CHAPTER – V
FINDINGS, SUGGESTIONS AND CONCLUSIONS

Modern Management can achieve its true potentials
in the shifting environment of modern times
with the proper blend of science and Judgement skills.
- Patrick J.Robinson

Inventory Management assumes considerable significance in the proper functioning of public enterprises. For proper inventory management it is necessary that inventory decisions must be taken rationally on the basis of quantitative evaluation of the relevant factors involved. Inventory management covers fixation of minimum and maximum levels, determining the size of inventory to be carried, deciding about the issues, receipts, inspection procedures, determining the economic order quantity, proper storage facilities, keeping check over obsolescence and ensuring control over movement of inventories. Thus inventory management plays a vital role in the economic operations of an undertaking. To achieve higher operational efficiency and profitability of an organization, it is very essential to reduce the amount of capital locked up in inventories. Thus it is important that inventory should be properly controlled.

The present study covers various aspects of inventory management practices, followed by Central Public Enterprises in Salem from 1999-2000 to 2008-09. The study covers two Central Public Enterprises namely Salem Steel Plant and Burn Standard Company Limited. Both of them are functioning under the company form of organisation. Salem Steel Plant is a unit of SAIL, with its headquarters at New Delhi, whereas BSCL is the subsidiary of Bharat Bhari Udyog Nigam Limited (BBUNL) with its headquarters at Kolkata in West Bengal. Now it is merged with SAIL, and named as SAIL Refractory Company Limited.

Inventory constitutes a significant part of the total assets as well as the major element of working capital in Central Public Enterprises, Salem. So the inventory management plays a significant role in increasing profitability and liquidity of public enterprises. Unfortunately the importance of inventory management has not been fully
realized by public enterprises in general and very little efforts have been made to control the investment in inventories. So an attempt has been made to study the extent to which SSP and BSCL have efficiently carried out inventory control techniques to minimize the investment in inventories.

FINDINGS

Purchase Policy and Procedure

Purchase policy of SSP is governed by PCP of 2006 and of BSCL by purchase Manual of 2009. The emphasis on policy stresses the important role of purchasing in public enterprises. It gives authority to purchase personnel for an intended course of action. It also helps them to take decisions which will be consistent. Deviations from PCP may be permitted for recorded reasons with specific approval of Managing Director of the plant. But it should be reviewed from time to time, to maintain fair competition in public procurement. Up-to-date revision of purchase policy helps the public enterprises to channalise the purchase action towards the attainment of successful and economical purchasing. The purchase procedure of Central Public Enterprises is lengthy and complicated. The recognition of need, their specification, source selection, ordering, receiving and checking etc. is a time consuming process and also expensive.

Methods of Purchasing

The modes of purchase used by public enterprises are open tender, global tender, single tender, limited tender, rate contract, repeat order, emergency purchase etc. Open tender method is used when suppliers are not known. If any item cannot be procured from internal market of the country, global tenders are made. Single tenders are used to buy proprietary items. Besides this certain orders are also placed with suppliers with whom the Director General of Supplies and Disposal has entered into rate contract. Sometimes they make emergency purchases to ensure uninterrupted production.

Limited tender as a method of purchases is very popular with Central Public Enterprises. In SSP Limited Tender constitutes 65% whereas in BSCL it constitutes 95% of purchases made through tender. The dependence on limited suppliers sometimes results in stock out situations. Sometimes they used to buy more to
maintain higher safety stock. So the excessive as well as inadequate stocks are common phenomenon of Central Public Enterprises in Salem. Sometimes the petty purchases are made directly by the various departments without inviting tenders in SSP. In BSCL high value products are purchased through pre-bid tender system without going through elaborate tender procedure. This reduces the administrative lead time and prevents accumulation of inventory to some extent in BSCL.

