

A Study on Inventory Management System in Faywalk Fashions at Tuticorin

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ABSTRACT

The main aim of this study is to analyze the performance and controlling techniques of existing inventory system in “Faywalk Fashions” at Tuticorin. It also aims to know about the inventory turnover and stock positions of the company. It helps to know about the time taken for moving the product from warehouse to other sources. The major objective of the study is (i) to know about the inventory turnover and stock positions in the company, (ii) to know about the stock maintenance practices and (iii) to give suggestions for the improvement in inventory management system of the company. Some of the major tools used in this study are inventory turnover ratio, economic order quantity and ABC analysis. The study on inventory management system includes findings, suggestions and conclusions and it also reveals the stock positions in the organization.

Keywords: Inventory management system, inventory turnover, stock positions, and economic order quantity.

1. INTRODUCTION

Inventory management is of greater significance in almost all types of business organizations. The basic financial aim of an enterprise is to maximization of its value. The term inventory refers to the stockpile of the products a firm is offering for sale and includes the components that make the product. However, the inventory management estimates the influence of changes in firm's decisions in compromise between limiting risk by having greater inventory and limiting the cost of inventory. It is the essential problem of the corporate financial management. The aim of financial inventory management is holding the inventory to a minimally acceptable level in relation to its cost. In inventory management holding inventory refers to using of capital to finance inventory and links it with inventory storage, insurance, transport, obsolescence, and wasting and spoilage costs. However, maintaining a low inventory level can, in turn, lead to other problems with regard to meeting supply demands. An organization's inventory management system comprises of including the raw materials, work-in-process (semi-finished goods) and finished goods.

Various Types of Inventory Costs: Inventory management system may consist of various inventory costs for maintaining a better stock position in the company. Inventory cost can be divided into different categories based on the cost nature. They are ordering cost and carrying cost.

Ordering Cost: It refers to the cost of placing and receiving an order to acquire inventory. It can be minimized by having large and infrequent orders. This cost can also be called as the acquisition costs or set-up cost. It is so called set-up cost because the cost of acquiring materials consists of clerical cost and stationary cost. For example cost of processing a purchase order.

Carrying Cost: It refers to the cost of holding inventory before its sale. It can be minimized by placing small order. For example storage cost, obsolescence, opportunity cost of investment tied up in inventory.

Company profile: The Company Faywalk Fashions was promoted by SEYAD GROUP in the year 2003 and was established in Tuticorin. The company manufactures cloths and also involved in manufacturing and exporting of bed linen fabrics, bed sets, jacquard napkins, jacquard table cloths and jacquard fabrics. The company also manufactures t-shirts, shirts and knitted garments. The company was promoted by Seyad group as the branch of Seyad Cotton mills, Trinelvei.

Seyad Cotton mills was incorporated in the year 1983 primarily as a private limited company under the Sec 43-A and then later it turned into a public limited company. The cotton mill was formulated to manufacture cotton and yarn and it comprises of having 7040 spindles in the initial stage and later the spindles were increased to 20,272 spindles in the year 2005. Recently in the year 2013 the spindles has been increased to 35,000 from the previous stage. It renders valuable services to handloom weavers by supplying the yarn of required counts at reasonable prices and safeguarding the interest of the weavers. The company exports its products to foreign countries like Srilanka, Malaysia, etc.

Fay walk is one of the fastest growing textile groups in India. Their main business is textiles retailing, garments manufacturing and home textile exports. The group is currently manufacturing and home textile exports in Tuticorin. The group has currently textile showrooms in Tuticorin which were established in the year 2008. Faywalk has always strived to balance both the traditional and the contemporary in innovation and excellence both in art and craft. A drive to make a difference and recreate history is the passion and inspiration of the company.

Departments in Faywalk Fashions: The Company manufactures raw materials from Mumbai through suitable mode of transportation. The company has various departments for manufacturing a product. The departments include spinning department in which the materials are spinned into form a perfect material for producing a product. Then

there is stitching department in which the materials are stitched into a useful fabric by the efficient and well trained employees. Then the factory comprises of Embroidery department in which the embroidery designs are entered in the shirts and T-shirts which can be attracted by the customers. The embroidery can entered either through machine embroidery or through hand embroidery. Then there is Finance department in which the accounts are maintained by the efficient and well experienced auditors and the finance manager. The company also consists of human resource and marketing department in which the employees are employed through direct interview. The wage payment system of the company to the employees is monthly payment. The company promotes employees through their performance towards the organization. The company's products are marketed and exported to Mumbai, Tirunelveli, Tuticorin and Chennai through agents throughout the country. The competitors of the company's product are Ram raj, MCR and Classic Polo.

