

Supply Management Term of the Month

ABC analysis

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In [materials management](#), the **ABC analysis** (or **Selective Inventory Control**) is an [inventory](#) categorization technique. ABC analysis divides an inventory into three categories- "A items" with very tight control and accurate records, "B items" with less tightly controlled and good records, and "C items" with the simplest controls possible and minimal records.

The ABC analysis provides a mechanism for identifying items that will have a significant impact on overall inventory cost,^[1] while also providing a mechanism for identifying different categories of stock that will require different management and controls.

The ABC analysis suggests that inventories of an organization are not of equal value.^[2] Thus, the inventory is grouped into three categories (**A, B, and C**) in order of their estimated importance.

'A' items are very important for an organization. Because of the high value of these 'A' items, frequent value analysis is required. In addition to that, an organization needs to choose an appropriate order pattern (e.g. 'Just- in- time') to avoid excess capacity. 'B' items are important, but of course less important than 'A' items and more important than 'C' items. Therefore 'B' items are intergroup items. 'C' items are marginally important.