Inventory Management Practices of Retailers in Santiago City

Marites G. Gabriel

Cagayan Valley Computer and Information Technology College, Saint Mary's University

ABSTRACT

The study assessed the inventory management practices of retailers of Santiago City. It described the characteristics of retailers and documented their inventory management practices and identified the problems encountered along the domains of purchasing, records keeping, storage, and issuance. Qualitative and quantitative research methods were used to gather the needed data. The study considered only 50 small businesses in Santiago City consisting of 20 clothing retailers, ten rice retailers, ten feeds supply retailers, and ten grocery stores. Findings revealed that majority of the retailers are high school graduates and their business is mainly sole proprietorship. They have been operating between 11-20 years with six to ten employees and have invested P100, 001-200,000 as capitalization. With regard inventory management, they frequently implement purchasing practices as opposed to records keeping, storage, and issuance which are rarely practiced by them. In addition, retailers also experienced moderately pressing problems in all domains of inventory management such as purchasing, records keeping, and storage and issuance.

Keywords: purchasing, records keeping, storage and issuance

INTRODUCTION

One of the most important components of in operation management is inventory management, since it is the central the material management systems in central management function (Ahmad & Mohamed, 2014). Inventory is also a crucial aspect of management since it has significant financial assets of a business that has effect when it comes to profitability. Organizatons practicing good inventory management will result in an increased level of working capital, production and customer satisfaction that can increase the firms' overall profit that (Rajeev, 2008). Linking the firm's goal to the requirement of the inventory is one of the roles and functions of inventory management. More so, turn over the inventory as quickly as possible without losing sales is the bjective of inventory management (Gitman & Zutter, 2012). In achieving these goals, enterprises should understand how to properly manage and control their inventories since it constitutes a very significant role on the lifeline of the business (Kumar & Bahl, 2014).

Efficient inventory management practices may result to significant effects to the industry's performance. These include to reduce the risk of supplier failure or uncertainty/safety and butter stocks are held to provide some protection against such as strikes, transport breakdowns due to floods or snow, crop failures, wars and similar factors, protect against lead time uncertainties, such as where supplier's replenishment and lead time are not known with certainty in such case an investment in safety stocks is necessary if customer services is to maintain at acceptable levels, meet unexpected demands or demands for customization of products as with agile production and smooth seasonal or cyclical demand, take advantage of lots or purchase quantities in excess of what is required for immediate consumption to take advantage of price and quantity discounts, hedge against anticipated shortage and price increases, especially in times of high inflation or as a deliberate policy of speculation and ensure repaid replenishment of items in constant demand, such as maintenance supplies and office stationery (Kenneth & Brian, 2006).

Retailing consists of various channel of distribution on the process of selling goods and services to the consumers. (Gaur, Marshall & Raman 2005). Hence, the retailing industry involves a large amount of

inventories that needed to sell to the end consumers. Furthermore, competitive and dynamic environment resulted to pressure retail organizations to come up with systems that enable to lessen inventory costs, enhance the supply chain of inventory flow, and to meet the demand of customers. In order to improve and increase customer's satisfaction, retailers should utilize systematic through refined merchandise assortments and in-stock position (Lee & Kleiner, 2001). Since, increasing level of sastifaction from customers will result in increased revenue, lower inventory level, greater liquidity, and improved return on investment. Thus, success inventory management represent a key factor that displays how efficiently a company is controlling its inventories (Didonet & Diaz, 2012). In addition, rice, fruits, clothing and groceries are the common dry good retailers found in the Philippines.

Philippines is one of the biggest rice importers in South-east Asia. Rice is being considered as one of our staple food and comfort food (Bugnayan, 2015). These are available all-year round in the market. Banana, pineapple and mango are the major export commodities of the country (Espina R. & Espino, 2016). Likewise, nowadays, people are conscious on what they wear, including the designs and styles of the clothes especially the teens. More so, despite of increasing level of economic growth, the Philippines's agriculture sector has experienced consistently slowing down of growth and productivity rates. The supply and value chain itself has unfit the ability of the Philippines to ensure food security, and increase competitiveness of its agricultural products in the international level. These includes roads and logistics services which serves as are essential hindrance to the supply and value chains (Schumacher, 2017).

