Inventory management refers to the collection of techniques, strategies, and tools used to store, track, order, and deliver inventory or stock. Companies invest a considerable amount, if not the majority of their capital in their inventory. As such, it’s crucial to find and use an effective inventory management approach that keeps inventory levels right where they need to be.

Small businesses often struggle with cash flow, which can affect stock levels, leading to stock-outs and unhappy customers. Too much of this and the company could go out of business. This is where inventory management techniques are
helpful.

With the right inventory control methods, business owners can keep optimal inventory counts, reduce human error, save resources when it comes to physical inventory stock, and more.

Let’s take a look at 12 of the most widely used inventory techniques today. These are highly effective techniques you can use to improve inventory control in your business.

**Minimum Order Quantity**

Minimum order quantity (MOQ) is the lowest set amount of stock that suppliers are willing to sell. If you can’t purchase the MOQ of a specific product, then you won’t be able to buy it from that supplier.

Suppliers use minimum order quantities to increase their profits while getting rid of more inventory and removing “bargain shoppers” at the same time.

The minimum order quantity is set based on your total cost of inventory with any other expenses you must pay before reaching profit. This means MOQs help wholesalers remain profitable and maintain steady cash flow.

**Just in Time Inventory Management**

Just-in-time Inventory management is making what is needed when it’s required in the amount it’s needed. A lot of companies operate with a just-in-case Inventory management approach holding onto a small amount of stock in case there is an unexpected demand increase.

Using just in time Inventory (JIT) management aims to establish a zero inventory system by creating Goods to order. It operates with a pull system where an order comes through and initiates a cascade response throughout the entire supply
chain. This signals the staff that they need to order inventory or begin producing the required items.

Just-in-time Inventory management provides a variety of benefits, including:

- Less obsolete and outdated or spoiled inventory
- Reducing waste and increasing efficiency by minimizing or eliminating warehousing and stockpiling while maximizing inventory turnover
- Decreasing costs related to insurance and rent by reducing your inventory
- Identifying and fixing production errors faster because production happens on a smaller and more focused level
- Maintaining healthy cash flow by ordering stock only when it is necessary

**FIFO and LIFO**

FIFO and LIFO are accounting methods that are used to value inventory and report profitability.

FIFO stands for first in first out. It is an inventory accounting method that says the first items in your inventory are the first ones to leave, so you always get rid of your oldest stock first.

LIFO stands for last in, first out. It is an inventory accounting method that says your last items in your inventory are the first ones to leave, meaning that you get rid of the newest stock first.

If you’re operating a food business or otherwise handling food Inventory management or any other perishable items, you pretty much have to use the FIFO rule. Otherwise, you’ll end up with obsolete inventory that you have to write off as a loss.

LIFO is an excellent method for non-perishable homogeneous goods like brick or stone, so if you get a fresh batch of items like these, you don’t have to rearrange
your warehouse or rotate batches because they’ll be the first ones out anyway.

**Reorder Point Formula**

The reorder point formula alerts you when you should order more stock. You are told when you reach the lowest amount of inventory you can sustain before you need more.

The formula for the reorder point is: \((\text{Average Daily Unit Sales} \times \text{Average Lead Time in Days}) + \text{Safety Stock}\).

With this equation, you can stop being a victim to market spikes and slumps and consistently order the right amount of stock every month.

*Not all inventory management techniques apply to all businesses and industries. It takes a bit of research to understand which will work best for your company and to change from one method to another.*

**ABC Analysis**

ABC analysis of inventory sorts your inventory into three categories according to how much they cost to hold and how well they sell.

- **A-Items**: The best selling items that don’t take up a lot of your warehouse space or cost.
- **B-Items**: The mid-range items that sell regularly but cost more than A-Items to hold.
- **C-Items**: The rest of your inventory that makes up the bulk of your inventory costs but contributes the least to your bottom line.

Using ABC analysis helps to keep you are working capital cost low because it identifies the items you should reorder more often and which items you don’t
need to stock as frequently. ABC analysis optimizes your inventory turnover rate and reduces obsolete inventory.

**Lean Manufacturing System**

The lean manufacturing system is sometimes referred to as lean manufacturing or lean production. This system is known for maximizing product value for the customer and minimizing waste without sacrificing productivity.