**Lead Time**

Lead time has two components: i) administrative lead time from the initiation of procurement action until the placing of an order and ii) delivery lead time from the placing of an order until the delivery of the ordered material. Though both the components of lead time help in the accumulation of inventory, the purchasing department is responsible for the administrative lead time, which arises almost out of its own behaviour and action. The average lead time taken by Public Enterprises in Salem in releasing the purchases order was 12 to 17 weeks. A number of factors are responsible for longer lead time. At present purchase of raw materials, other stores items, critical spare items are purchased from original equipment manufacturer. As a result most of the items are purchased in bigger lots which increased the lead time. Secondly purchasing people took long time to finalise the purchase order because of fear of criticism. Thirdly the red-tapism also contributed to the increase of the average time taken in releasing the purchase orders. At the same time financial concurrence with finance department for every purchase also lengthened the administrative lead time. Since there is no regular follow up procedure in regard to purchase order in Central Public Enterprises, Salem, there was an increase in delivery lead time.

**Net Work Analysis**

Network diagram for purchases in SSP shows that there was a slack of 8 days when purchases are made through limited tender enquiry. Through network diagram, it was inferred that they planned to finish the purchase activity within 122 days, but it was completed only within 152 days. So it is necessary to have minimum one month safety stock for every item to be purchased. It results in piling up of stock and accumulation of inventory.
**Import Substitution**

SSP and BSCL are using more indigenous raw materials for production. Raw material imports constitute 39.32% of total consumption in SSP whereas it was 27.80% in BSCL by the end of the study period. So the import substitution was effectively carried on by Central Public Enterprises in Salem.

**Analysis of Raw Material and Store Material Purchases**

Through comparative analysis of purchase of raw materials and store materials, it is found that SSP has succeeded in controlling the stores materials purchase and it was 9.24% and 8.88% of the total cost and total revenue respectively at the end of study period whereas BSCL has succeeded in controlling the purchase value of raw materials which was 17.84% and 15.98% of total cost and total revenue respectively at the end of the study period.

**Purchasing Efficiency**

The purchasing efficiency of SSP and BSCL was analysed by computing two ratios namely Total Sales/Total Purchases, and Total Purchases/Total Consumption. From Total Sales/ Total Purchase Ratio, it was evident that purchases and sales of Central Public Enterprises showed an increasing trend. At the end of the study period the ratio was low to the extent of 1.05 times (SSP) and 1.86 times (BSCL). This indicates that purchases of SSP and BSCL should be examined thoroughly. Total purchase/ Total consumption ratio showed a trend of building too much inventory in SSP, since it was more than one i.e. 1.10 times at the end of study period. In BSCL it was less than one i.e. 0.86 times and it indicates stock out situations. So the Central Public Enterprises must take steps to bring out a balance between purchases and consumption.

Effective purchase management helps in achieving higher profits. So every executive involved in purchasing should constantly remind himself that rules and regulations are guide and a means and not an end. They should look at problems not only from the point of view their department but also from the point of the enterprise as a whole, that is the only way to achieve optimum results.
Stores Management Practices and Issue Procedure

Since inventories influence the requirement of working capital, stores management practices demand great attention in Central Public Enterprises.

Both SSP and BSCL have well-equipped storage houses to accommodate various items. Central Public Enterprises have Integrated Material Management department wherein both purchases and stores practices are under the control of material manager. The stores receiving section of these public sector enterprises are responsible for receiving the materials and if they are upto the standard, the bills are sent to the accounts department and if the materials are below the standard they are sent back to the vendors. For returns and transfer of materials, ‘Materials Return Note’ is prepared and entries are made accordingly. First in first out method is used for pricing of material issues. This method helps to prevent deterioration.

Codification

Both the Central Public Enterprises in Salem are adopting scientific system of codification. SSP is using numerical code whereas BSCL is using Mnemonic code. This codification helps to achieve economy in time and ensures secrecy in stores operation.

