<u>**INVENTORY CONTROL TOOLS:**</u> Various tools used for control the inventory.

1) ABC analysis – Items are classified as A,B,C on the basis of Annual consumption value.

2) VED analysis – to ensure higher service level, the items are classified as vital, essential and desirable based on the functional utility the consuming department.

3) Value engineering – It aims at greatest value on the money spent. Value is different from cost. Value is a combination of various things ie quality, service and price. While cost is a measure of the effort of the manufacturer in making the product, value is dependent on what the product does.

4) Variety reduction – it is also called rationalisation. By this process all non standard and non rationalised sizes whose demand are nil or meagre are completely eliminated. It reduces unit cost, Inventory Carrying cost and reduction in inventory holding and results in purchase of large quantities of fewer times. It helps for standardisation and implication of materials.

<u>**ABC ANYLYSIS**</u>

This technique is popularly known as 'Always better Control' or the 'Alphabetical Control'. This analysis is the principle of selective control of inventories.

It is a modern technique used as a tool in Material Management department for inventory control. It is invented by Micheal Perado and Implemented by H.F. Dickie. This analysis helps the Manager to have better control and more output in controlling the budget.

Category	Type of control	% of Items	% budget value
A	Always control	10 %	70 %
B	Better control	20 %	20 %
C	Control	70 %	10 %

10 % of the total items which are occupying 70 % of the total budget are called A category items

20 % of the total items which are occupying 20 % of the total budget are called B category items

70 % of the total items which are occupying 10 % of the total budget are called C category items
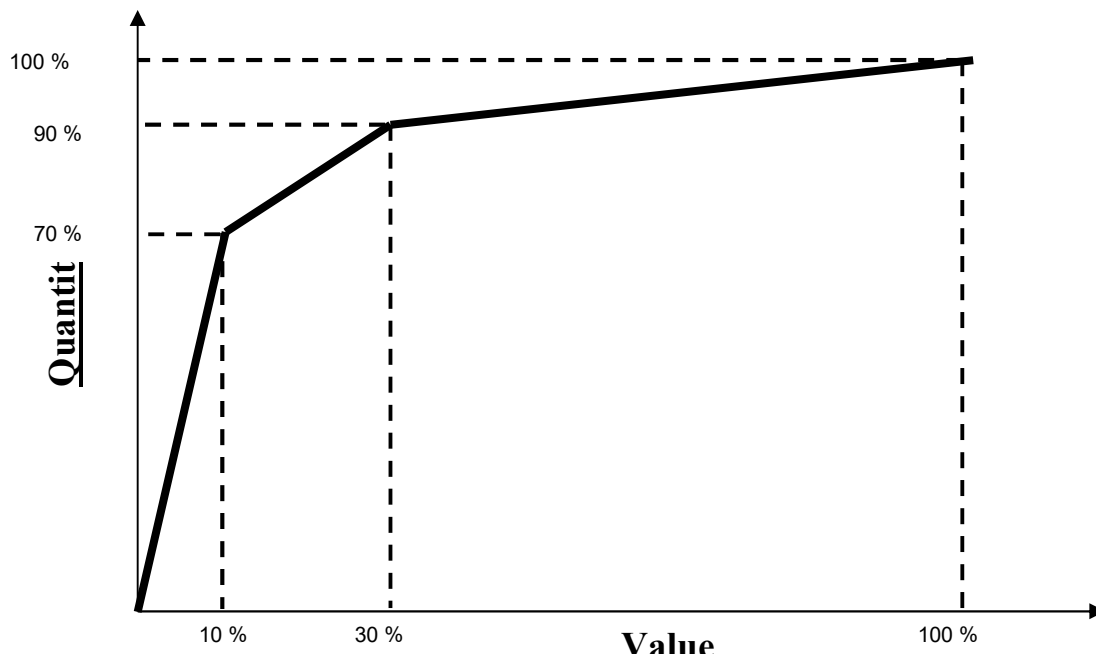
MECHANICS OF ABC ANALYSIS;
- The list of items used in a financial year is made along with cumulative value in the descending order from high value to low value.
- That cumulative value reaches 70 % of the total budget a line is dropped below the time and all the items above this line is called 'A' category items.
- The same type of line is made for 20 % of total value (total 90 % value of the budget) which identifies the 'B' category items.
- All the items below the line is identifies to 'C' category items.

ANNUA USAGE VALUE LIMIT: (Southern Railway / 2007-08)

Category	Annual usage value
A Category	More than 22 Lakhs
B Category	From 2.7 Lakh to 22 Lakhs
C Category –	Below 2.7 lakhs

SALIENT FEATURES OF THIS ANALYSIS:
- This analysis depends on only annual usage value.
- This analysis reviewed every year.
- This analysis made on Zonal Railway basis at IC section.

OBJECTIVES	A ITEMS	B ITEMS	C ITEMS
Extent of control	Very strict	Moderate	Loose
Reviewed by	COS/CMM	DY.COS	SMM / AMM
Period of review	Monthly	Once in 3 months	As when required
Maximum / EOQ	Not less then 3 months quantity	Not less then 6 months quantity	Not less then 12 months quantity
Over Stock	Stock more than 6 months requirement	Stock more than 12 months requirement	Stock more than 24 months requirement
Accounts stock	Once in 6 months	Once in 12 months	Once in 24 months

Verification			
Accounts vetting	By HQ finance	No vetting. Vetting only when the AAC increased by > 10 %	No vetting. Vetting only value increased more than the C category limit

Advantages of the ABC analysis

1. Helps to have best control over the capital locked in the form of materials.
2. It helps the Manager to have a Selective control over Inventory.
3. It reduces the percentage of out of stock by providing optimum stock in selective inventory.
4. Purchasing as and when required and phased deliveries based on actual needs may leads to maximum control over budget.
5. It helps to achieve maximum service level at minimum inventory

Disadvantages of the ABC analysis

1. The analysis does not care about vital and safety nature of the items.
2. The analysis does not consider the unit cost of the items.
3. The too earlier review may lead to obsolete the stock.