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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: MBA III SEM..

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LECTURE-18

OBJECTIVES OF INVENTORY MANAGEMENT:

Efficient inventory management should result in the maximization of the owner's wealth. For this purpose, a firm should neither hold excessive inventories nor hold inadequate inventories, i.e., it should hold the optimum level of inventory. The optimum level of inventory investment lies between the point of excessive and inadequate levels.

In other words, there must not be an over investment or under investment in inventories.

The dangers of over investment in inventories are:

(i) Funds of the firm are tied-up unnecessarily;

(ii) It creates loss of profit;

(iii) Excessive carrying cost and risk of liquidity increases.

As such, the opportunity cost and carrying costs (viz., cost of storage, handling, insurance etc.) increase proportionately. No doubt, these costs will impair the prof-itability of the firm. Excessive investment in raw materials will prove the same result except at the time of inflation and scarcity.

Similar results may also be noticed for the over investment in work-in-progress since it is very difficult to sell. Similarly, many difficulties will appear to dispose of excessive finished goods since time lengthens (viz., the goods may be sold at low price etc.).

Moreover, for carrying excessive inventory physical deterioration of the same may occur while in storage. From the above, it becomes crystal clear that there must not be an over investment in inventories.

Similarly, inadequate level of inventories is not also free from snags.

The consequences are:

(i) Production may shut-down;

(ii) Commitment for the delivery may not be possible;

(iii) Inadequate raw material and work-in-progress will create frequent production interruption;

(iv) Customers may shift to the competitor if their demands are not met up regularly, etc.

Thus, the objective of inventory management is to maintain its optimum level in the following manner:

(a) To ensure a continuous supply of materials to facilitate uninterrupted pro-duction.

(b) To maintain sufficient stocks of raw materials during short-supply;

(c) To maintain sufficient finished goods for efficient customer service;

(d) To minimize the carrying cost; and

(e) To maintain the optimum level of investment in inventories