

# **Impact of inventory management on profitability and liquidity : a case of large supermarkets in Nairobi**

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## **Abstract:**

The primary motivation behind this study was the problem facing one of the retail chain supermarkets in Nairobi in the last few years. Uchumi Supermarkets Ltd. (USL) in the recent past experienced tight cash flow and slow moving stock due to decline in customer spending. The objectives of this study were: to establish the extent that inventory management affects the choice of inventories; to determine how the inventory mix between the slow and fast moving stock affects profitability and cash flow level; to suggest appropriate way of ensuring correct mix of inventory that will sustain optimal level of profitability and liquidity. The research methodology involved collection of data through questionnaire and standard face-to-face interview questions, which were developed by reviewing the effects of inventory management on profitability and liquidity. Procedures employed by different supermarkets were found to range from informal mechanisms without written manuals and non-computerized systems to computerized inventory management systems capable of tracking the movement of stocks and re-order levels. Overstocking was very frequently experienced in the supermarkets with suppliers connected to the extranet and occasionally more than one supplier could supply goods for the same automated order. This brought about situations of slowed down movement of stock and delay in payment to suppliers. The delay resulted in stock out due to suppliers holding stock for non-payment and the supermarkets in this category therefore ended up unable to avail stocks on the shelves as required by customers. In addition, the slow to fast moving stock ratio reflecting the inventory mix increased to such levels that impacted negatively on the cash flow and profitability. The study suggests that extranet connection to suppliers for automated orders should be reviewed and controls put in place. The revised inventory control will ensure that only one supplier is permitted to replenish the stock per each automated order. The study also recommends the procurement approach taken by some supermarkets which control slow to fast moving stocks to minimum (incase of expensive items only single units are in stock) and only place the order after selling what exists on the shop floor. The approach ensures funds are not tied up in stocks for long duration, and shrinkage, obsolescence, stock outs are at minimum level. This approach would enable supermarkets to determine appropriate inventory mix to sustain optimal profitability and liquidity level. In addition, the retail chain supermarkets should explore ways and means of how they can sell the excess stock to small supermarkets in the rural areas at cost whenever they experience overstocking.