Retail Inventory Management: Definition and Best Practices

Inventory management is a part of the supply chain where inventory and stock quantities are tracked as things move in and out of the warehouse.

Inventory management systems aim to alert you to where your inventory is at any given time, and how much of it you have to manage levels correctly.

Some organizations scan in their inventory with a barcode scanner to improve efficiency and accuracy along picking routes.

An inventory management system focuses on a single supply chain process, unlike an ERP system.

These inventory management systems often integrate with other systems you use throughout the course of business, such as point of sale system or POS software, shipping, and channel management, allowing your organization to build a personalized integration stack suited to the needs of your business.

Ultimately, the goal of inventory management is to ensure you have increased visibility and organization of your inventory activity with automated and streamlined operations from picking to packing and shipping the inventory.

Small businesses, especially retail stores, must have effective inventory management systems and processes in place if they wish to remain competitive.

Why Inventory Management Matters

Without inventory management, you can't expect to be in business long. When your inventory is organized properly, it allows the rest of your supply chain management to fall into place.

Without it, you risk having too much inventory of some items, not enough of others, mis-shipments, mis-picks, and more.

The key is proper warehouse management. Mis-picks happen because of messy warehouses, poor shelf labeling, or incorrect paper pick lists.

Mis-shipments are generally the result of mis-picks at the start of the inventory process, but are also a result of lacking quality control procedures.

Overstocks and out-of-stocks happen when a company relies on manual methods to place orders without having a full understanding of their current inventory state.

Without it, you don't have a good predictor for inventory forecasting and end up with either too much or too little stock.

All of these mistakes cost money, and cost you even more when you consider the wasted labor spent in correcting the mistake.

Without implementing the proper inventory management tools, you exponentially increase the risk of human error.

The more human error you have, the more your customer reviews and loyalty will begin to plummet.

If you've got an iPad based POS system, you can integrate your inventory system to gather sales data and streamline your order fufillment.

Retail Inventory Management Best Practices

Inventory management systems are only as powerful as the way you use them. It’s worth the extra resources to have the system set up by the people who made the software.

Working with them ensures you’re using the right features and techniques to get the most value for your money.

Let’s look at some of the best practices for inventory-control you can use in your warehouse.

These inventory management techniques are essential to helping business owners keep accurate inventory counts.

ABC Analysis

ABC analysis is a method to arrange your inventory in a hierarchy of the most important to the least important items.

The A items are those that sell the best, so they are the highest priority stock and require regular reordering along with consistent quality review.

The B items are those that are valuable, but have medium-priority stock and are ordered once a month.

The C items are low-stock priority items, and are generally carried in high volume so they don’t require a lot of reordering.

Organizing the stock within your warehouse based on how well they sell and how much value they bring to the company helps to ensure your storage space is optimized, while also streamlining the order fulfillment process.

Pick and Pack Process Optimization

Your pick and pack process is the tools and procedures your team uses to fulfill orders both quickly and efficiently. There are several types of pick and pack processes, including;

- Discrete order picking: This is the process most small businesses prefer. It works like this: You receive two orders. Pick and pack all items for the first order. Proceed to the next order, and repeat. This ensures you're only picking items for one order at a time. It works well for small product catalogs and small order volumes because it helps to reduce mistakes.
- Batch picking: Instead of tackling one order at a time, batch picking gathers a batch of SKUs at once. For instance, if you have 5 orders and 3 of them require Item A, and two of them require Item B, you would pick the 3 As first, then the 2 Bs. It saves time and fulfills more order faster, which is ideal for small businesses with larger product and order volumes.
- Wave pocking: This is a hybrid picking process that combines discrete and batch together. Groups of similar orders are fulfilled during scheduled waves, or time frames. The orders may have similar shipping deadlines, similar SKUs or could be close to one another in the warehouse.
- Zone picking: Zone picking involves using different employees assigned to different zones within the warehouse, where each person only picks the items in their assigned zone. For example, if an order comes through that contains items from Zone A and Zone C, the picker in Zone A gets his items, then passes it along to Zone C to add his items and finish this order. This approach is best for large businesses with a high inventory turnover rate.

