Stock Control

 

Philip owns a soft drink factory which makes ‘Slurm’. The drink itself is made on site, using a mixture of fruit and other ingredients. The cans are not made on site – they are bought from a local can supplier. The drink costs Philip 20p to make and the can costs him 10p to buy – he sells the drink to retailers for 50p.

Philip likes to make sure he has plenty of cans in stock because once, he ran out and it was very costly to the business: The workers were unable to carry on making the drinks, but Philip still had to pay them their wages for the day. Also, he had to delay a delivery to a local supermarket and they were so annoyed that they switched to another supplier.

Nowadays, Philip keeps at least 10,000 empty cans in stock at any one time. The advantages of this are that he never runs out, plus he gets a discount for buying in bulk (an order of 10,000 works out at 10p per can, but an order of less than 10,000 works out to be 15p a can).

However, there are some disadvantages to this system;

* Philip has had to rent out an extra storage room to keep the cans in at a cost of £500 per month.
* He has also found that the cans sometimes get damaged as they are moved from the storage room to the production line.
* Philip had another problem recently; he had just paid for a delivery of 10,000 cans (£1,000) when he received a final reminder for his telephone phone bill (£75) which would be cut off if he didn’t pay immediately. Philip had no money left in the bank account to pay for the phone bill.
* Finally, Philip recently found that some of the cans in the storage room had gone rusty and had to be thrown away.

**Questions:**

1. What are the advantages to Philip of holding high levels of stock?
2. What are the disadvantages to Philip of holding high levels of stock?
3. Philip has heard that there is a stock control system called ‘Just-in-time’. Find out what this means and why it might be a good idea.
4. Philip has also heard the business term ‘Lean Production’. Find out what this means.
5. How much profit per can does Philip currently make?
6. What might happen to the profit per can if Philip stops buying in bulk?
7. Why is it better for Philip to sell his cans to retailers, rather than directly to customers himself?