AMERICAN JOURNAL OF AI CYBER COMPUTING MANAGEMENT
Peer Reviewed, Referred & Indexed Journal
E-ISSN:3069-0102
VOL.6, NO. 1(2026)

A STUDY ON EFFECTIVE INVENTORY MANAGEMENT STRATEGIES FOR IMPROVING PRODUCTIVITY AND REDUCING COSTS

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ABSTRACT

Inventory management plays a crucial role in the operational efficiency and financial performance of organizations. Effective inventory management ensures the availability of the right quantity of materials at the right time while minimizing costs associated with storage, handling, and stock shortages. This study focuses on strategies that organizations adopt to reduce inventory-related costs and enhance productivity in a competitive business environment.

The research examines key inventory management techniques such as Economic Order Quantity (EOQ), Just-in-Time (JIT), ABC analysis, and the use of modern inventory control systems. These methods help organizations optimize stock levels, reduce carrying and ordering costs, and improve overall supply chain efficiency. The study also highlights the role of technology, including inventory management software and data analytics, in improving accuracy, monitoring stock movement, and supporting better decision-making.

Furthermore, the research analyzes how efficient inventory planning contributes to increased productivity by preventing production delays, reducing wastage, and ensuring smooth operational processes. Proper coordination between procurement, warehousing, and distribution functions is essential for achieving effective inventory control.

I. INTRODUCTION

INVENTORY MANAGEMENT

Inventory Management refers to the systematic process of ordering, storing, tracking, and controlling a company's inventory. It ensures that the right quantity of materials and products is available at the right time to meet production and customer demand while minimizing costs. Inventory management is an essential part of business operations, especially in manufacturing, retail, and distribution industries.

Inventory includes different types of stock such as raw materials, work-in-progress goods, finished products, and spare parts. These items are stored by organizations to support production processes and sales activities. Effective inventory management helps companies avoid both shortages and excess stock, ensuring smooth business operations.

One of the primary goals of inventory management is to maintain an optimum level of stock. If a company maintains too much inventory, it increases storage costs, insurance costs, and the risk of damage or obsolescence. On the other hand, if inventory levels are too low, it may lead to production interruptions and inability to meet customer demand. Therefore, maintaining a balance between supply and demand is very important.

Inventory management also involves several techniques and methods such as Economic Order Quantity (EOQ), ABC analysis, Just-in-Time (JIT), and stock level analysis. These techniques help organizations determine how much inventory to order, when to order it, and how to control inventory efficiently.

Proper inventory management improves operational efficiency by ensuring that materials are available when needed for production and sales. It also helps reduce unnecessary costs related to storage, handling, and wastage of materials. Moreover, effective inventory control contributes to better financial management because inventory

Received: 31-01-2026 | Accepted: 06-03-2026 | Published: 13-03-2026 | www.ajaccm.com

represents a significant portion of a company's working capital.

In modern business environments, many organizations use computerized inventory systems and Enterprise Resource Planning (ERP) software to monitor inventory levels in real time. These systems provide accurate information about stock availability, reorder levels, and movement of goods, helping managers make better decisions.

Definitions of Inventory Management

1. According to the American Institute of Accountants:

"Inventory refers to tangible property which is held for sale in the ordinary course of business, in the process of production for such sale, or to be consumed in the production of goods or services for sale."

2. According to Muller: "Inventory management is the process of efficiently overseeing the constant flow of units into and out of an existing inventory."

3. According to Stevenson: "Inventory management is the supervision of supply, storage, and accessibility of items to ensure an adequate supply without excessive oversupply."

4. According to Raymond: "Inventory management is concerned with the planning and controlling of inventories to meet production and sales requirements at minimum cost."

INVENTORY MANAGEMENT AND CONTROL

Because of high costs involved in inventories, their proper management and control assume considerable importance. In fact, the management of inventory is given such an importance, that, it is often treated synonymous with materials management. Literature wise, there are more number of books and articles written on inventory management than on materials management.

Inventory management involves the 'development and administration of policies, systems and procedures, which will minimize total costs relative to inventory decisions and related functions such as customer service requirements, production scheduling, purchasing and traffic'. Viewed in that perspective, inventory management is brad in scope and affects a great number of activities in a company's organization. Because of these numerous interrelationships, inventory management stresses the need for integrated information flow and decision making, as it relates to inventory policies and overall systems.