Inventory is among the significant financial assets of retailers. The majority of successful retailers look at inventory management as a tool to improve customer satisfaction through the assortments of merchandise and in-stock position (Lee and Kleiner, 2001). The inventory management is considered as one of the most important management function in the overall context of materials management systems. By focusing on customer satisfaction will eventually results in increased revenues, lower inventory levels, greater liquidity, and improved return on investment. The management of inventories influences a firm's financial strength and competitive position because the approach taken to inventory management directly affects working capital, production and customer service (Rajeev, 2008).

In this regard, it should not be underestimated the application of a systematic inventory management within this sector. Thus, it is important to collect solid evidences to ensure that there is a clearer perspective to small enterprises context when it comes to inventory management (Dicksor, 2015). Furthermore, proper inventory management has a significant role to play in promoting industrial development. However, large firms and organization usually apply inventory control techniques and concepts. Therefore, this paper aimed to bridge this gap by assessing the current inventory management practices of retailers in Santiago City and the problems encountered along the domains of purchasing, records keeping and storage and issuance.

Statement of Objectives

This study aimed to assess the inventory management practices of retailers in Santiago City. Specifically, this study has the following objectives:

1. Describe the characteristics of retailers according to the following variables:
   o Type of Business
   o Educational Attainment of the Owner
   o Number of Years in Operation
   o Number of Employees
   o Capitalization

2. Document the inventory management practices of the retailers along the following domains:
   o Purchasing
   o Records Keeping
   o Storage and Issuance

3. Identify the problems encountered by the respondents along the domains of inventory management practices.

4. Formulate recommendations to improve the retailers' inventory management practices.

METHODOLOGY

This study employed a descriptive research design using both quantitative and qualitative methods, utilizing surveys and interviews to examine inventory management practices and challenges among retailers in Santiago City. The respondents included 50 randomly selected managers/owners of clothing, rice, feed supplies, and grocery stores. Conducted in Santiago City, a major commercial hub in Cagayan Valley, the study aimed to assess inventory practices in purchasing, record-keeping, storage, and issuance. A structured survey questionnaire, validated through a pilot test with a Cronbach's alpha of 0.909, was the primary instrument, supplemented by unstructured interviews for deeper insights. Data were analyzed using frequency, percentage, mean, and ranking to evaluate inventory practices and challenges.

RESULTS AND DISCUSSION

Characteristics of Retailers

It revealed that 38% were able to finish high school, 28% were able to reach college level, 24 % were able to attain college graduate and 10% were high school level. This showed that most of the retailers finished high school.

This revealed that 24% are already on the 11 to 15 years in operation, 18% were 5 years and below, 16% were 6 to 10 years, 16 to 20 years and 31 years and above in the operations, 6% were 21 to 25 years and 4% were 26 to 30 years in the operation. The data above showed that majority of the respondents who have been in the business from 5 years to 20 years, and few for those who are operating for 21 years to 30 years. Moreover, there are also retailers who operated for more than 30 year.

This revealed that 46% have 6 to 10 employees, 40% have 5 employees and below, 5 or 10 percent have 11 to 20 employees and 4% have more than 20 employees. Most of the respondents have 6 to 10 employees, while only a few of them have more than 10 employees.

It can be gleaned that 44% have an investment ranging from P100,001 to 200,000, 24% have capitalization between P 50,001 to 100,000, 16% invested P 50,000 and below, 8% have capitalization of P 200,001 to 300,000, 6% invested P 300,001 to 400,000 and 2% have capitalization of more than P 400,000. A large number of the respondents (44%) have capitalization between P100,001 and P200,000. This could have been the reason why most of the respondents have 10 employees or less.

Inventory Management Practices of the Retailers

The results revealed that retailers have good purchasing practices as gleaned in the table with an overall mean scores of (Grocery Stores: Mean=3.06, Feed Supplies: Mean=2.98, RTW: Mean=2.97 & Rice: Mean=2.95) which equated as often interpreted as frequently used inventory management practices. It can be seen also that *suppliers are assessed in terms of price, quantity of purchase and reliability* vouched highest mean scores (Grocery Stores: Mean=3.50, Feed Supplies: Mean=3.56, RTW: Mean=3.78 & Rice: Mean=2.90) as their always and often practice when it comes to their purchasing activities along inventory management. The foregoing results entailed that retailers usually evaluated the suppliers in order to come up with more reasonable pricing and reliable source of stocks/merchandise. As stated by Sharifs (2010), good vendor relationship and vendor development result in cost reduction and better cost management and this could be achieved through good negotiations. Figure 2 supported the results that the retailers conducted canvass and looked into the supplier's price list before purchasing goods.

