

Developing the Inventory Policies with the application of ABC Categorization: The case of Footware Industry

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Abstract

This research article leads to developing the strategy for creating inventory policies that is based on the ABC categorization of inventories. A popular technique for classifying inventory items according to their value is the ABC categorization. Organizations can prioritise the resources they devote to managing each sort of inventory by dividing it into categories A, B, and C. With the application of ABC technique, the amount tied up with the inventory holding cost can be significantly reduced while keeping high-value items accessible. With the aim of reducing holding costs while ensuring the availability of high-value items chosen on the basis of ABC categorization, this strategy is frequently used to prioritise the resources that an organisation spends managing its inventory. Researchers in the past suggest that using the ABC categorization can be an effective way to find out which products are high-demanding. The problem under study is the shoe company in Pakistan. Application of ABC analysis with inventory policies according to the A categorization inventory (Min/Max) policy. B-categorization inventory with Q and R policies and C-categorization inventory with periodic review policies. Implementing inventory policies led to a considerable decrease in holding costs, stock-out costs, and overall expenses based on the ABC categorization of inventories. Particularly, costs associated with keeping inventory were reduced by 30%, costs associated with running out of stock were reduced by 45%, and overall expenditures were reduced by 31%. These improvements show how applying the ABC categorization system and the implementation of realistic inventory policies can minimise costs and maintain availability.

Keywords: Holding cost, stockout, ABC Analysis, Inventory policies