**Inventory/Supply Chain & The Tangible World**

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“WHAT ARE THE PRIMARY REASONS FOR HOLDING INVENTORY?”

Well to start how can you make any item sellable to the market without physical objects(parts/components)? You need various amounts of different metal to make an automobile. You need concrete, wood, & workers to build a house. The primary purpose of having inventory is to keep production going, never stopping, and to have a surplus. Because some of our customers may be other businesses who rely on our product, and if they can’t get what they need to keep their operations going we will lose a customer. They will see us as unreliable and will HAVE TO go somewhere else to keep their operations running.

Besides Losing a customer, there are other various reasons to have inventory. First relates to that though and that is smooth production. Another is a hedge against inflation, but we will get back to that later. The first, smooth production, relates to supply chain management, but inventory management and supply chain management are two different things:

“Inventory management is a key element of supply chain management, but the terms aren’t interchangeable. Supply chain management oversees the flow of products from raw goods and production sourcing through final distribution. Inventory management deals with receiving, tracking and storing the products you hold, plus provides data for informed purchasing.”(Forbes)

My take from it, is that inventory management is closer to home when it comes to accounting & finances. While Supply chain management is closer with operations, converting raw materials into a product and getting it to the customer. Inventory Management determines whether or not more raw materials need to be ordered based on demand.

 Some other factors may influence the new order of raw materials, such as a forecast of inflation and cost of those raw materials. If prices of wood have steadily gone up at a faster and faster rate it may be a good idea to order in bulk, which also usually has a discount. The price of energy can effect the cost of lumber and many other things. Supply Chain & Inventory Management go hand-in-hand in my own head. For some reason I can recollect a story about many cars sitting in storage because they were missing a logo, or a computer chip. 1 thing missing and it isn’t a “final product”.

For that reason I think it is ingenious use inventory to decouple operations,

“Companies can use inventories as buffers between successive operations to maintain continuity of production that would otherwise be disrupted by events such as breakdowns of equipment and accidents that cause a portion of the operation to shut down temporarily.”(Stevenson, 506).

This basically means having a parts or components on the side, ready to be assembled. I think this is a very good idea, especially in the case of a bottleneck futher down the chain. Instead of scraping any excess, we store it. The bottleneck up the assembly line will get fixed, but what happens when something before it breaks? Instead of scrapping those materials from the bottleneck took place, we can use them to keep production going. Even with broken equipment.I see it as killing 2 birds with one stone and a perfect solution for a bottleneck. Taking the problem of a bottleneck and turning it into a solution for a future equipment failure.

 Lastly, I would like to talk about using inventory as a hedge against inflation. There are many hedges against inflation including: Real Estate, Stocks, and now even Cryptocurrency, but if you own a business that produces tangible items you can use it’s inventory as a hedge. But there are some things to consider: “Buy only what you can store without incurring excess storage costs. If you have to rent more storage facilities, the cost could outweigh potential savings.”(Cynthia Myers). Sometimes we spend money to save money, ironic isn’t it?

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**References**

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