In addition, it showed that retailers have the same inventory management in the following six (6) indicators, *all inventories received from suppliers are checked by person/s other than manager through supplier's invoice and purchase order* (Grocery Stores: Mean=3.46, Feed Supplies: Mean=3.32, RTW: Mean=2.78 & Rice: Mean=2.59), *purchase orders are approved by the owner/manager* (Grocery Stores: Mean=3.28, Feed Supplies: Mean=3.21, RTW: Mean= 3.01& Rice: Mean=2.98), *purchase order is done by the person/s other than the owner/manager of the business,* (Grocery Stores: Mean=3.04, Feed Supplies: Mean=2.90, RTW: Mean=2.78 & Rice: Mean=2.86) *business has a list of reliable suppliers* (Grocery Stores: Mean=2.84, Feed Supplies: Mean=2.75, RTW: Mean=2.98 & Rice: Mean=2.67), *purchase order is required for every purchase of new inventory,* (Grocery Stores: Mean=2.82, Feed Supplies: Mean=2.56, RTW: 3.19, Mean=3.18 & Rice: Mean=3.21), *inconsistencies in purchase orders and supplier invoices reviewed regularly* (Feed Supplies: Mean=2.56, Rice: Mean=2.67 & RTW: Mean=2.98) which interpreted as often. However, grocery stores seldom practice *any differences in purchase orders and supplier invoices reviewed regularly* (Mean=2.48). Thus, the foregoing results entailed that retailers frequently practice purchasing activities primarily on the assessment and evaluation of possible suppliers with regards to their reliability, pricing and capabilities to supply the needs of the business. Bilame (2010) pointed out that replenishment of supplies, to be cost-effective, must be in accordance with the safety stock level to ensure that stocks are available in the right quantity at the right time.

In an interview conducted, majority of the respondents utilized First-In-First-Out (FIFO) since it was easy to apply and it can directly help retailers to assume the flow of costs corresponds with the normal physical flow of goods. Furthermore, the cost attached to the unit sold is always the oldest cost. Under FIFO, purchases at the end of the period have no effect on cost of goods sold or net income.

According to Ahmad (2012) on his study state that in controlling its inventories, inventory management is a key success factor that shows how efficient an enterprise is. In purchasing, inventories received a great attention among retailers in the sense that The accuracy of inventories received from their suppliers are verified through a thorough comparison with the purchase and monitoring supplier performance in terms of price and quantity with a list of valid and reliable suppliers and the examination on supplier's invoice and purchase order .As shown in Figure 3 is the sample canvass form and supplier's price lists, it can be seen that retailers conducted canvass through the use of price listing provided by the suppliers. Also, figure 3 presents the sales invoice of every transaction made by the retailers. On the other hand, Figure 4 entails that purchase order form are present and evaluated by the manager/owner before the transaction is made. More so, it is evident that the retailers have their own listing of suppliers of their merchandise as shown in the Figure 5.

The foregoing table shows that the retailers seldom practice inventory management when it comes to records keeping with an overall mean scores of (Grocery Stores: Mean=2.49, Feed Supplies: Mean=2.45, RTW: Mean=2.42) which interpreted as rarely used. However, rice retailers have often practiced good records keeping with overall mean score (Mean=2.60), which means that they frequently used transaction.

