Discuss several reasons why managers often neglect the true costs of holding physical inventory. What has happened to change our perspective about holding physical inventory? What are the benefits of calculating the total cost of ownership associated with carrying physical inventory?

Step 1:

The expenses incurred for keeping goods or inventory in a warehouse are known as inventory holding costs. Inventory that is kept on hand is a liability that reduces profit margins and raises operating costs for firms. Inventory holding costs include rent for the premises, security fees, depreciation costs, and insurance.

Step 2:

The main effect of keeping more inventory is how it affects a company's working capital. Costs associated with ordering and maintaining inventory are higher, and carrying excessive amounts of merchandise requires physical space.

Because it limits your business's flexibility, companies do not want to maintain inventory. The ability of your business to respond to changing customer demand is hampered by having too much inventory on hand. The business can remain adaptable to changes in the market by maintaining a lean, appropriate amount of inventory.

Inventory management is expensive and takes time and money away from other aspects of your business.

Step 2: physical inventory

A physical inventory is a thorough, frequently yearly count of the stock that a company has available. A more organised technique for counting segments of the stock is cycle counting. Cycle counting is occasionally done everyday by businesses, and it's recommended to do it at least once every three months.

To maintain accurate and up-to-date inventory records, physical inventory counts are a crucial component. Better sales and purchase estimates may be made thanks to accurate inventory records, which also guarantee that you always have the proper amount of stock on hand.

Because it reconciles the actual goods in storage with the inventory count on the system, physical inventory count is a crucial stage in inventory management.

Step 3:

The total cost of ownership (TCO) of an asset is made up of the item's purchase price plus any ongoing running expenses. To determine the long-term worth of a transaction to a business or person, consider the total cost of ownership.

TCO enables buyers to consider expenses such as those related to setting up the equipment, maintaining it over time, instructing staff on how to use it, and monitoring its utilisation while it is in use in addition to the equipment's purchase price.

the costs, both direct and indirect, involved in producing a good or service, as well as how valuable something is in relation to how much of an impact it will have on its intended market. the overall importance given to values including income, scalability, agility, and productivity