

Stock Control

Stock (inventory) is the materials, components and products used in the production process.

- 1. **Raw materials** (natural resources like wood, oil and metal ore)
- 2. **Work-in-Progress** (semi-finished/unfinished products)
- 3. **Finished goods** (completed output ready for sale)



Superdry

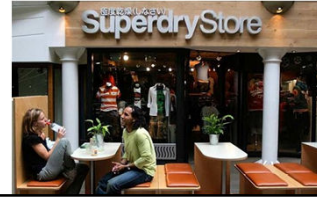
極度乾燥(しなさい)

The share price of Super Group fell by 30% in just one day when management issued a warning to shareholders that profits will be well below expectations.

Management blamed a new warehouse IT system which, they claimed, had left stores short of stock. They estimated that resulting loss of sales (customer demand, but no stock to sell) would knock £6m to £9m off its profit for 2011.

Should Superdry have held large amounts of stock?

What external factors can make stock management difficult?



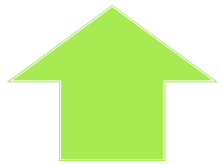
Stock Control



Without sufficient stock, sales will be interrupted, affecting...?



However, holding excess stock (stockpiling) can lead to other problems...such as?



Stock Control Approaches

JIT
(Just in Time)
Stock delivered as and when needed...no buffer stock.
Pros and cons?

JIC
(Just in Case)
Keeps reserve (buffer) stock
Pros and cons?

DS Café (page 611)

One side in favour of JIC

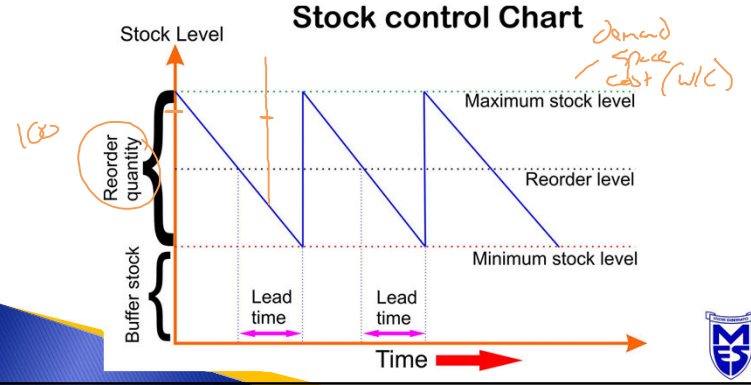
The other in favour of JIT

Who will be more convincing?!



Stock Control Charts

Graphically illustrate a simplistic system of stock control.



Usage rate

In reality, charts might not be so predictable due to miscalculations and external factors.

If the usage rate (the speed at which stocks are depleted) might be higher or lower than predicted. Consequences?

Too high - run out - annoyed customers - ↓ profit
Too low - low sales, excess stock (cost).



Optimum stock level

The 'ideal' level of stock will vary between businesses and industries based on several factors...

- Lead time and location of suppliers (import/domestically)
 - Cost / space of storage
 - Forecast level of demand.
 - Product - perishable
- EMCG / SMCG
Continuable

Capacity utilisation

Measuring a firm's existing output as a % of its potential output per period of time.

$$\frac{\text{Actual Output}}{\text{Production Capacity}} \times 100\%$$

As a general rule, firms need to maximise capacity utilisation to ensure coverage of fixed costs and maximum efficiency. However, 100% is often unsustainable and inflexible.

