MISys
Small Business
Manufacturing

Application Whitepaper:

How To Maintain A Manufacturing And Sales Inventory

Companies that both manufacture and distribute products are often faced with a dilemma: keep their raw materials, work in process (WIP), sub-assemblies, and finished good in one common inventory? Or segregate the items to be sold from those consumed in the manufacturing process? In this document we will discuss the benefits of maintaining separate inventories.

Internationally recognized best practices (ISO 9000) dictate that the inventory of finished good items be maintained separately from raw materials and WIP. Strictly speaking, the sales distribution inventory should be kept physically isolated from the manufacturing inventory. However, few small- to medium-sized manufacturing firms find themselves subject to ISO standards. More likely, practical matters dictate which option a manufacturing company chooses.

If the company manufactures product from one physical location and distributes it from another, then without a doubt, manufacturing and sales inventories should be separated so they can be kept as close as possible to the activities they control.

Perhaps less obvious but nevertheless compelling is the issue of costing. In a manufacturing inventory, changes to the cost of any raw material component must be propagated up through the product structure to the highest level assembly – the finished good. On the other hand, items entered into a sales inventory must have a fixed cost which can never be changed. These two apparently irreconcilable requirements can easily be resolved if the manufacturing inventory is kept separate from the sales inventory. The manufacturing inventory is subject to cost roll-ups, the sales inventory is not.

Maintaining separate inventories requires an easy way to transfer finished goods from manufacturing to sales. As soon as an item is manufactured, it is transferred to sales. Once this transfer is accomplished, changes in the cost of raw material components will no longer affect the sales cost of the item.

If the manufacturing and sales inventories are controlled by separate software, one way to transfer material from manufacturing to sales is to dispense the material from the manufacturing inventory and receive it into the sales inventory. This strategy, while not elegant, will work with the most disparate inventory control systems.

If the manufacturing and sales inventory control software is fully integrated, transferring material between the separate inventories gets easier. If the manufacturing software can talk to the sales distribution software, an inventory transfer may be just a mouse click away.

Despite the obvious benefits of integrated inventory control software, material transfers can’t happen unless there is a consistent item numbering system between manufacturing and sales. Unfortunately, many manufacturing companies have never been able to get their manufacturing and sales personnel to agree on a consist numbering scheme. This problem can be solved if the manufacturing inventory system carries the corresponding sales item number, or the sales inventory system carries the corresponding manufacturing item number. This way, manufacturing and sales can keep their own item numbering systems and everyone will be happy.

Sometimes the need to maintain separate inventories is viewed as a drawback. In fact, with the help of well-designed software, separating manufacturing and sales inventories is a great benefit.