

The Best Inventory Management Techniques For Modern Businesses



Inventory management is the delicate balance between having exactly what items needed in stock to satisfy customer demand without overstocking items that can go bad, sustain damage, or go out of style before they are used or sold.

Effective inventory management reduces cost by minimizing losses and maximizes sales.

With a solid strategy in place, businesses can track inventory in real time for a streamlined supply chain flow - just the right quantity at just the right time.

Primary Goals of Effective Inventory Management Strategy

• Prevent Dead Stock

Running out of an in-demand item can cost you money, but it's not that only costly inventory mistake. Overstocking takes up valuable floor space

and can result in spoilage or waste and costs man-hours to manage and dispose of inventory that does not sell in time.

For businesses that lease variable warehouse space to meet their needs, minimizing dead stock storage makes inventory costs significantly lower.

▪ **More Organized Warehouse**

An effective inventory management solution includes real-time tracking. Knowing exactly where every item is located, how fast it moves, and what quantity is in stock enables faster order fulfillment.

Comprehensive tracking allows more effective layout, with fast-moving items in the most convenient locations for faster restocking.

▪ **Streamlined Reordering**

Just-in-time inventory management – ordering exactly the amount of stock you need and moving it quickly – is not always practical due to supply-chain logistics. Real-time inventory management is the next most efficient option. The concept is simple.

When an item is sold, it is taken out of stock automatically, and when in-stock items reach a specified threshold, the item is either triggered for reorder approval or automatically ordered.

Automation enables organizations to right-size inventory and properly leverage velocity, the speed at which stocked items are sold.

Inventory control data provides comprehensive information about every step in the chain and facilitates accurate ordering practices, including when to reorder.

▪ **Strategic Budgeting**

Managing inventory enables you to better allocate resources and manage cash flow, keeping the right amount of goods in stock without wasting money and human resources.

In short, a solid inventory management system saves money, boosts staff productivity, provides real-time data for informed ordering, reduces waste, and keeps your fastest moving stock on the shelves.

Every business that depends on a supply chain will run into issues at some point. With a contingency plan in place, you can evaluate potential risks and solve delivery or stock issues before they damage your business reputation.

Inventory Management Tips and Techniques

Inventory management is a proven way to save money and maximize production. Every business will benefit by reducing human error, which means choosing an inventory management software that works best for your operation.

No matter what software you choose, these tips will help you run a highly efficient inventory system.

• Invest in Inventory Management Software

Implement a connected supplier management software and inventory management system with real-time stock updates and comprehensive data analysis features.

The best solutions on the market will minimize data entry and update all systems in real-time, so everyone from the clerk to the purchasing manager know what you have in stock at any moment, and the database is updated automatically when an item is sold.

A connected cloud-based inventory software and the wealth of data it offers provides endless advantages and opportunities. With a suite of powerful inventory and analytic tools, a savvy inventory manager can:

- Identify inventory by category, and analyze categories separately. Divide inventory into like groups and use your data to identify the

fastest turnover and highest profitability.

Optimize stockroom and warehouse layout by organizing layout in a way that makes sense, with category items grouped together and the fastest moving stock easily at hand.

With a well-organized stockroom, your team can locate items to satisfy customer needs faster and more efficiently.

- Designate an order threshold, or par level, specific to each item. With a high threshold for fast selling items and a lower threshold for slow-moving merchandise, you can reorder before you run out of best-sellers while lowering the risk of overstock.
- Revisit and adjust par levels for items that are trending upward and downward trends to avoid dead stock or a stock out situation with trendy merchandise.
- Equip your floor and warehouse staff with tablets that tap into the inventory system. They will know how much stock is on hand and where additional merchandise is located in the stockroom. Warehouse staff can see what's selling and pull items selling quickly for fast, efficient response. You can set a stock threshold similar to the order threshold mentioned earlier.
- Eliminate maverick overspending and duplicate purchases. Humans are notoriously error-prone, especially when it comes to tedious jobs like data entry. Inventory software eliminates human mistakes and judgment errors.
- Use a FIFO system - first in, first out. It's not just for lettuce. Use the same method for dealing with non-perishable inventory. In an organized warehouse, stock incoming product from the back. Even if it's a staple item, packaging can be damaged over time, or you're stuck with outdated product when the manufacturer updates packaging. FIFO helps you avoid forgotten boxes of product deteriorating at the back of the shelves.
- Before overstock becomes a real cost drain, find a way to get rid of slow moving items via a sale, a promotion, or even a gift-with-purchase around the holidays. The longer merchandise sits, the more it costs.

• **Use Predictive Analysis**

The data at your disposal is immensely powerful. Using past purchase information, you should be able to fully understand buying patterns for both individual items and the overall category. A deep dive into that data may reveal surprising insights you can use to boost sales.

Accurately predicting demand is critical to inventory management, but it is no easy feat. You cannot adjust for every possible variable.

