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Relationship between inventory management and uncertain demand for fast moving consumer goods organisations

Ndivhuwo Nemtajela¹ & Charles Mbohwa²

¹ Operations Management Department, University of South Africa, Muckleneuk Campus, Pretoria, South Africa

² Quality and Operations Management Department, University of Johannesburg, Auckland Park, Johannesburg, South Africa

Abstract

This paper addresses relationship between inventory management and uncertain demand. It also assesses the effects of uncertain demand on inventory management in the fast moving consumer goods (FMCG). Inventory management should be given attention it deserves in order for the business to stay competitive, flexible for the demand and at low cost. Inventories are difficult to manage and control, and inventory managers find it challenging to know when to order and how much to order. The research was descriptive in nature and was conducted through the use of quantitative research methods. A survey questionnaire was used to collect primary data from five FMCG organisations in the manufacturing industry around Johannesburg. A sample of 255 respondents was involved in this study. According to the findings, significant relationship between inventory management and uncertain demand exists. The findings imply that poor inventory management will result in demands not being satisfied, organisations will either have too much or too little on hand, and this will result to the organisations' failure.

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1. Introduction

The fast moving consumer goods (FMCG) organisations are fast, active organisations with variety of items [1]. The FMCG organisation is acknowledged as a frontrunner where supply chain management is concerned [2]. According to [3] there are four foremost categories for FMCG

organisation: personal care, foods, home care, and refreshment. This is confirmed by [4] under operational review categories of first quarter stating that high essential sales of the quarter has been caused by the gains in the market share of all four categories. FMCGs are regarded by means of marketing goods commonly transacted and consumed in a short period of time, or in one year [5]. [6] also acknowledged by saying FMCGs have a vast customer demand and the manufactured items depreciate fast due to little product life shelf. Inventories are essential for the success of the manufacturing organisations. Inventories may include raw materials, work-in-progress, consumables, and finished products for sales. For the success of the organisation in this competitive sector depends on the functioning of their kind inventory management [7]. Inventory management's role is about the balance in relation to the minimisation of total cost and expansion of customer satisfaction. These roles are not simple, to content because of effects involved and intermittent events on uncertainty of demand [8]. [9] agrees that there is massive variance of uncertainty across countries; developing countries are the most affected than the developed countries. Inventory management is about low inventory levels, low prices, and high customer satisfaction; value added procedures and processes which are profitable [10,11,12].

2. Statement of the problem

Inventory establishes a major section of organisation's investment. Significantly, the achievement or misfortune of a business depends upon its inventory management performances. Managing inventory poorly leads to sales declining and may cause the business to fail [13]. [14] acknowledges that business failures are because of too much on hand or too little stock on hand. According to [14] the development of inventory management grew significantly and the implementation of skilled organisation procedures on inventory management is very important.

The problems is inventory managers fail to meet the demand and this might be due to the uncertainty of the environment we live in and meeting demand is of significance for FMCG manufacturers today. This may be rather caused by poor inventory management which entails the way the inventory systems and methods are implemented and how the employees are trained to work on those systems and the uncertain demand which entails the way the organisation receives purchase orders from the customers.

3. Research Hypothesis

The following hypothesis was tested in this research:

Ho¹: There is a positive significant relationship between inventory management and uncertain demand.

Ha¹: There is no positive significant relationship between inventory management and uncertain demand.

4. Literature Review

4.1 Inventory Management

Inventory management involves different activities which are performed by management to minimise cost, maintain production, constant stock and reduce loss [15].

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