Types of stock and asset management: Information sheet

The information below outlines the various approaches to stock management that businesses can adopt. There is also information around the potential advantages and disadvantages of types of stock management.

| **Stock Management** | **Advantages/Disadvantages/Examples** |
| --- | --- |
| **Made-to-stock (MTS)** | * MTS strategy depends on matching production and inventory with forecasted demand. * Products are produced prior to receiving the customer’s order. The order is completed by picking items from existing stock. * Works best for low-variety products where demand can be more easily forecasted. * **Advantages:** Customer orders are pulled from existing pre-manufactured stock, enabling orders to be fulfilled instantaneously. * **Disadvantages:** Significant upfront expenses developing inventory while adding the potential for underproduction or overproduction if forecasted demand is inaccurate. * **Example**: Seasonal clothing requires fabrication prior to customer orders. To meet future market demand, clothing manufacturers will forecast demand based on past data and then produce according to the predetermined figures. Overproduced items are then sold at liquidation prices to deplete inventory and make room for newly produced items. |
| **Made-to-order (MTO)** | * Under MTO, products are only produced after the receipt of a customer order. * Enables customers to purchase products that are customised to their exact specifications and demands. * Works best for companies that build products with a high variety of customisation or build expensive products that need significant investment before production can take place. * **Advantages**: MTO enables complete product customisation while enabling businesses to reduce inventory costs and wasteful activities like overproduction and underproduction. * **Disadvantages:** Depending on the business, MTO items typically have longer lead times than other traditional strategies like MTS. * **Example:** Manufacturers of aircraft will only manufacture their products after orders and contracts are in place. The product is too expensive to begin production without an order and a secure investment in place. |
| **Assemble-to-order/ Configure-to-order (ATO/CTO)** | * Assemble-to-order is a combination of made-to-order and made-to-stock. * Products are produced quickly by assembling components (subassemblies) once the order is confirmed. * The majority of expenses occur from producing and storing the different components, while the final assembly is relatively fast and inexpensive. * **Advantages:** Ability to break down products into subassemblies, providing greater flexibility while also enabling a faster lead time. * **Disadvantages:** Requires producing and storing the subassemblies which requires greater upfront investment by the manufacturer. * **Example:** A personal computer distributor will already have all the required parts for a wide variety of final products. Once the order is made, the computer will be assembled to meet the customer’s specifications. |
| **Just-in-time (JIT)** | * JIT is a form of inventory management that requires working closely with suppliers so that raw materials arrive as production is scheduled to begin, but no sooner. The goal is to have the minimum amount of inventory on hand to meet demand. * **Advantages:** Production runs are short, which means that manufacturers can quickly move from one product to another; reduced costs by minimising warehouse needs; companies spend less spend on raw materials. * **Disadvantages:** JIT inventory systems involve potential disruptions in the supply chain if a materials supplier has a breakdown and cannot deliver the goods promptly; this could potentially stall the entire production line. * **Example:** Toyota is one of the most well-known examples of a company using the JIT method. When a client places an order, Toyota only receives raw materials in the factory when it is ready to start building the automobile. |