

# How To Set Up Inventory Management for A Small Business



Accurate inventory management is one of the most basic cornerstones of financial success, and it can be complicated. Businesses often struggle to balance having the right stock at the right time, without the expense and risk of overstock or running out of popular products.

Strategic inventory management solution means balancing fast-moving goods and supplies with minimal storage needs. The faster you move goods in and out, the more efficient - and profitable - your business.

Whether you are a large organization looking after stock in multiple countries or managing small business inventory, the principles of managing inventory are the same.

## What Is Inventory Management?

Inventory management is part of the supply chain, and can be defined with a phrase often used in food service, just-in-time delivery. The ultimate goal is to have the exact amount of inventory needed at any given time.

With proper management, merchandise customers want is always available when

they want it, and no slow-moving good are aging in the warehouse.

Poor inventory management can result in a warehouse full of dead stock; costing the business money to store until they can get rid of it, sometimes even at a loss. Worse, the business may earn a reputation for running out of popular items.

With good inventory management techniques, businesses run more efficiently, reducing the expense of carrying dead stock due to spoilage or obsolescence and saving on storage costs while maximizing sales. These tips work whether ordering raw materials or goods destined for sale.

## **Best Practices for Small Business Inventory Management**

The case for implementing an inventory management software is hard to refute. Computer analysis offers valuable insight into current inventory, upcoming need, and sales trends, all without human error.

The most important tip on this list is:

### **Invest in Inventory Management Software**

Modern inventory management software pulls a lot of the weight in supply chain management. With a good inventory system, businesses can:

- Track inventory in real time throughout the supply chain. Know how much stock you have on hand, how fast it's selling, and when the next shipment is due to arrive.
- Analyze sales numbers to accurately forecast demand and plan material requirements.
- Keep the right amount of stock on hand to meet demand.
- Empower information from any point. Warehouse workers, sales floor associates, and managers can access the system to see what's in stock.
- Maximize inventory control by reducing dead stock and shortages.
- Optimize warehouse management for easy retrieval.
- Generate reports for easy inventory analysis.
- Tracking inventory across different warehouses and outlets.
- Set workflow alerts. When unexpected inventory changes occur, the

purchasing department can quickly restock to avoid shortages or delays in production.

- **Manage cash flow.** The amount of cash the business has tied up in inventory costs is critical to money management. A better small business inventory management system equals better cash flow.

When your inventory system works with, or even better, is part of a Purchase Order System then you can automate stock updates as items from purchase orders are received.

## **Use FIFO Method (First In - First Out)**

While it is critically important for perishable goods with a short shelf life, efficient stock rotation can impact any type of merchandise or goods.

Manufacturers may repackage or update items at any time, making old stock obsolete, or packaging or items may become damaged, rendering them difficult to sell.

Any business can use the same stock control principle that grocery stores use to stock lettuce - new stock goes at the back, and older stock is pulled to the front.

## **Analyze Sales Data To Identify Slow-Selling Goods**

Items may move slow for a reason. High-ticket inventory items may stay on the shelves longer but be worth it to have in stock, or an item might simply not be as popular as forecast.

To keep holding cost down, use a promotion or sale to get rid of the remaining stock, and stop ordering that product.

## **Integrate Inventory Management System With Point-of-Sale (POS) System**

Provide better, more informed customer service by giving customer-facing employees real-time inventory access to stock levels and goods locations.

Floor associates armed with barcode scanners will know instantly if an item is on

the shelf, in the warehouse, or in a nearby store.

## Group Goods Based on the ABC Method

The ABC method is a widely used selective inventory control system (SIC) used in every industry. Goods are grouped by economic value and velocity (how fast they move).

- **Group A** is slow-selling, high-value products. Group A items do not fly off the shelf and sales can be unpredictable, but they have the highest profit margin.
- **Group B** is comprised of staples, the majority of your goods. Items in this category are predictable sellers that are always needed. They have a smaller profit margin than group A items, but sales are reliable and easy to predict.
- **Group C** has the smallest profit margin. Items in this category are cheap impulse buys, like drinks, candy, and other small items stocked at the check-out line. Profit is slim, but volume is high.

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## Conduct Regular Stock Audits

Even best-in-class inventory software cannot account for all human error. Most businesses either do a full audit once a year to make sure the stock they have on hand matches the digital count, or conduct frequent spot-checks of selected fast-moving goods.

Either way, auditing is a good way to identify costly errors, such as mislabeling, and discover employee fraud or theft, an issue nearly all businesses must contend with. Successful small business inventory management relies on regular stock checks.

## **Keep a Clean Warehouse**

No matter what industry, products and packaging should be clean, dry, and free of rodents and bugs for quality control.

During audits, employees can check for signs of damage, mislabeling, correct placement, and outdated packaging.

## **Manage Vendor Relationships**

Inventory management software stores a wealth of data that can be used to identify the vendors offering the best value in terms of price, service, turnaround time, and product quality.

Nurture relationships with preferred vendors for better deals and identify potential savings through early payment discounts and economic order quantity.

## **Understand Your Risks**

Every supply chain is vulnerable to disruption, which can be related to anything from vendor instability to weather.

Threats are circumstances outside your control and include:

- Regulation compliance issues
- Supplier reliability
- Competition
- Economic factors (price and availability)
- Market size and share
- Consumer trends
- Financing
- Weather or other natural disasters

Make a list of possible issues and create strategies to minimize risk. If a hurricane destroys I-10 and supply trucks can't get through, how will your business respond? A local supplier may be able to provide a quick delivery to avoid slowing production or disappointing customers.

## Set Alerts

With a comprehensive inventory management software, alerts can be set to trigger automatic ordering for commonly needed stock when it reaches a set low, for unexpected sales surges, or for other events that require the attention of the inventory manager.

Regular goods can be restocked automatically to maintain optimal inventory levels.

## Good Inventory Management Is Key

Businesses who master well managed inventory keep costs low and stock optimized. Benefits include happier customers, more sales, and more bargaining power for lower inventory cost down the line.

The potential for supply chain optimization savings is far greater than many new business owners realize; the type of savings that can make or break a business on a budget.

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