Statement of the problem: The basic financial purpose of the firm is to maximize its value and inventory management system. The inventory management models used by the organization will maximize its value of the organization. In certain situations it is necessary to restructure the inventory model to improve the efficiency. Under this study inventory models are used to analyze per view of the organization.

Objectives of the study: The objectives of this study are as follows:

- To know about the inventory turnover and stock positions of the company.
- To analyze the inventory through various inventory management techniques.
- To give suggestions for the improvement in inventory management system of the company.

Scope of the study: The objective of the company is to minimize investment in these inventories. The study covers the period of about five consecutive years for knowing about the duration within which the raw materials gets converted into work in progress and gets converted into finished goods and then it is send for sale and may yields a return. It helps to identify the problems in the inventory management and to give suggestions for the betterment in the organization.

2. METHODOLOGY AND DATA COLLECTION

The study is based on analytical research based on the collection of secondary data collected from the past five year's balance sheet and annual reports provided by the company. On the basis of the secondary data the analysis has been done by inventory turnover ratio, economic order quantity (EOQ) and ABC analysis.

3. DATA ANALYSIS AND INTERPRETATION

Inventory turnover ratio: The inventory turnover ratio indicates how fast the inventory is sold from the company. The inventory turnover ratio refers to the ratio between sales and the average inventory. A high ratio is good from the view point of liquidity and vice versa. A low ratio would signify that inventory does not sell fast or it will remain in the warehouse for a long time.

$$\text{Inventory turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Inventory}}$$

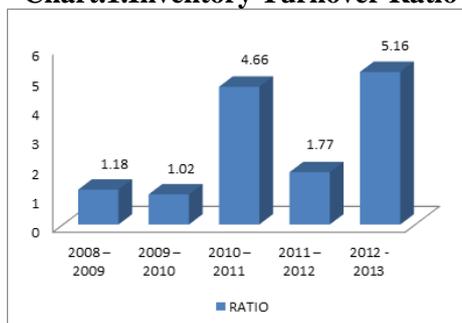
The inventory ratios of the company are stated in the table below as follows

Table.1.Inventory Turnover Ratio

Year	Sales	Average inventory	Ratio
2008 – 2009	4,09,431.70	3,46,870.70	1.18
2009 – 2010	3,33,350.00	3,27,059.78	1.02
2010 – 2011	1,40,65,279.50	30,21,855.78	4.66
2011 – 2012	2,30,75,288.60	1,30,72,865.60	1.77
2012 – 2013	2,77,79,636.50	53,88,254.77	5.16

The Inventory Turnover Ratio of the company are represented in the below diagram

Chart.1.Inventory Turnover Ratio



Source : Secondary data

Interpretation: It is noted from the table and diagram that high inventory ratio is recorded during 2012-2013 which is 5.16. In 2010-2011 the ratio is comparatively high as 4.66. But the ratio is very low during other periods.

Economic order quantity without shortage:

Formula:

$$EOQ = \sqrt{\frac{2CoD}{Cc}}$$

The EOQ without shortage for five years are shown in the below table as follows

Table.2.Economic Order Quantity without Shortage

Year	EOQ Without Shortage (Units)	Days	Order In Year
2009	171	10	35
2010	201	9	40
2011	229	8	44
2012	255	8	47
2013	274	11	35

The EOQ without shortage for five years of the company are represented in the below diagram

Interpretation: The above chart represents the economic order quantity with shortage for five years. The chart shows that there is increase of ordering quantities in the year 2013. Thus the organization may order more quantities in the future period.

Economic order quantity with shortage for five years:

Formula:

$$EOQ = \sqrt{\frac{2CoD Cs + Cc}{Cc Cs}}$$

The EOQ with shortage for five years of the company are shown in the below table

Table.3.Economic Order Quantity with Shortage

Year	EOQ with shortage (in units)	Days	Order in year
2009	174	1	34
2010	204	0.01	40
2011	233	-0.66	43
2012	258	0.02	47
2013	278	0.02	45

The EOQ with shortage for five years of the company are represented in the below diagram.

