What Is An Inventory Management System?



From small businesses to megacorporations, handling inventory can be a headache.

Developing and implementing the best inventory management process (IMP) for your company takes time, effort, and skill—and even then, without the right tools, you may be find yourself struggling to optimize your return on investment (ROI), reduce risk in your supply chain, and win the battle against stockouts and theft.

But with help from a real-time *inventory management system* (usually built around the use of *inventory management software*), you can take a proactive approach to the inventory management process, and achieve more effective, accurate, and profitable procurement of the goods you need to produce goods and operate your business.

Inventory Management Systems Defined

Inventory management is an essential part of effective risk reduction in supply chain management.

As goods flow in and out of your business—a process known as the *lifecycle of*

inventory or *inventory lifecycle*—you need a reliable way to track and manage them to avoid unnecessary expense and encourage maximum profitability and continuity of production.

Enter inventory management.

Like many other business processes used to achieve growth and competitive advantage, the inventory management process is complex.

Like procure-to-pay (P2P) or enterprise resource planning (ERP), it requires full buy-in from your entire team, as well as the judicious use of best practices, to be optimally effective.

It also requires the right toolset—including an inventory management system.

The answer to the question, "What is an inventory management system?" can be answered in a variety of ways.

Many people associate them almost exclusively with retail, but the fact is that industries of all kinds, including healthcare, government, heavy manufacturing, and others all rely on inventory management systems to keep the pistons pumping, production moving, and "the business of doing business" churning without delay or disruption.

An inventory management system brings together technology (including both hardware and inventory management software) with formalized processes and best practices to give business owners, procurement teams, and any other stakeholders a real-time method for monitoring and maintaining:

- Raw materials.
- Company assets.
- Supplies.
- Finished goods to be sent to distributors, resellers, or customers.

No two systems will be absolutely identical, but modern inventory management systems generally include:

- Detailed and fully documented processes for item labeling, documentation, and inventory reports. These processes should include commonly used inventory management workflows such as:

        - ABC Inventory Analysis
        - First-in, First-Out (FIFO)
        - Last-in, First-Out (LIFO)
        - Just-in-Time Inventory Management
        - Stock Reviews
        - Any additional inventory management methodologies required by the user's specific industry, government sector, etc.
    - An asset management system using software-managed hardware like barcode labels or Radio Frequency Identification Systems (RFID) asset tags to track every inventory item, as well as specific information associated with both categories and specific items (e.g., serial numbers, lot numbers, stock keeping unit (SKU) code, etc.)
    - Inventory management software that includes cloud-based data management, advanced data analytics, and process automation capabilities. These tools make it possible to:
        - Achieve real-time data analysis and generation of reports, forecasts, and sourcing contingencies to minimize disruption
        - Reduce risk in the supply chain.
        - Simplifying and optimizing the reorder process.
        - Enhance productivity, efficiency, and accuracy across all inventory processes.
    - Handheld barcode scanners, smartphones equipped with barcode scanning apps, and other physical hardware tools.
    - Staff members trained to use the hardware and software tools under the guidance of formalized processes and best practices.

Used in concert, technology and techniques can help you achieve much more streamlined and effective inventory management, with fewer errors, less waste, and improved organizational health.

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Benefits of an Effective Inventory Management System

With the right mix of technology and best practices, your inventory management system can bring a host of benefits that make inventory control much easier, intuitive, and effective.