Stock Verification

In Central Public Enterprises, Salem, there is no well-defined and planned programme for physical verification. Even though entries are properly made for receipt and issue of materials, reconciliation of value of stores in records and physical existence are not done during the study period. This results in accumulation of non-moving items in stores. Further difference in makes, designs and specification of plant and machinery results in undue stocking of stores and spares. The excess stocks were carried in anticipation of uncertainty in supplies and sometimes expectation of rise in price. So several items lay in vain in stores for number of years.

Non-moving Items

The disposal of non-moving items and surplus of stores were full of discontent in Central Public Enterprises. SSP has non-moving items worth `19.64 crores which remain in stores for more than 15 years. BSCL carried non-moving items worth
8.41 crores for more than seven years. So both public enterprises have incurred high inventory carrying costs. The statistical values of non-moving items showed more variation to the extent of 147.09% in SSP whereas it was to the extent of 12.63% in BSCL. From the regression results, it was found that the non-moving items had significant effect on stores inventory in SSP whereas it had less significant effect on stores inventory in BSCL. On the whole even though stores in public enterprises have more than two thousand items, the delay in disposing of non-moving items creates a loss on sale value of the stocks.

Evaluation of Inventory Management of Central Public Enterprises, Salem

(i) Composition of Inventory

Both in SSP and BSCL, the major components of inventory are raw materials, work-in-process, stores and spares, and finished goods. On an average, the finished goods inventory constitutes the highest proportion to the extent of 43.18% in SSP, and 39.71% in BSCL. Work in process inventory occupied a prominent place in SSP to the extent of 33.11% whereas it was low to the extent of 8.46% in BSCL. The share of raw material inventory was high in BSCL (35.22%) compared to SSP (16.91%). The stores and spares occupied a less prominent place in SSP (6.80%) whereas it was more in BSCL (16.61%)

(ii) Size of Inventory

In the course of analysis, it has been found that increase in inventory size in absolute figure (from `207 to `595 crores) had been noticed more in SSP. The size of inventory was large and formed on an average 72% of current assets and 15% of total assets. In BSCL the inventory size in absolute figure was low (from `15.73 crores to `14.90 crores). On an average the inventory constitutes 32% of current assets and 21% of total assets. Inventory holding period was 4 months in SSP and 3 months in BSCL. The stores and spares holding period in SSP showed an increasing tendency (from 273 days to 325 days) whereas in BSCL it showed an improvement with declining trend (from 171 days to 167 days).

(iii) Adequacy of Inventory

Inventory turnover ratio on the basis of sales ranged between 1.91 times and 5.03 times and on the basis of cost of goods sold it ranged between 2.39 times to 4.80
times in SSP. BSCL had the highest inventory turnover of 6.38 times on the basis of sales and 6.33 times on the basis of cost of goods sold. Since the inventory turnover ratio of SSP was below the suggested norm of 5 and 9 times, it had excessive stock of inventory, whereas BSCL showed a better position.

In case of raw material holding period, BSCL showed more variation from the norm (2 months) and the variation was insignificant in SSP. Regarding work in process SSP showed more variation from the norm (0.75 months) whereas BSCL showed more improvement. Thus the level of raw material inventory was satisfactory in SSP and BSCL had satisfactory level of work in process inventory.

Stores and spares and finished goods holding period were within suggested norm in SSP and BSCL. But stores and spares and finished goods inventory were overstocked in SSP than BSCL, because the holding period of stores and finished goods showed an increasing trend throughout the study period.

(iv) Growth of Inventory

The growth that has taken place in inventory vis-a-vis sales and output in SSP during the period also depicts that the average growth rate of inventory was more than growth rate of sales and output. The correlation Matrix also reveals that there was a high positive correlation between inventory, turnover and output.

In BSCL the growth rates of inventory came down in comparison to the growth rate of sales. The correlation matrix also reveals that there was a high positive correlation between turnover and output whereas there was low correlation between inventory and sales, inventory and output. Since the growth rate of inventory was less than the growth rate of sales, the inventory management of BSCL was better.