Inventory control, on the other hand, is defined in a narrower sense than inventory management and pertains primarily to the administration of established policies, systems and procedures. For example, the actual steps taken to maintain the stock levels or stock records refer to inventory control.

Factors influencing inventory management and control

Several factors influence inventory management and control. The principal effects of these factors are reflected most strongly in the levels of inventory and the degree of control, planned in the inventory control system. The factors include type of product, type of manufacture, volume of output and others.

NEED OF THE STUDY:

The need for this study arises because inventory plays a key role in both cost control and operational efficiency of an organization. Poor inventory management leads to overstocking, stockouts, higher carrying costs, wastage, and loss of customer satisfaction. Many firms, especially in competitive markets, struggle to maintain the right balance between demand and supply, which directly affects profitability and productivity. Effective inventory strategies help in reducing storage costs, improving cash flow, minimizing obsolescence, and ensuring timely availability of materials. With increasing market competition, fluctuating demand, and rising logistics expenses, organizations must adopt scientific inventory techniques such as EOQ, ABC analysis, and Just-in-Time systems. These methods support better decision making and resource utilization. The study is therefore

needed to understand how proper inventory control can lower operational costs, improve workflow, and enhance overall productivity. It also helps managers identify best practices that support efficient planning, better forecasting, and sustainable business performance.

SCOPE OF STUDY:

The scope of the study focuses on examining various inventory management strategies used by organizations to reduce operational costs and improve productivity. It covers key techniques such as Economic Order Quantity (EOQ), ABC analysis, Just-in-Time (JIT), safety stock management, and demand forecasting methods. The study analyzes how these practices influence stock control, storage costs, ordering efficiency, and material availability. It also considers the role of technology, including inventory management software and automation, in improving accuracy and reducing manual errors. The research is limited to understanding internal inventory processes and their impact on cost reduction and workflow efficiency rather than external supply chain factors. It aims to identify practical methods that can be applied by small, medium, and large organizations to maintain optimal inventory levels. The study provides insights for managers to improve planning, minimize wastage, avoid stockouts, and ensure smooth production and distribution operations, thereby enhancing overall organizational performance.

OBJECTIVES OF THE STUDY

- To analyze current inventory levels, turnover rates, and demand patterns to identify inefficiencies and excess holding costs.
- To implement demand forecasting techniques using historical data and market trends to minimize stock outs and overstocking.
- To adopt just-in-time (JIT) practices to reduce storage expenses and improve cash flow.
- To utilize inventory management software for real-time tracking and data-driven decision-making.
- To optimize supplier relationships and negotiate favourable terms to lower procurement costs.

II. RESEARCH METHODOLOGY

The research was carried on by collecting data from web site of company which is a secondary source of data. The data were collected from leading web sites which are meant exclusively for tracking market data. The theoretical part explained in this project was collected from text books written by famous authors who are well known for their writing skills and who have an ocean of experience in the teaching field.

DATA SOURCE

There are mainly two important sources through which the whole data is gathered.

1. Primary Data: The data of this project is collected by the information gathered from integrated materials management.
2. Secondary Data: The secondary data is collected in this project is from the various department of IMM and various manuals of the company with prescribed format have also been made use of collection of data and analysis. The financial data relating to the organizations has been collected for the year's 2012 to 2015 and analyzed by using the technique of inventory analysis.

LIMITATIONS OF THE STUDY

- The study is limited to selected organizations, so findings may not represent inventory practices across all industries or different operational environments.
- Time constraints restricted detailed observation of long term inventory performance and seasonal demand variations affecting stock levels and cost patterns.
- Data collected depends on respondents' accuracy and availability, which may lead to possible bias or

incomplete understanding of inventory practices.

- The study focuses mainly on internal inventory systems and does not cover external supply chain disruptions or supplier related uncertainties.
- Limited access to financial records reduced the ability to measure exact cost savings and productivity improvements from inventory strategies implementation.