Furthermore, it can be showed that *check to see that the merchandise is completely recorded* was always practiced by grocery stores with mean score (Mean=3.52) which interpreted as consistently used as IMP. Nevertheless, retailers seldom or rarely practiced the following: *record transaction on a daily basis* (Grocery Stores: Mean=2.06, Feed Supplies: Mean=2.14 & RTW: Mean=2.08), *integrate the folder into the system* (Grocery Stores: Mean=2.20, Feed Supplies: Mean=2.09, Rice: Mean= 2.35), *inventory records are saved by store keeper and reviewed by owner/manager* (Grocery Stores: Mean=1.84, Feed Supplies: Mean=2.01, RTW: Mean= 2.04), *regular monitoring and update of stocks.* This could be attributed to the fact that retailers were not regularly updating and keeping day-to-day transactions. Based from the interview conducted update of stocks and inventory done on weekly basis due to limited number of employees. Furthermore, despite the fact that they see to it that the merchandise is completely recorded. Moreover, there are tendencies that physical monitoring and accounting could not be done properly.

Furthermore, the unsolved problems faced by the business organization and brings a powerful side effect on the performance of an organization is the in accuracy of inventory record. Each business organization should

ensure that there would be a proper inventory control planning, documentation of all transactions and decisions involved (Cannella, Framinan, Bruccoler, Barbosa-Povoa, & Relvas 2015). As pointed out by Muller (2003), the key to effective store management is the existence of accurate and latest records of all transaction.

Reed (2012) states that proper records keeping provides evidences for efficient transaction upon complying with business standards.

Mbroh & Attom (2011) in their study also reported that majority of SMEs in Ghana did not practice formal accounting at all due to low levels of education and inadequate knowledge in accounting on the part of the owner-managers which made it difficult for them to appreciate the need to practice proper accounting in their business.

More so, the study of (Ankrah, Mensah & Ofori-Atta, 2015) states the success or failure of any business depends on keeping accurate and timely accounting information to give a clear financial business image However, prior research reported that most small businesses did not keep complete records of accounts assigning several reasons. For example, a study by Maseko & Manyani (2011) established that most small business did not keep complete records of accounts due to lack of knowledge in accounting and the cost of engaging professional accountants.

In an interview conducted, the respondents enclosed that FIFO increases the price of your inventory during inflation because your older items with a lesser cost of goods are now a lesser proportion of your sales. There is a less record-keeping since the oldest items in your inventory are repeatedly used up.

It was revealed that retailers do not often practice storage and issuance activities as part of their inventory management practices with a mean score (Grocery Stores: Mean=2.45, Rice: Mean=2.47 & RTW: Mean=2.44). However, feed supplies retailers often practiced storage and issuance activities. More so, along the indicators of the said practice, it can gleaned that retailers frequently practice the proper authorization for the release of merchandise, proper account of merchandise for daily issuance and perform an inventory count. On the other hand, it can be also observed that retailers seldom practice on the following indicators for storage and issuance when it comes to shelf space for the storage of inventories are appropriately labeled for easy retrieval of inventories, all inventories are controlled based on the best quantity level to evade shortage or excess of inventories and the storage and issuance functions are performed by person/s other than bookkeeper/accountant. This showed that doing inventory counts, proper account and authorization for the issuance of merchandise were the common practices used by the retailers as part of their inventory management practices.

In order to come up with an effective inventory management, store records must be up to date and accurate. The basic procedures include counting and recording promptly after receipt or production and whenever there is a store transaction, issuance of stores should be properly authorized and show details such as code number, quantity of the transaction and the voucher reference (Muller, 2003).

In addition, in an interview conducted with the retailers in Santiago City, it was revealed that storage and issuance were rarely practiced due to limited work spaces in which the stocks will be stored. More so, limited knowledge were raised in terms of issuance practices. On the other hand, since FIFO was the common method used by the retailers since, this method adds value in terms of minimizing the wastage. In a nutshell, goods which come in store first should be sold first Due to limited shelf space, there is no proper labeling based from the pictures. These stocks are physically arranged according to types as shown on the Figure 9 & 10. Figure 11 revealed that there is no official format for authorization.

The results showed that retailers experienced moderate pressing problems on the purchasing practices with the overall mean of 2.52. As further shown in the table, out of seven (7) indicators the following are the top three (3) moderately problems experienced by retailers along purchasing such as: *low level of knowledge on*

inventory management, percentage of inventories retained (Mean=3.20), *percentage of inventories retained* (Mean=3.00) and *loss due to wide range of products retained and purchased* (Mean=2.70).

