

# Who needs to hold stock?

Stock control is a vital activity to successful business operations. This Knowledge Byte considers some of the elements that contribute to the cost of holding stock, and the need for technology as the enabler for agile and flexible operations.

**To the untrained supply chain professional it's good to hold stock. In a manufacturing context, having the materials to hand to enable product to be made is good. Similarly, in the services industry, serving customer needs would be impossible without having the resources to accomplish the task.**

The professionally trained buyer will take a more considered scientific approach. Don't be scared by the different formulae for stock control that people quote. What is more important is to understand the methodology.....the issues around holding stock.

Organisations cannot function without utilising resources. The key issues around stock control involve knowing what quantity of material should be held, by whom in the supply chain, and to quantify the costs of failure to supply the factory/office.

It costs money to hold stock. Let me demonstrate this by using an example of a home freezer full of food. What are the costs of holding that food? These may include the following:

- The cost of the food
- The capital costs of the freezer.
- The running costs for the freezer.
- The cost of insurance to cover the contents of the contents in the freezer (and the freezer itself).
- Knowing what is in the freezer and operating some sort of stock rotation policy.
- Theft may not be a problem for the contents of the domestic freezer, but security will certainly be a consideration and a cost in the commercial environment.

- The cost of the space (overhead costs) for where the stock is held also need to be considered.

The author of this Knowledge Byte suggests that is costs around 35% of the value of a product to hold that product for a year.

The other side of the equation is the implications of not having the stock. Does the business cease to function? In the retail environment is it a lost sale? In heavy industry, the traditional approach was to hold buffers of stock. Manufacturing continued, but how efficient were processes and systems? The Japanese motor industry introduced the concept of 'lean manufacturing', that is, suppliers delivering goods straight to the production line according to 'just in time' principles.

For the 21st century, the supply chain professional will be aware of the need for a blended approach between holding stock and lean operations. Agility and flexibility within the supply chain are what generate competitive advantage. Looking to the future, technology is going to enable different ways of managing stock. In the domestic scenario, the simple freezer may be replaced by the 'intelligent refrigerator'. In the commercial environment, technology such as the use of Radio Frequency Identity Tags (RFID) are allowing the recording and monitoring of stock as it moves through the supply chain.

The reader is encouraged to contact the Professional Practice Team at CIPS, or the Chartered Institute of Logistics and Transport (CILT) for more information on issues around holding stock.

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