III. LITERATURE REVIEW

Keerthi Tejavardhan (2025) Inventory Management System is important to ensure quality control in businesses that handle transactions revolving around consumer goods. Without proper inventory control, a large retail store may run out of stock on an important item. A good Inventory Management System will alert the retailer when it is time to reorder. Inventory Management System is also an important means of automatically tracking large shipments. For example, if a business orders ten pairs of socks for retail resale, but only receives nine pairs, this will be obvious upon inspecting the contents of the package, and error is not likely. On the other hand, say a wholesaler orders 100,000 pairs of socks and 10,000 are missing. Manually counting each pair of socks is likely to result in error. An automated Inventory Management System helps to minimize the risk of error. In retail stores, an Inventory Management System also helps track theft of retail merchandise, providing valuable information about store profits and the need for theft-prevention systems. Automated Inventory Management System work by scanning a barcode either on the item. A barcode scanner is used to read the barcode, and the information encoded by the barcode is read by the machine. This information is then tracked by a central computer system. For example, a purchase order may contain a list of items to be pulled for packing and shipping. The Inventory Management System can serve a variety of functions in this case. It can help a worker locate the items on the order list in the warehouse, it can encode shipping information like tracking numbers and delivery addresses, and it can remove these purchased items from the inventory tally to keep an accurate count of in-stock items. All of this data works in tandem to provide businesses with real-time inventory tracking information. Inventory Management System make it simple to locate and analyze inventory information in real-time with a simple database search.

Benitha Myamba (2025) This study examines how inventory management practices affect supply chain performance for perishable food products among small enterprises in Dar es Salaam, Tanzania, addressing the challenge of managing perishables efficiently in resource-constrained environments. Perishable goods require precise inventory practices due to their limited product lifespan and high risk of spoilage. The study focused on inventory turnover, inventory record accuracy, and demand forecast accuracy as key variables influencing supply chain performance. A quantitative research design was employed, with data collected from 292 respondents using structured questionnaires targeting managers and staff involved in inventory and supply chain operations. Descriptive statistics and multiple regression analysis were used to interpret the data. The results revealed that all three inventory practices had a statistically significant positive impact on supply chain performance, with inventory turnover exerting the greatest influence. Accurate inventory records and reliable demand forecasts were also found to be essential for improving order fulfillment and minimizing waste. The study concludes that improving inventory practices can significantly enhance the performance of perishable supply chains in small enterprises. It recommends adopting simple tracking tools, coordinated ordering strategies, and basic forecasting methods, along with staff training, to strengthen operational capacity in informal urban markets.

Harsh Kumar Jha (2025) This project examines the essential role of Demand Forecasting and Inventory Optimization in improving the efficiency of Supply Chain Management (SCM). As companies work to balance meeting customer demand with minimizing costs, precise demand forecasting and study explores a range of forecasting methods, such as time-series analysis and machine learning models, to predict icient inventory management are crucial. The st future demand trends. It also looks into inventory optimization approaches that synchronize stock levels with anticipated demand, aiming to minimize both stockouts and surplus inventory. The research underscores the importance of integrating demand forecasting with inventory management systems to enhance decisionmaking and operational effectiveness. By combining theoretical frameworks with practical case studies, this project offers a thorough understanding of how advanced forecasting techniques and optimization algorithms can improve SCM performance, lower operational expenses, and boost customer satisfaction. The results stress the significance of leveraging data-driven strategies and cutting-edge technologies in supply chain operations to gain a competitive edge in the ever-evolving market landscape.

Kalpesh Rakholia (2025) The foundations that contributes to the optimization of the supply chain is efficient inventory management it allows companies to minimize costs and prevent stock outs, at the same time maintaining a high level of service. Nevertheless, traditional inventory optimization techniques frequently overlook the complexity and dynamism of modern supply chains. In this paper, we provide a data driven approach to inventory optimization which combines demand forecasting using Machine learning & Advanced Inventory Management models. Employing historical sales data, seasonal patterns and external factors we create a random forest model for forecasting demand more accurately compared to traditional methods. Leverage this forecast within the Economic Order Quantity (EOQ) model and superior safety stock calculations to tune inventory levels for lowest cost total inventory management without upper bounds on supply chain resilience.

IV. DATA ANALYSIS AND INTERPRETATION

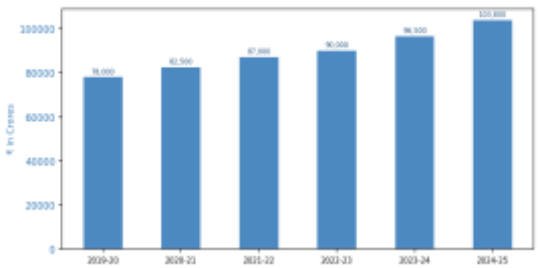
INVENTORY MANAGEMENT ANALYSIS

Financial Period: 2019–20 to 2024–25

Table 5.1: Investment on Raw Materials

Year	Investment on Raw Material (₹ in Crores)
2019-20	78,000.00
2020-21	82,500.00
2021-22	87,000.00
2022-23	90,000.00
2023-24	96,500.00
2024-25	103,800.00

Fig 5.1 - Investment in Raw Materials



ANALYSIS: The investment in raw materials demonstrates a strong and uninterrupted upward trajectory over the six-year period. Starting at ₹78,000 crores in 2019-20, the figures rose steadily, crossing ₹1,00,000 crores for the first time in 2024-25 at ₹1,03,800 crores — a cumulative increase of approximately 33% over six years. The year-on-year increments ranged from ₹3,000 to ₹7,300 crores, with the sharpest jump recorded in 2024-25.