(v) Behaviour of Raw Material Inventory

The efficiency of the material management was moderate in SSP since variation of raw material inventory (96.71%) was high compared to variation of raw material consumption (53.70%). In BSCL the variation of raw material inventory and consumption were 38.98% and 38.58% respectively. It reveals more or less consistent behaviour of raw material inventory. So the material management of BSCL was good during the study period.
Inventory Control Techniques

(i) Ratio Analysis

The following ratios and its statistical values were calculated to find out the impact of inventory on current assets, total assets and working capital as well as to find out the contribution of inventory towards cost of production.

(a) Inventory to Current Assets

The statistical analysis revealed that in SSP inventory grew at the rate of ` 0.53 crores per year on an average whereas current assets grew at the rate of ` 1.15 crores per year on an average. More over the CV value of inventory was high (51.95%) and that of current assets was 44.75% only. In BSCL the inventory grew at the rate of 0.17 crores per year on an average whereas current assets grew at the rate of ` 1.74 crores. The CV value of inventory was high (24.90%) compared to CV of current assets (15.90%).

The Regression results revealed that there was high positive correlation between inventory and current assets in SSP. The correlation between inventory and current assets was moderate in BSCL. So the impact of inventory on current assets was high in SSP. In BSCL the impact of inventory on current assets was moderate.

(b) Inventory to Total Assets

The average inventory (\( \bar{x} \)) was ` 264.60 crores and average total assets was ` 1728 crores. The flexibility of inventory was high (51.95%) where as CV of total assets was low to the extent of 16.04% in SSP. In BSCL the average inventory (\( \bar{x} \)) and total assets were ` 13.85 crores and ` 69.96 crores respectively. The CV of inventory and total assets were low to the extent of 24.90% and 15.09% respectively.

The results of regression models revealed that there was a high positive correlation between inventory and total assets in SSP. So the contribution of inventory to total assets was high in SSP. In BSCL there was a negative correlation between inventory and total assets. So the impact of inventory on total asset was low in BSCL.

(c) Inventory to Working Capital

Average Inventory as percentage of networking capital was 97.39% in SSP, whereas it was 122.73% in BSCL. The CV of inventory was 51.95% where as CV of
working capital was 54.13%. It indicates that there was high fluctuation both in inventory and working capital in SSP. In BSCL fluctuation of working capital was high to the extent of 50.79% where the fluctuation of inventory was low to the extent of 24.90%. Since there was high positive correlation between inventory and working capital in SSP, the impact of inventory on working capital was significant. In BSCL the correlation between inventory and working capital was low, so the contribution of inventory on working capital was insignificant.

(d) Cost of Production to Inventory

On an average the cost of production to inventory was 3.52 times in SSP whereas it was 4.87 times in BSCL. The contribution of inventory was more to cost of production in SSP due to rise in price of raw materials or more stock of finished goods inventory that were made to meet future supply.

(e) Stores and Spares Consumed as Percentage of Cost of Production

Stores and spares consumption contributes more to the cost of production in BSCL to the extent of 8.02% on an average, whereas it was 3.25% in SSP. Since they were slow moving compared to other component their consumption had significant impact on profit.

(ii) ABC Analysis and XYZ Analysis

SSP is adopting both ABC and XYZ analysis to exercise control on consumption as well as on stock. High value items ‘A’ constitutes 0.59% of total number of items consumed. Low value items constitute 97.79% of total number of items consumed. Even though the number of ‘A’ items consumed are low they are of high value which requires more control. The number of ‘C’ items consumed is more to the extent 97.79%. But it accounted for only 1.39% of total consumption. These items deserve low control. The items which lie in between are called ‘B’ items. This approach helps Material Manager to exercise selective control and focus his attention only on a few items i.e. 225 items out of 38427 items consumed during a year. Similarly ‘X’ items constitute 68.48% of total value of stock which deserves maximum control, ‘Z’ items constitute 8.99% of total stock requires less control. These selective inventory control techniques help the management to save time and effort in SSP. But these selective control techniques are not practised in BSCL. So the
management has to spend much time to locate the items that require more control or less control.