No matter which approach you use, it is crucial to design your warehouse for efficiency and strive to keep things as well organized as possible.

You'll want to program the warehouse management system to display the items being picked in the order the picker will find them.

You'll want to double check each order, because even with accurate software, it's always a good idea to have a human look it over for accuracy.

It's also a good idea to use RFIDs or barcodes on each piece of inventory for easier counting.

Establish KPIs

Inventory KPIs measure performance in a particular area over a certain period of time, toward a certain goal.

Setting KPIs helps to eliminate guesswork because you have clear milestones to hit on the timeline you set, whether it is weekly, monthly, quarterly, or annually.

Using these, you'll have the data you need to make informed decisions about what to do next in your business. Some KPIs you may wish to focus on include:

1. Inventory carrying costs
2. Inventory write-off and inventory write-down
3. Rate of inventory turnover
4. Cycle Time
5. Order Status and Tracking
6. Fill Rate

Batch Tracking

Also known as lot tracking, this process is designed to efficiency trace goods along the distribution chain with batch numbers.

A batch is a particular set of goods procured together that used the same materials.

An automatic batch tracking system will enter information about all the products within your patch, so the information you need is quickly accessible should you have to issue a recall.

Inventory Turnover Rate Optimization

Your inventory turnover rate is the measure of the number of times a year your inventory is used or sold in any given period – usually a year.

Calculating your inventory turnover ensures you'll have a better understanding of the market demand for your products, on the amount of obsolete stock you may be carrying, and what steps you must take to sell or stock additional inventory – depending on that inventory rate.

The simple formula for inventory rate calculation is:

Cost of Goods Sold (COGS) / Average inventory

Need to increase your inventory turnover rate? Try:

- Experimenting with pricing
- Liquidating any obsolete stock
- Forecasting customer demand
- Redistributing inventory to another warehouse

Safe Stock Inventory

Safe stock inventory refers to a small surplus of inventory you keep on hand to protect yourself against variability in market demand and lead times.

If you don't have some kind of safety stock inventory on hand, you could lose revenue, lose customers, and even market share.

When you have a safe stock inventory, you'll prevent stockouts, protect against unexpected demand spikes, compensate for inaccurate market forecasts, and ultimately, create a buffer for longer than expected lead times.

Use an Accurate Reorder Point Formula

Your reorder point formula alerts you to approximately when you should order additional stock – when you have reached the lowest inventory level you can sustain before you need to order more.

Using the proven math equation, you can stop falling victim to market changes and consistently order the right amount of stock every month.

That equation is known as a reorder point formula.

You can use this one right now:

(Average Daily Unit Sales x Average Lead Time in Days) + Safety Stock = Reorder Point.

Demand Forecasting

For the most effective approach to inventory management, everyone needs to be involved. Several teams are responsible for various pieces of the puzzle.

The purchasing team, for instance, must be accountable for making sure they are not purchasing too much or too little – keeping a close eye on each purchase order.

The merchandising team has to make sure the inventory is listed correctly, promoted, and priced well enough to move.

The warehouse team must be accountable for all the inventory management tasks, such as properly managing the inventory receiving, correctly picking the orders, and correctly shipping everything so it moves smoothly through the pick, pack, ship process.

Inventory management software provides retail businesses with a real-time look at their stock levels.

When you’re dealing with physical inventory, especially in the retail industry, customers will often go to the next store that has what they are looking for in stock.

For retailers who rely on multiple sales channels, such as traditional brick and mortar locations and an online store, it’s crucial to maintain separate inventory for e-commerce orders, so that regardless of how customers choose to shop, you can meet their needs.

Inventory tracking is essential to store operations, especially if you have a fairly large catalog of items.

Issues with your inventory system will make retail management itself more complex and affect your business’ bottom line.

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