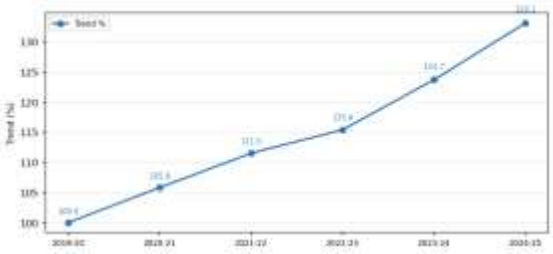
INTERPRETATION: The accelerating investment in raw materials through 2024-25 signals both robust demand expansion and strategic supply-chain fortification. The milestone of crossing ₹1 lakh crore underscores a significant scaling of operations. The uptick also reflects India's inflationary

environment and global commodity price pressures, compelling companies to invest more even for similar procurement volumes. Positively, it demonstrates long-term operational commitment and the capacity to absorb input cost volatility, which bodes well for sustained production growth.

Table 5.2: Trend Analysis

Year	Raw Materials (₹ in Crores)	Trend %
2019-20	78,000.00	100.0%
2020-21	82,500.00	105.8%
2021-22	87,000.00	111.5%
2022-23	90,000.00	115.4%
2023-24	96,500.00	123.7%
2024-25	103,800.00	133.1%

Fig 5.2 - Trend Analysis of Raw Material Investment



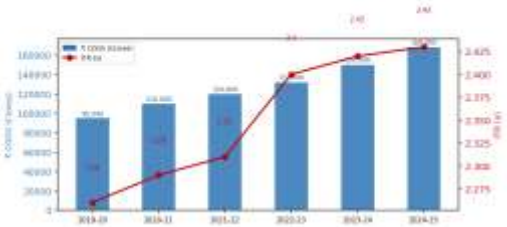
ANALYSIS: The trend analysis, with 2019-20 as the base year (100%), reveals a progressive and accelerating growth pattern. By 2024-25, the trend percentage has reached 133.1%, indicating that raw material investment has grown by a third over the study period. Notably, the trend percentage accelerated in the final year, rising by nearly 7 percentage points compared to the ~4-point annual increments seen earlier.

INTERPRETATION: The trend line reinforces confidence in the company's scaling strategy. The steeper rise in 2024-25 may reflect aggressive procurement ahead of anticipated demand surges or supply disruptions — a proactive risk mitigation approach. However, it also flags the importance of monitoring whether procurement efficiency is being maintained alongside volume growth. Overall, the consistently rising trend is indicative of an enterprise in active expansion mode with well-calibrated resource allocation.

Table 5.3: Inventory Turnover Ratio

Year	Cost of Goods Sold (₹ in Crores)	Avg. Inventory (₹ in Crores)	Ratio
2019-20	95,000.00	42,000.00	2.26
2020-21	110,000.00	48,000.00	2.29
2021-22	120,000.00	52,000.00	2.31
2022-23	132,000.00	55,000.00	2.40
2023-24	150,000.00	62,000.00	2.42
2024-25	168,000.00	69,000.00	2.43

Fig 5.3 - Inventory Turnover Ratio



ANALYSIS: The Inventory Turnover Ratio (ITR) has exhibited a consistent, albeit gradual, improvement — from 2.26 in 2019-20 to 2.43 in 2024-25. Throughout the six-year window, the COGS grew from ₹95,000 crores to ₹1,68,000 crores (a ~77% rise), while average inventory grew from ₹42,000 crores to ₹69,000 crores (~64%), demonstrating that sales velocity outpaced inventory accumulation.

INTERPRETATION: The steadily improving ITR through 2024-25 reflects effective inventory management and a responsive supply chain. A ratio that rises in tandem with rapidly growing COGS suggests that the company is not over-stocking relative to its sales growth — a hallmark of mature inventory planning. In capital-intensive industries with large procurement cycles, maintaining ITR above 2.4x is commendable. Continued improvement signals lower holding costs, reduced obsolescence risk, and better working capital efficiency, collectively strengthening the company's financial resilience.