On the other hand, *assortments/variety of product purchase* (Mean=2.48), *quantity of purchase* (Mean=2.18), *duration/interval of purchasing or placing an order* (Mean=2.16), and *defects/expired merchandise* (Mean=1.98) were slightly affecting the inventory management practices of retailers which got ranked 4-7. This implies that sufficient knowledge on inventory management could assist the operations of the business particularly in purchasing activities.

In the interview conducted, it revealed that retailers were not fully equipped and knowledgeable on the concepts and principles of inventory management, with this, they usually find difficulties in managing their purchases and inventories as well.

Ferenčíková, D. (2014) stated that in an organization, inventory management is an important part in making all the decisions in handling the inventory such as activities to be carried out, policies of inventory management, and procedures in handling the inventory in order to ensure enough quantity of each item is kept in the warehouse at all times. Knowledge and skill of owner/manager is measured as important factor that would influence the effectiveness of inventory management in certain business organization.

With this, people who manage business organization needed to possess necessary skills and equipped in knowledge particularly in handling inventories.

Problems Encountered by the Respondents

It was gleaned in the table that retailers experienced moderate problems on records keeping with an overall mean of 3.05 which interpreted as much a problem. Further, it can be observed that *lack of knowledge in bookkeeping* (Mean=3.60) *and records are not updated* (Mean=3.50) were highly affecting the operations of the business in terms of records keeping which ranked 1 and 2 in the results of the table. On the other hand, the retailers perceived that *lack of manpower to do the recording/accounting* (Mean=2.46) affects the business inventory management slightly which got the least ranking in the problems encountered along the domains of inventory management practices of retailer. Therefore, this implies that to ensure smooth records keeping transactions employees should be equipped with bookkeeping knowledge since it was the main problems along records keeping.

In another interview, the retailers said that they encountered problem primarily on the recording of accurate financial transactions and necessary principles in accounting since most of them have no background at all when it comes to bookkeeping. Moreover, another pressing problem they encountered was updating of records which sometimes results to inaccurate data and they do manual recording which takes time to accomplish.

According to Ademola, Samuel & Ifedolapo (2012), when the information error occurs, the poor inventory records and misappropriation of inventory would lead to discrepancy of inventory record that's why manual documentation and manual posting inventory record would need extended processing time to complete the task and there are high possibilities of information error. The study on **Accounting records keeping practices of SMEs in Ghana: Evidence from Sunyani Municipality** revealed that a majority of business establishments do not save complete accounting records as a result of numerous factors such as lack of book keeping abilities on the part of owners/managers and the high cost involved in implementing a good accounting system (Amoako Marfol, Gyabaah, and Gyamfi, 2014).

The results of the foregoing table showed that retailers moderately experienced/not too much problems with regards to their practice on storage and issuance. It can be seen that all the eight (8) variables resulted as moderately pressing problems on the storage and issuance practices of the retailers; *lack of manpower to perform storage and issuance functions* (Mean=3.36), *untimely sorting of inventories as to time of purchases*

or commonly purchased by the customer(Mean=3.06)*, defective storage facilities (Freezer, temperature and the like)* (Mean=3.06)*, low level of knowledge on inventory control techniques in storing* (Mean=2.96)*, limited shelf space for storage* (Mean=2.94)*, obsolescence* (Mean=2.80)*, difficulty in monitoring of incoming/outgoing inventories* (Mean=2.80) *and high cost of storage facilities* (Mean=2.54). This means that retailers faced problems in storage and issuance of inventories due to insufficient skills and knowledge on proper storing and issuing of merchandise.

In an interview conducted, the retailers stated that high cost of storage facilities, limited shelf space, monitoring and knowledge on issuance and efficient storing of inventories are the commonly encountered problems in their day-to-day operations.

According to Mentzer, Stank and Esper (2008) stated that improvement in inventory turns are responsibilities of managers/owners and employees of the business. They should have deep knowledge in the different functional activities related to inventories and as well as the impact of the various skills on functional efficiency and effectiveness are required. On the other hand, the importance of equipping employees with the necessary skills pertaining to storing and issuing should be given emphasis in order to ensure that inventories are stable and could supply the needs of the customer.

Recommendations to improve the Retailers' Inventory Management Practices.

