleted when their disbursement exceeds their receipt.*

#### **Benefits of following Inventory Management Process**

Keeping track of inventory is a very significant part of running a business. For this reason, the management of inventory is of the biggest importance to the company. Taking a careless approach to the management of inventory could prove to be disastrous for the company. It could result in an increase in the amount of time that manufacturing is idle, or it could damage the experience of the client by causing deliveries to be late.

#### **1. Reduction in Cost**

Every inventory item's re-order levels are sent to the appropriate parties using an efficient mechanism. By doing so, it is ensured that none of the items in the inventory are out of stock, which prevents any operation from being hampered and enables the most efficient utilization of storage capacity.

#### **2. Importance of Inventory Items**

In the process of managing inventory, it is always possible to determine which stocks are moving quickly and which are moving slowly for the company. This demonstrates how each inventory item contributes to the success of the business. With this knowledge, a corporation has the ability to either grow or decrease its production and sales.

#### **3. Streamline in Process**

A corporation might benefit in a variety of ways from having a process that is streamlined. Among the workers, there are less questions and concerns. There will be a reduction in the amount of time needed to educate new members about the procedure.

#### **Inventory Classification - ABC Classification, Advantages & Disadvantages**

Problems with inventory management are inevitable in any business engaged in the production, sale, or exchange of goods. An organization's inventory can be classified into raw materials, semi-finished goods, finished goods, and spare parts. Each item of inventory is considered an asset of the business and has monetary value regardless of its physical location or availability. Scrap metal has some monetary worth even when it is in its raw form. Different types of businesses may exhibit different patterns of inventory holding. There are cases where the inventory may have an extraordinarily high value, but there are also cases where the inventory may have an incredibly high volume and number of SKUs. A third party's warehouse or the production facilities themselves may physically process the inventory. It is common practice to include inventory





controllers in the process of managing inventory. Several crucial domains are embraced by inventory management. Maintaining ideal inventory levels, together with establishing order and replenishment schedules and amount requirements, is the main job of inventory controllers. To avoid the problems that can arise from having too much or too little inventory, they continually strive to keep the levels of inventory ideal and balanced.

#### **Advantages of ABC Classification**

- One can better manage the whole volume and give appropriate priority to the correct category by classifying inventory in this way. Products in the A Class are examples of really valuable things. Since an overabundance of this category's inventory can have a devastating effect on overall worth, it's possible to keep a careful eye on it to make sure it's always at the optimal level.
- High-Value Items in a Category: These stocks can be better monitored and controlled by strict process control, physical security measures, and audit frequency.
- Managers and inventory planners benefit from this since it helps them keep correct records and brings immediate attention to the problem at hand, allowing for better decision-making.
- Items in the B Category: These can be reviewed less frequently and with less stringent controls in place, provided that there is enough documentation and audit controls”.
- Items in Category C: Can be handled with minimal paperwork. With less frequent evaluations, inventory quantities can be increased.

#### **Disadvantages**

- Controllers can be misled by inventory classification since it does not take SKU movement frequency into account.
- There is a risk of loss, theft, lax record keeping, etc., when B & C Categories are disregarded and large quantities of stockpiles are created.

#### **Conclusion**

There is a great deal of duplication of effort and reliance among the various components of any given company or organization. Inventory management, logistics, and supply chain administration are the three pillars upon which the transportation function of the organization rests. As a result, marketing managers and financial controllers agree that these responsibilities are crucial. The state of the supply chain and the balance sheet are both affected by ineffective inventory management. In order to achieve their goals and avoid the financial consequences of overstocking or understocking, every company aims to maintain the appropriate inventory levels. The stock on hand is ever-changing. In order to keep track of stock, one must regularly assess both internal and external issues, and then take steps to regulate or mitigate them. Most businesses have an entire division or position dedicated to inventory planning. They are responsible for the inventory department's routine monitoring, control, and evaluation and interface with production, procurement, and finance.

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