

# CLASS 10

## **Selective inventory control techniques:**

Selective inventory control techniques are methods of managing inventory by grouping items based on their importance, value, usage, or criticality, so that different levels of attention can be applied to each group. The principle is that not all items require the same level of supervision, allowing management to focus on the most significant items for efficient and economical control. A real-life example of this is in a retail supermarket, where high-value or fast-selling products like electronics and branded items are closely monitored to prevent stock outs, while low-value or slow-moving items such as basic stationery receive less frequent attention, helping the store optimize inventory and reduce holding costs.

## **ABC ANALYSIS**

Inventory Analysis A-B-C analysis is a basic analytical management tool, which enables any store managers to expand his effect and energy where the results will be best. This analysis is purely based on Selective Management Principle or Pareto's Law. It is also popularly known as "Always Better Control" or the alphabetical approach, has universal application in many areas of human endeavor. A-B-C analysis does not depend on the unit cost of the items but only on its annual usage and not on their importance because all items are important. Analysts commonly classify inventory into three categories 'A', 'B', and 'C'. The 'A' items have a high annual usage in terms of money investment. 'B' items are average, while 'C' items have a low value of usage. Every item in inventory is ranked and listed in order of items annual value of usage. At the top of the list would be the high value items, followed by a longer list of medium value items and finally a long list of low value items. The dividing line between classes of items is arbitrary. The normal items in most organizations show the following pattern:

- 1) 10 per cent to 15 per cent of the top number of items account for about 70 per cent of the total consumption value. These items are called 'A' items.
- 2) 20 per cent to 25 per cent of the number of items account for 20 per cent of the total consumption value. These items are called 'B' items.
- 3) The remaining 65 per cent to 70 per cent of items account for the balance 10 per cent of the total issue value. These items are called 'C' items.

It is evident that controlling the small number of items amounting to 10 per cent of the total number of items will result in the control of 70 per cent of the monetary value of the inventory held and ordered. Hence, the main aim of this technique is to distinguish those items that have the most bearing on the inventory costs, so that management can concentrate efforts on those items that promise the highest possible pay offs in terms of savings. Thus, with A-B-C analysis more attention can be paid to few high value items rather than low value ones.

### **Mechanics of A-B-C Analysis:**

The mechanics of classifying the items into 'A', 'B' and 'C' categories is described in the following steps:

- 1) Calculate rupee annual issues for each item in inventory by multiplying the unit cost by the number of units issued in a year. It is assumed that the issues and consumption are the same.
- 2) Sort all items by rupee annual issues in descending sequence.
- 3) Prepare a list from these ranked items showing item no., unit cost, annual units issued and annual rupee value of units issued.
- 4) Starting at the top of the list, compute a running total, item-by-item issue value and the rupee consumption value i.e. cumulative cost of the items.
- 5) Compute and print for each item the cumulative percentages for the item count and cumulative annual issue value.

Hence, we must remember the basic principles in A-B-C analysis are:

- i) The analysis does not depend upon the unit cost of the items but only on its annual consumption value
- ii) It does not depend on the importance of the item; and
- iii) The limits for A-B-C categorization are not uniform but will depend upon the size of the undertaking, its inventory as well as number of items controlled.