This inventory tracking system originated in the Toyota production system, which attempted to prevent:

- **Muda**: This refers to everything in your manufacturing process that creates waste or causes constraints on your ability to create a valuable product.
- **Mura**: This refers to everything that creates an efficient and inconsistent workflows.
- **Muri**: This refers to all loads or tasks that put too much stress on your machines or employees.

All lean manufacturing systems adhere to the following principles:

- Lean manufacturing delivers the most valuable product to the consumer.
- It maps out the steps and processes required to manufacture valuable products.
- It undergoes a process of ensuring all of your value-adding steps flow smoothly without bottlenecks, delays, or interruptions.
- Products are built using a just-in-time basis, so materials are not stockpiled, and customers can receive their orders within weeks rather than months.
- Lean thinking and process improvement is a core part of company culture.

Minimizing or eliminating Muda, Mura, and Muri while adhering to the five
principles, this inventory management technique allows you to produce the highest quality products while also increasing productivity and revenue.

**Batch Tracking**

You may also hear batch tracking called lot tracking. It’s a process to trace goods along the distribution chain with batch numbers efficiently.

Whether it is raw materials or finished goods, batch tracking allows you to see where your products came from, where they went, how much was shipped, and if they have an expiration date, when they expire.

This inventory management technique comes with a variety of benefits, including:

- Improved supplier relationships
- Easy and fast recall
- Streamlined expiration tracking
- Fewer accounting errors from manual tracking

**6 Sigma**

Also known as Six Sigma, this is a data-driven process that aims to reduce product defects down to 99.99966% defect-free products over the long-term or 3.4 defective parts per million.

Using statistical models, Six Sigma practitioners methodically improve and enhance a company’s manufacturing process until they reach the level of Six Sigma.

Most often, this uses a five-step process known as DMAIC, which stands for define, measure, analyze, improve, and control.

The DMAIC process uses data and measured objectives to create a cycle of
continuous improvement in manufacturing methods. DMAIC is useful to improve your current processes, but Six Sigma also uses DMADV to develop new processes, products, or services.

DMADV stands for define, measure, analyze, design, and verify. It is a data and thorough analysis to help you create efficient processes or develop a high-quality product or service.

It works with intensive training and focused projects along with practical statistical analysis to help save your business a lot of money.

**Lean Six Sigma**

Lean Six Sigma is the fusion of Six Sigma with lean manufacturing to create a complete system that removes waste and reduces process variation to streamline production and optimize product output.

Lean Six Sigma primarily uses Six Sigma processes as the backbone of the system to drive focused improvements in manufacturing. It also incorporates many tools and techniques from the lean approach to reduce wasteful processes and steps.

**Consignment Inventory**

Consignment inventory refers to a business arrangement where a vendor or wholesaler known as a cosigner agrees to give their goods to a cosine, most often a retailer without the retailer paying for the goods upfront. The cosigner still owns the products, and the cosigner pays for the goods only when they sell.

This is a win-win relationship between suppliers and retailers as long as they’re both willing to share the risks and the rewards.

Vendors get low inventory carrying costs, direct to retailer shipping, and access to new markets. Retailers get minimal risk, improved cash flow, and lower cost of
ownership.

**Perpetual Inventory Management**

You may sometimes hear Perpetual Inventory management referred to as a continuous inventory system. Perpetual inventory systems track sold and stocked inventory in real-time, updating your accounting system whenever a sale is made, new inventory has arrived, or inventory is used.

All of this information is sent to a central hub that authorized employees can access at any time. The advantages of this system include the ability to manage multiple locations quickly, more informed forecasting, and proactively monitoring inventory turnover.

**Demand Forecasting**

demand forecasting is the process of predicting what your customers will buy, when they will buy it, and how much of it they will buy.

You can use several informal methods such as guessing, or you can use quantitative methods such as past sales data analysis.

Demand forecasting will help you make better decisions for managing and growing your business, whether you are using it to plan production, enter a new market, or managed inventory.

Best practices for demand forecasting include:

- Creating a repeatable monthly process
- Determining what to measure and how often to measure it
- Integrating data across all of your sales channels
- Maintaining real-time, up-to-date data
- Measuring forecast accuracy at the location, customer planning, and SKU
level

Use company data and goals to determine the best inventory management system to use within your company. Then, to maximize its benefits for your organization, make sure you have the tools you need to make it as easy as possible.

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