You can, however, use data to spot market trends and analyze previous year's sales to track what sold and when.

With this year's growth rate and the overall economy outlook firmly in mind, examine seasonal trends and planned marketing efforts to ensure you are well-stocked for expected spikes in sales volume.

While you can't account for everything, you can prepare for what you can see coming.

Predictive analysis allows you to plan for the future. Determine whether your current supply chain management system can cope with your organization's growth trend.

As the business grows, you will need to adjust strategy to handle increased volume and minimize risk.

• **Consider Centralized Ordering**

Centralized ordering through a purchase office gives you complete control over incoming goods, even with multiple locations.

One of the major advantages to centralized ordering is dedicated experts who are trained to negotiate the best deals. Since their primary responsibility is monitoring every link of the supply chain for optimal performance, purchasing managers are best positioned to negotiate the maximum value for the minimal price and keep everything running smoothly.

Purchasing managers will determine the optimal economic order quantity,

or EOQ model. The right calculations determine the number of units to order at the right time to minimize the cost of purchase, delivery, and storage.

Suppliers often require minimum order quantities to balance their cost of setup or quantity discounts. Talented purchasing managers can work with suppliers to lower MOQ requirements or spread delivery over a period of time to avoid the costs of overstock.

▪ **The ABC's of Analysis**

- **A:** Slow-moving, high-value products. Units in this category are important for their high-end value. Unpredictable sales mean A goods require a great deal more oversight than most goods. Even though they sell slowly, these items represent your highest profit margin.
- **B:** Bread-and-butter products. B products don't fly off the shelves, but they sell steadily and offer mid-level profit margins. They aren't trendy sellouts, they are items most people need and they offer a decent profit.
- **C:** Cheap, fast-moving stock with a slim profit margin. These are easiest to automate using par levels. They move fast, and profit is so low you can pay less attention. Think point-of-sale register items, like candy and gum. If you're a builder, C would be nails and screws. Just make sure you're always stocked.

▪ **Have a Plan B**

For a supply chain to run smoothly, everything has to fall into place, from raw materials to weather. All kinds of events can interfere with your perfect merchandising plan.

Delays happen due to blizzards, hurricanes, and other weather events, or may be caused by a political decision, a strike, a raw materials breakdown, or any number of other unforeseen issues.

When your supply hits a snag, it can cause a ripple effect that affects your company, customers, and partner organizations. Maintaining success depends on contingency planning to mitigate the risk in a supply chain disruption.

While you cannot plan for every potential disruption, you can implement a flexible process designed to minimize the negative impact to your organization and keep your business on track.

Plan B might involve local suppliers who can deliver quickly, pivoting to alternate items, or a public announcement that includes an incentive to buy something else from you.

Good contingency planning involves communicating with suppliers. Building good relationships with suppliers encourages useful inside information.

Suppliers who want to stay in your good graces may give you a head's up when they foresee a coming shortage or logistics issue, and be more willing to help you plan a workaround.

Keep up-to-date information on your preferred suppliers to assess risk in the event of financial instability.

Every business that depends on a supply chain will run into issues at some point. With a contingency plan in place, you can evaluate potential risks and solve delivery or stock issues before they damage your business reputation.

• **Conduct Regular Auditing**

While good inventory management software provides all the information you'll need for scanned items, human interactions can, and often do, muck up the works. It's important to make sure the stock matches the reports.

Most companies do a physical inventory once a year, but that may not be often enough to gauge what is happening. If the count does not match the numbers, it will be difficult to find out what went wrong.

When using an annual inventory account, you may also consider spot-checking inventory throughout the year. Pick a few fast-moving items to count at random times. If the count is significantly off, you'll need to identify the issue.

Some businesses avoid the full physical inventory ordeal by cycle counting. Inventory levels are counted at intervals through the year. Items are counted on a rotating schedule, with higher velocity items counted more frequently.

Auditing is a necessary, if tedious and time-consuming practice. It's imperative to have an accurate picture of what's in stock, and to find and fix issues if records don't reconcile, whether due to scanning or UPC error, undocumented spoilage, delivery errors, or employee theft.

• **Drop-Ship Online Orders**

If it fits your business model, consider skipping the costs of warehousing altogether. Drop-ship operations allow you to offer a far more extensive stock catalog without adding any additional warehouse or processing costs.

Merchandise is shipped directly from a manufacturer or distribution center to the customer, with your online store serving strictly as an ordering portal.

Drop-shipping has become a fairly common practice by wholesalers and manufacturers. The cost of the products will be higher, but you will make up for it in processing and warehousing costs.

The financial success of your company rests on optimized supply chain management. It's that important. If you don't have control of inventory management systems your business could be losing significant money.

These techniques will help you optimize supply chain management to meet business objectives and customer demand while integrating strategic and operational strategy.

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