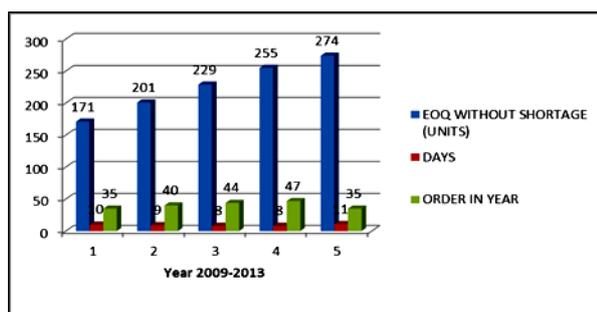


Chart.2.Economic Order Quantity without Shortage

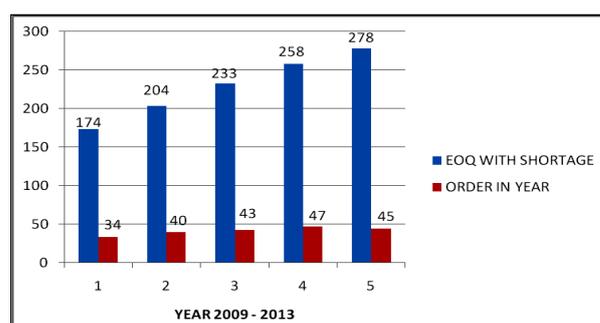


Chart.3.Economic Order Quantity with Shortage

Source: secondary data

Interpretation: The above chart represents the economic order quantity without shortage for five years. The chart shows that there is increase of ordering quantities in the year 2013. Thus the organization may order more quantities in the future period, when there is no shortage in the inventory.

ABC analysis (Always Better Control): ABC analysis refers to the inventory control technique which divides the inventory into three categories as A, B and C based on their annual consumption value. ABC analysis is also called as Selective Inventory Control Method (SIM technique).

Category	Percentage of total items	Percentage of total material cost
A	5 to 10	70 to 80
B	10 to 20	10 to 20
C	70 to 80	5 to 10

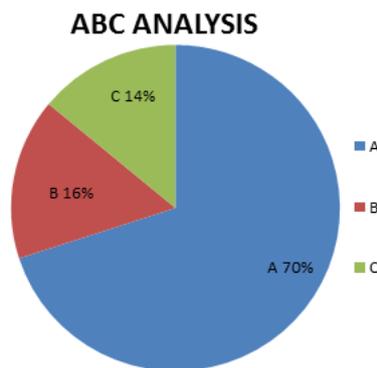


Chart.4.ABC classification of faywalk fashions

Interpretation: The above ABC analysis chart shows the consumption based on ABC analysis that there is 70 percentage of A category product and 16 percentage of B category product and 14 percentage product of C category products are available for the period as on 31/03/2012 to 31/03 2013.

Findings and suggestions:

- The inventory turnover ratio of the firm has been increased to the maximum of 5.16 in the current year 2012-2013.
- From the study it reveals that the EOQ with order quantity has been increased in the current year when there is no shortage of stock in the organization.
- The study also states that the EOQ with order quantity has been increased in the recent year when there is shortage in the organization.
- In ABC analysis the number of items in A, B and C are in the ratio of 70 percentage, 16 percentage and 14 percentage as on 31/03/2012 to 31/03/2013.
- The study suggests that the company is having a regular usage of inventory, so the company is having a better inventory turnover in the upcoming years.
- The company is having a better future for growth. So it is suggested that the company should try and revamp its operations and they should lower the price.
- The analysis reveals and suggests that the company should follow ABC analysis in order to consume more value of inventories.

4. CONCLUSION

The financial goal of an enterprise is to maximize the owner's wealth. Inventory management technique must contribute to this goal. The stock and a sale of the company have to be increase by reducing the cost. A better inventory management will surely be helpful in solving the problems the company is facing with respect to inventory and will pave way for reducing the huge investments. The level of inventory to be maintained is dependent on lead time and storage space. Hence, the objective to minimize investment in inventories while providing a high level of customer service can be achieved by adopting the suggestions given in the study.

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