(iii) Other Inventory Control Techniques

The determination of maximum level, minimum level and re-order level are not used in Central Public Enterprises, Salem. This inadequate control system resulted in overstocking or under stocking of inventory. Both SSP and BSCL have to find out the way to solve overstocking or under stocking of inventory. Other techniques like classification, codification, standardization and simplification are used in Central Public Enterprises, Salem.

Testing of Hypotheses

(i) Sales and Raw Materials Consumed

This relationship helps to determine the material productivity of Central Public Enterprises in Salem. Since there was an increase in sales accompanied by increase in raw material consumed the material productivity was moderate both in SSP and BSCL. There was high positive correlation between sales and raw material consumed in SSP and BSCL. This indicates that impact of sales on raw material consumed was significant.

Similarly there was an increase in consumption of stores during the period under review. But the rate of growth of consumption of stores was less compared to rate of growth of sales. Stores and spares productivity was better both in SSP and BSCL. Also there was a high positive correlation between sales and stores consumed in SSP as well as in BSCL. So there was a direct relationship between sales and raw material consumed, sales and stores consumed in Central Public Enterprises.

(ii) Production Cycle Duration and Work in Process

The average work in process conversion period was 38 days in SSP whereas it was 7 days in BSCL. The fluctuation of conversion period was high in BSCL to the extent of 64.41% whereas it was 36.95% in SSP. There was a high positive correlation between work in process and its conversion period both in SSP and BSCL. So, it was proved that longer the production cycle, greater the volume of work in process.
(iii) Inventory to Current Assets, Inventory to Total Assets and Liquidity

On an average inventory constitutes 72% of current assets and 15% of total assets in SSP, whereas in BSCL inventory to current asset was 32% and inventory to total assets was 21%. The liquidity ratio reveals that except few years the liquidity position was good both in SSP and BSCL. There was negative correlation between inventory to current assets and liquidity, inventory to total assets and liquidity both in SSP and BSCL. It indicates that even though inventory was the major component of current assets as well as total assets, inventory to current assets and inventory to total assets do not influence the liquidity position of SSP and BSCL. The liquidity position of Central Public Enterprises in Salem was satisfactory.

(iv) Inventory Turnover Ratio and Profitability

Both in SSP and BSCL, inventory turnover ratio was low in the early years of the study period and thereafter it showed an increasing trend indicating improvement in profitability position. The mean value of inventory turnover ratio was more in BSCL (4.80 times) than SSP (3.50 times). It shows that the profitability position of BSCL was better. The regression results revealed that there was high positive correlation between inventory turnover ratio and profitability. It indicates that inventory turnover ratio has direct relationship with profit earning capacity of Central Public Enterprises in Salem.

(v) Growth Indices

To measure the growth rate of inventory four ratios were identified namely sales/purchases index, work in process index, spare parts turnover index and obsolescence index. In SSP, all the indices showed a fluctuating trend throughout the period under study. There was a negative growth in sales/purchase index, where as other indices showed positive growth. Regression results revealed that there was no significant growth in the indices during the study period. In BSCL there was increase in growth indices of sales/purchase, work in process and spare parts turnover. But obsolescence index showed a decrease in the growth during the study period. Regression results revealed that obsolescence index and spare parts turnover index had significant growth during the study period.
Impact of Inventory Ratios on Profitability

Simple correlation analysis for SSP reveals that inventory turnover ratio and turnover/stores and spares consumed had the highest positive correlation with profitability (0.806, 0.644). In BSCL the highest correlation exists between inventory turnover ratio and profitability (0.855), working capital turnover ratio and profitability (0.810), cost of production to inventory and profitability (0.809), cost of goods sold to average inventory and profitability (0.765), stores and spares turnover ratio and profitability (0.730), Sales/raw material consumed and profitability (0.638). Through multiple regression it was found that inventory turnover ratios are significant in predicting profitability of Central Public Enterprises in Salem.

