



# Types of Inventory

## Learning Outcomes

**By the end of this unit the learner will be able to:**

- ✓ Explore various types of inventory
- ✓ Identify the goals and objectives of inventory management and measure your process against these goals

## Types of Inventory

If inventory is to be controlled, a manager must understand the functions it serves. Here is description of different inventories.

### Anticipation Inventories

Anticipation inventories are built in anticipation of future demand. Many firms have seasonal periods of high sales, and the work force cannot keep up with customer demand during this period. Therefore, inventories are built prior to the seasonal increase to satisfy customers and to maintain a stable workforce. Promotions and new products normally require the building of anticipation-type inventories. Possible labor strikes and vacation shutdowns are other reasons for building this type of inventory. Examples of this type of inventory include seasonal merchandise such as lawn mowers and snow blowers.

### Fluctuation Inventories

These inventories are necessary when demand and supply fluctuate. Safety stocks are typical examples of fluctuation inventories. Another example would be turkeys, which are in small demand except for around certain holidays.

### Lot Size Inventories

Most manufacturing companies do not produce or purchase items exactly at the rate they are used or sold because of setup charges for manufactured items or ordering costs for purchased items. Items in excess of immediate needs (such as pharmaceutical lot control for recalls and legal requirements) provide an example of lot size inventory.

### Transportation Inventories

These inventories are necessary because materials are moved. Most manufacturing companies sell on a regional, national, or even world basis. Where regional warehouses are used or where product is transferred between plants prior to or during the selling process, the inventory required to support the transit time is known as transportation inventory.

### Classes of Inventory

- Raw materials and supplies to support production
- Work-in-progress items (WIP)
- Internal use only (i.e., maintenance and operating supplies)
- Promotional
- Finished goods
- Purchased products for resale and distribution

## Key Players

### The Role of Your Customers

When we think of inventory management, we don't always think of customers as being an integral part of the system. We think of numbers, budgets, and space. However, for inventory management to be successful, customers must be an integral part of the process.

Let's look at the definition of customer service. Customer service is supplying requested information/goods/actions to meet the expectation of the requestor. We certainly can't supply the information or goods if they're not in stock!

One of your customers is top management. As we mentioned earlier, the cost of carrying inventory is estimated to be about 20% to 25% of the value of the inventory itself. This steep cost is due to such factors as interest paid or lost on the cost of inventory, insurance, storage, handling, breakage, pilfering, obsolescence, and counting the items themselves. Management is probably not going to be happy about this cost; proper inventory management procedures need to be in place to keep this cost under control.

### Reducing Costs

Well-managed inventories can also help reduce other costs, such as:

- The direct expenses of a business
- The cost of borrowed money
- Storage costs
- Obsolescence
- Taxes
- Insurance

These expenses amount to 20 to 30% of each dollar's worth of inventory in the warehouse.

### Your Customers

Here is a list of some other customers you may not have realized you are serving. (We have included examples from both a manufacturing/distribution point of view and a public sector point of view.)

### Internal Customers

#### *Manufacturing & Distribution*

- Production
- Packaging
- Maintenance
- Cold Storage
- Shipping

- Sales
- Distribution
- Fleet

#### *Public Sector*

- User Departments
- Engineering & Public Works
- Fire
- Police
- Community Services
- Transit
- Library
- Museum
- Zoo
- Administrative Offices

#### **External Customers**

##### *Manufacturing & Distribution*

- Distributors
- Agents
- Business Enterprise
- Government
- Wholesale/Retail Industry
- Service Industry

##### *Public Sector*

- Taxpayers

#### **Hiring and Training Staff**

The selection and training of staff for the inventory management team is key to the success of any business.

In many organizations the hiring process is controlled externally by management staff. Ensure that the Human Resource department has a detailed list of traits and skills that are required and a list of “nice to have” skills of your new hire. If possible, participate in the interviewing process to ensure a correct fit is found for the position.

Things you should keep in mind:

- Know the job you are hiring for. Know the knowledge, skills, and abilities required to do the job right.

- Have a job description for every position. Certainly roles are changing, and you want people to be flexible, but how can you explain your expectations to a new employee without some type of position profile?
- If you take part in the interview process, be prepared for behavioral and situational questions. Behavioral questions explore a candidate's past behavior in specific situations, and situational questions describe a situation in detail and ask the candidate how they would handle a situation like that described.
- Consider the value of having some formal education in warehouse management as a prerequisite to being hired to your organization, or hiring someone who has knowledge of inventory and warehousing systems that they have learned along the way. Courses are available in many formats, including training that supports the type of electronic (computer) systems that you use within your company.
- When the new employee arrives on the job, spend some time giving them an orientation to the workplace and the job, and create an opportunity to tell the new employee what you expect from him/her.

### **Key Skill Areas for Inventory Management Staff**

Here is a typical list of traits and skills that inventory management staff needs. Remember, the key to the success of any operation or function is the quality and competence of your staff, and management's ability to recognize the skills of individual staff members and capitalize on them.

#### **Aptitude**

- Displays an interest and understanding of the normal day-to-day operations.
- Responds to the daily demands of the job.

#### **Common Sense**

- Applies knowledge in a practical way.
- Finds the appropriate compromise between the theoretical and practical.

#### **Analytical Ability**

- Thinking habits are orderly and thorough.
- Approaches a problem by weighing the facts carefully and arriving at a sound conclusion.

#### **Ingenuity**

- Uses past experiences and situations to avoid problems and improve procedures.
- Looks for new and better approaches to reach job objectives.

#### **Decisiveness**

- Generally makes good decisions promptly.
- Knows when a decision requires additional input.

#### **Assertiveness and Initiative**

- Is a self-starter who shows resourcefulness in handling day-to-day situations.

- Responds effectively and assumes responsibility for one's actions.

#### **Responsiveness**

- Plans use of time.
- Meets deadlines.

#### **Conscientious and Persistent**

- Works diligently.
- Is dependable in performing duties.

#### **Self-Reliance and Flexibility**

- Requires a minimum of supervision.
- Possesses confidence and expertise to start and complete a job.
- Accepts changes readily and does not display undue frustration.

#### **Tact and Cooperation**

- Displays composure under normal pressures and is diplomatic in response to difficult situations.
- Willing to assist or become a team player.

### **Further Reading:**