V. FINDINGS, SUGGESSIONS, CONCLUSIONS

Findings

- Raw material investment increased steadily from ₹78,000 crores in 2019-20 to ₹1,03,800 crores in 2024-25, showing 33.1% growth.
- The company crossed the ₹1,00,000 crore raw material investment milestone for the first time in 2024-25.
- Trend percentage rose from 100% to 133.1% during 2019-20 to 2024-25, indicating strong procurement growth.
- Inventory Turnover Ratio improved from 2.26 to 2.43, reflecting better inventory management efficiency.
- Cost of Goods Sold grew faster than inventory, indicating improved sales performance and operational efficiency.
- Inventory-to-current-assets ratio declined from 21.0% to 16.0%, showing improved liquidity management.
- Higher cash, receivables, and short-term investments strengthened the company's financial flexibility.
- Inventory share in total assets increased from 5.83% to 7.04% over the six-year period.
- The highest single-year rise in inventory-to-total-assets ratio occurred in 2020-21 due to pandemic-related stock buildup.
- Current liabilities almost doubled from ₹8,500 crores to ₹17,100 crores between 2019-20 and 2024-25.
- Inventory-to-current-liabilities ratio declined from 4.94% to 4.04%, indicating faster growth in liabilities.
- A slight recovery in the inventory-to-current-liabilities ratio in 2024-25 suggests improving coverage.
- Overall financial indicators show strong operational expansion and efficient working capital management.
- Rising global commodity prices and inflation significantly contributed to increased raw material investment.

SUGGESTIONS

• The company should continue improving inventory turnover by adopting demand forecasting and real-time stock monitoring systems to avoid excess holding.

• Optimal inventory levels must be maintained to prevent over-investment in stock, as inventory share in total assets is gradually increasing.

• Implementation of advanced techniques like EOQ, JIT, and ABC analysis can further reduce storage and carrying costs.

• The slight rise in inventory to current liabilities ratio should be monitored to avoid pressure on short-term liquidity.

• Better coordination between procurement, production, and sales departments will help align inventory with actual demand.

• The company should increase the use of inventory management software for accurate tracking and faster decision making.

• Regular review of slow-moving and obsolete stock is required to reduce blocking of working capital.

• Strengthening supplier relationships can help in adopting a just-in-time procurement approach and reduce holding costs.

• Maintaining the current ratio above the standard level is advisable to ensure strong liquidity and smooth operations.

• Periodic inventory audits should be conducted to improve stock accuracy and minimize wastage or pilferage.

• The company should focus on balancing growth in raw material investment with sales growth to avoid unnecessary stock accumulation.

• Training employees in scientific inventory control methods will enhance productivity and operational efficiency.

CONCLUSIONS

The study on inventory management at Heritage Foods highlights the significant role of efficient stock control in improving liquidity, reducing costs, and enhancing

operational productivity. The analysis of financial data over the five-year period shows a steady increase in raw material investment, indicating business expansion and higher production requirements. At the same time, the improvement in the inventory turnover ratio reflects better utilization of stock and faster conversion of inventory into sales, which supports healthy cash flow and minimizes holding risks.

The declining proportion of inventory to current assets demonstrates effective working capital management and improved liquidity position. The company has maintained a strong current ratio above the standard level, which indicates its ability to meet short-term obligations comfortably. This reflects sound financial planning and efficient allocation of current assets. However, the gradual increase in inventory as a percentage of total assets suggests that stock investment is rising and requires continuous monitoring to avoid excess accumulation and unnecessary carrying costs.

The study also shows that the company has reduced its dependence on short-term liabilities for financing inventory, which strengthens financial stability. The slight rise in inventory relative to current liabilities in the latest year indicates the need for better demand forecasting and stock optimization to maintain the balance between liquidity and operational needs. Overall, the company has demonstrated effective inventory control practices through improved turnover, balanced asset structure, and strong solvency position.

In conclusion, efficient inventory management has contributed to cost control, better resource utilization, and enhanced productivity at Heritage Foods. By adopting advanced inventory techniques, strengthening coordination among departments, and leveraging technology for real-time monitoring and forecasting, the company can further optimize stock levels and improve profitability. Effective inventory planning will not only support smooth production and distribution but also enhance long-term financial performance and competitive advantage.

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