SUGGESTIONS

Inventory is the least liquid and the most risky of the current assets. Excess inventory position may expose firms to risk of loss. So today large inventories are viewed with alarm and referred to as graveyard of business. Based on the observations relating to the study, the following measures are suggested which would go a long way to improve management of inventory in Central Public Enterprises in Salem.

- During the course of investigation it has been found that management of Central Public Enterprises in Salem had not paid their due attention to inventory management function. The problem of excessive investment in inventory can be tackled through effective purchase policies, procedures, methods, inventory control, stores management etc.
- Purchase manual is the foremost step in devising effective procurement system. Both the public enterprises have approved purchase manual but purchase manual of SSP has to be updated because it was prepared in 2006. So the public enterprises in Salem should revise the purchase manual once in two years.
- The elaborate purchase procedure followed by Central Public Enterprises can be better reduced through e-procurement. So it is suggested to focus on ‘e’ procurement rather than going on with conventional purchase procedure.
To bring economy in purchasing cost, the purchase procedure should be reviewed by the internal Audit department and informed to the President by well designed Management Information Reporting System (MIRS).

Detailed annual budget should be prepared, with all categories of purchases and the powers delegated to different type of officials. So the need for financial concurrence after budgeting is the least. This would reduce purchase lead time.

The delegation of powers for purchases in public enterprises should be revised and reviewed periodically keeping in view the present marketing conditions. This will help to improve the external and internal lead time.

In order to reduce order processing and placement time, public enterprises should decentralise procurement and delegate responsibility to junior officers as much as possible.

It is advisable to procure raw materials, stores and spaces from small vendors who are in close proximity to their plant. This would reduce the lead time problems.

The time limit prescribed for each stage of purchasing should be realistic. If there is any violation in time limits, the section in charge should be debited for the excess period. It is quite natural that no section will like to earn a bad name. So the lead time in releasing purchase orders can be reduced by Central Public Enterprises.

The delivery lead time can be better controlled through regular follow up procedure in regard to the purchase orders placed with suppliers or through levy of penalty to the supplier who do not follow supply schedules, or through Materials Requirement Planning (MRP). MRP technique determines what components are needed, how many are needed, and when they should be ordered so that they are available as when needed.

Since the public enterprises need critical spare parts to run machinery, they depend on original equipment manufacturers. They enjoy monopoly in their product which they exploit to their advantage. This can be better controlled by the Government through issue of license for more firms to produce proprietary items under competitive conditions.
• The purchases and sales of public enterprises have increased considerably during the study period. Low ratio indicates inefficiency in purchasing. So purchasing efficiency can be improved if purchasing should be made according to their operational plans.

• The Inspection department of Central Public Enterprises in Salem has used to take more time to inspect materials which lead to delay in delivery of materials to the stores. So it is advisable to encourage suppliers to provide defect-free materials by using the concept of ‘zero defects’.

• The public enterprises should try to reduce rejection percentage of purchased materials by doing in process inspection at supplier’s end in suitable cases.

• In SSP, purchases are more than consumption, whereas in BSCL consumption is more than purchases. It resulted in excess stock and stock outs respectively. This can be better controlled by fixing norms of consumption at least for ‘A’ and ‘B’ items at different points of use. The variance between the estimated usage and actual usage can be minimized through the method of exponential smoothing.

• The stores section of Central Public Enterprises are maintaining stores accounts and issue materials on the basis of material requisition, but the physical verification is not made on regular intervals. The success of stores function depends on the consistency with which stocks are verified at regular intervals. It is advisable to have a team to check the stocks on a quarterly basis in addition to physical verification by warehouse keeper to ensure that the system continue to work. Perpetual physical count is necessary to confirm reliability of the system.

• Central Public Enterprises in Salem should computerize the stores functions, to simplify the work involved, for speedy operations and to ensure a very great accuracy. It is better to make use of flexible and efficient stores accounting software whereby manual issue slips are replaced by online receipts and issues and on line stock information.