By making it possible to track, maintain, organize, and redistribute your inventory in real time and automate many common processes, an effective inventory management system:

- Reduces storage, labor, and overhead costs.
    - Minimizes slow-moving stock.
    - Eliminates the need for paper-based workflows, paper storage of physical records, and associated work-hours spent performing manual tasks and storing, retrieving, and organizing physical documentation.
    - Supports the use of physical inventory counts to verify inventory levels as needed.
    - Makes it much easier to monitor and adjust reorder points and order quantities as needed.
- Reduces or eliminates dead stock (especially important to those dealing in perishable raw materials or finished goods).
- Improves inventory organization, management, and maintenance.
- Improves data transparency.
- Fosters better communication and collaboration, both internally and with the vendors in your supply chain to improve compliance and reduce lead times.
- Simplifies supplier relationship management and builds stronger vendor relationships to achieve optimally strategic sourcing.
- Reduce human error by eliminating manual workflows such as data entry and order corrections.
    - Reduces inaccurate inventory records, e.g. inventory counts, wrong serial numbers, etc.
    - Eliminates wasted time formerly spent chasing items sent to the wrong location, improperly stored, etc.
    - Recover lost value by ensuring accurate warehouse management

and precise stock levels for fast, accurate stock picking and processing.

Contrast these benefits with traditional inventory management methodologies, which were often riddled with errors, delays, production disruptions, and massive financial loss due to theft, stockloss, and inefficiency.

In moving beyond manual workflows and embracing the power of automation and data management tools, inventory managers can redefine both their expectations of what inventory management can and should be—and the value, waste reduction, and cost savings it can generate for the business it supports.

Best Practices for Implementing an Inventory Management System

Although your business is absolutely unique, folks around the world will square off against inventory management challenges similar to yours every single day.

By implementing a few common best practices, you can be sure your inventory management system is able to meet your business needs with the greatest efficiency and accuracy possible.

1. **Needs Analysis Prevents Paralysis.** You need to understand what's *not* working before you can find a solution that meets your goals. Is production struggling because essential raw materials are used beyond their reorder point? Are sales orders not being accurately tied to items sold and shipped? Is it impossible to track inventory effectively because you have no single standard for storage, tracking, or reordering across multiple locations?Break down your existing inventory process in detail, and work with your sales team and vendors to create policies and procedures that address the concerns, miscommunications, and inefficiencies that leave your inventory system open to unnecessary waste, risk, and expense.Research the technologies that work for your warehousing, sales, and order management style, and find ways to leverage their strengths. For example, RFID might be a hot topic for many companies right now, but its relatively high price tag compared to barcode scanning systems, and its susceptibility to certain kinds of

interference, make it a risky bet if your workflows and budget aren't a good fit.

2. **Automate and Analyze**. Choosing the right inventory software solution can be challenging. It's important to find one that helps you develop, and automate, the most effective inventory management workflows as possible. Automation, powered by tools such as software robots, transfers the "heavy lifting" that comes with repetitive, tedious, and low-value tasks such as data entry, reordering stock items, purchase order matching, and inventory counts/tracking to your software. This not only reduces errors, delays, and waste, but frees staff to tackle more strategic problems, focus their attention on supplier relationship management, etc.Also, automation that integrates with cloud-based, centralized data management will deliver powerful—and more importantly, *actionable*—insights in real time. You'll be able to store, organize, and manage all your inventory tracking and management data in a single place you can access at any time to generate usage forecasts and inventory reports. This same inventory data analysis can also reveal hidden opportunities for savings, growth, and innovation, or help you spot unsafe risk exposure and nip it in the bud before it can blossom into disaster.
3. **Integrate Inventory Management with Overall Business Process Management.** The best inventory management system is one that will neatly integrate with your existing software environment and conform to your business process management methodologies.Connecting inventory to your procurement, eCommerce, point-of-sale (POS), accounting, ERP, customer resource management (CRM), marketing, etc. creates a more complete and transparent picture for everyone, and allows for greater accuracy in reporting, demand forecasting, and auditing while providing rich insights for innovation, strategic sourcing partnerships, and market growth.

Better Inventory Management is Possible

When it comes to truly good inventory management, *how* you get things done can be just as important as what you get done.

By developing a robust and detailed inventory management plan, and putting it into practice with support from quality inventory management software and

hardware, you can achieve total control over your inventory, avoid costly errors, delays, and disruptions, and make inventory a source of value and savings for your entire organization.

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