Inventory Management supervises the flow of goods from manufacturers to warehouses and from these facilities to point of sale. A key function of inventory management is to keep a detailed record of each new or returned product as it enters or leaves a warehouse or point of sale. However, despite the fact that it has a big role to many business enterprises and organizations, it can be noted on the findings of the study that the retailers experienced problems along the domains of purchasing, records keeping and storage and issuance. Furthermore, recommendations for the improvement of inventory management practices was highly needed to ensure that there is smooth flow of operations when it comes to proper handling of inventories.

CONCLUSION

Based on the findings of the study, the following conclusions were drawn:

1. As single proprietorship and partnership, most of them are no longer new in the field whose capitalization of more than P 100,000, and are expected to be capable of running their business.
2. Although they have been in the business for considerable period of time, giving attention to the details of purchasing is sometimes overlooked. In terms of records keeping, the lack of technical know-how in recording keeping/bookkeeping could have been the reason why record keeping is not regularly done/practiced. Lastly, due to limited shelf space found in the store area important attributes of storage and issuance is being unnoticed/overlooked.
3. With regards to the problems encountered by retailers, the lack of knowledge on inventory management particularly on purchasing practices causes the business problems in its operation. The retailing business experienced incomplete record keeping transactions/practices due to lack of bookkeeping skills on the part of the managers/owners. More so, the insufficient knowledge and understanding of the retailers on the storage and issuance practices resulted to reasonable problems in its business operation.

RECOMMENDATIONS

In the light of the findings and conclusions, the researcher forwarded the following recommendations:

1. There is need for the retailer operators in Santiago city to embrace proper book keeping practices in order to be successful in the financial performance of their businesses. Documents of original entry such as invoices should be properly kept as they are important elements of financial system. It is

recommended that retailer operators in Santiago city should employ sales clerk, who have knowledge in book keeping as a way of helping them cultivate the habit of preparing financial performance. More so, the owners/managers should ensure that there will be a proper shelf of every inventories. On the other hand, specific storage or facility room should be provided for all the inventories.

2. Employees should assists the managers/owners in accounting, monitoring and evaluation of inventories for the smooth transaction of business.

3. Potential Business Owners/Managers must equipped themselves knowledge and necessary skills in handling, monitoring and evaluating inventory management.

4. To the future researchers, they may include other variables on inventory management practices and consider other types of business entities.

5. Tie up with schools offering accountancy for OJT practicums.

REFERENCES

1. Ahmad, A., & Mohamed, B. (2014). Inventory management and its impact on financial performance. International Journal of Business and Management, 9(11), 45-56.

2. Bugnayan, S. P. (2015). Rice consumption trends in the Philippines: An analysis of market demand and supply chain. Journal of Agricultural Economics, 27(2), 112-130.

3. Dicksor, P. (2015). Inventory management and its role in small enterprises: A systematic approach. Journal of Business and Economics, 15(4), 78-90.

4. Didonet, S., & Diaz, R. (2012). Retail inventory management: An analysis of efficiency and customer satisfaction. Journal of Retailing and Consumer Services, 19(3), 56-72.

5. Espina, R., & Espino, L. (2016). Major export commodities of the Philippines: Market trends and challenges. Philippine Journal of Agricultural Research, 25(1), 98-110.

6. Gaur, V., Marshall, L., & Raman, A. (2005). Retail inventory management and channel distribution strategies. Journal of Supply Chain Management, 41(3), 45-61.

7. Gitman, L. J., & Zutter, C. J. (2012). Principles of managerial finance (13th ed.). Pearson Education.

8. Kenneth, R., & Brian, L. (2006). Inventory management: Balancing risks and efficiency. International Journal of Operations & Production Management, 26(7), 87-104.

9. Kumar, A., & Bahl, A. (2014). Effective inventory control: A key to business success. Journal of Business Studies, 22(2), 67-85.

10. Lee, S., & Kleiner, B. H. (2001). Inventory management strategies for retail success. Management Research News, 24(3/4), 99-110.

11. Rajeev, N. (2008). The role of inventory management in financial performance: An empirical study. Journal of Financial and Economic Research, 36(5), 120-138.

12. Schumacher, A. (2017). Challenges in the Philippine agricultural sector: An analysis of supply and value chain issues. Asian Journal of Economics and Finance, 14(2), 45-61.