• Simple excel reports on insurance spares (spares for critical items) keep a track of critical machinery spares and operating people need not visit store every time to ascertain stock condition.
Non-moving items in stores should be identified regularly and decision should be taken whether to retain them or dispose them off. To dispose non-moving and surplus items it is better to use tender-cum-auction method. The disposal of surplus and non-moving items help to increase turnover ratio.

The rate of growth of inventory in SSP is very high which can be tackled by fixing stock levels for different categories of items by taking into account consumption pattern, lead time, storage space, market trends, carrying cost, ordering cost etc.

The proportion of raw materials as the percentage of aggregate inventory in BSCL had increased from 24.98% to 32.15%. So the company should fix norms for both consumption and stocking of raw materials on a scientific base and there should not be any violation in practice.

The percentage of work in process inventory to aggregate inventory in Central Public Enterprises Salem had risen during the period under review but no serious steps were taken to arrest this increasing trend. The public enterprises should take steps to reduce setup times and batch sizes which will reduce waiting of individual operations and thereby work in process inventory can be controlled.

To avoid overstocking of stores and spares, non-moving items should be disposed off. Moreover instead of fixing common norms for all stores and spares, it is better to fix different norms for different categories.

The percentage share of finished goods to aggregate inventory was very high in public enterprises in Salem. So the public enterprises should activate its sales department, device appropriate marketing strategy, enter into firm contracts with customers to reduce the finished goods inventory holding.

The management BSCL should give its due attention to ABC analysis. Besides XYZ analysis also should be done by the undertaking to manage obsolete items. In both public enterprises, FSN, VED and other techniques must be combined to get better results.

The inventory turnover of public sector had gone down and it resulted in low profitability during the period of study. Moreover inventory constitutes a major portion of current assets and net working capital in public sector enterprises. To reduce this surplus investment in inventory, the management
has to give importance both for liquidity and profitability. The proper balance between liquidity and profitability would ensure efficient inventory management.

- The public enterprises should have separate inventory management department to co-ordinate the functions of purchase, production, marketing and finance. The essence of inventory control is co-ordination. The inventory holdings can be reduced by adopting integrated system of material management, appointing trained and qualified inventory managers, having the best inventory management software to suit the needs of the Public Enterprises.

- Inventory management software has databases in which information can be entered easily. Inventory management software provides a central hub to find out information about inventory of a company. This is quite useful for public enterprises to decide how much additional inventory they have to purchase.

- EOQ, Reorder Point, safety stock levels should be fixed for all types of materials. The inventory ordering cost and carrying cost should be calculated by these public enterprises.

- Public enterprises can use kanban system to control production and to reduce work in process. Kanban refers to the information system based on card used for purposes of production and inventory control. It is correctly said that “No container without a kanban” and “No kanban no production”.

- Modern techniques like JIT, inventory audit, would help to reduce inventory levels of public enterprises. JIT sourcing practices help to reduce inventory quantity, develop quality suppliers, and improve buyer-seller relationship which would result in reduction of inventory cost.

- Public sector enterprises should understand the relationship between inventory investment and customer service. The right approach to inventory management can produce dramatic benefits in customer service with lower inventory.

- The effective inventory management is directly measurable by how successful a company is in providing high level of customer services with low inventory investment. Well organized inventory management can save a company from unnecessary costs while delivering products and services to customers more quickly and efficiently.
CONCLUSION

Inventory management is a vital function that helps and ensures the success of manufacturing companies. Successful implementation of inventory will improve the entire business significantly. Modern inventory management processes utilize new and more refined techniques that provide for dynamic optimization of inventories to maximize customer service with decreased inventory and lower cost. The goal of good inventory management is not perfection but improvement. These improvements should not be viewed as a short term effort but should continue on a permanent basis. The ROI of inventory management will be seen in the forms of increased revenue and profits, positive employee atmosphere and an overall increase of customer satisfaction. A truly effective inventory management system will minimize the complexities involved in planning, executing and controlling a supply chain network which is critical to business success.

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