Learn Our Efficient Inventory Management Techniques

Ramesh Venkatachalam

BlueRose ONE.com DIY
Stories Matter
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For permissions requests or inquiries regarding this publication,
please contact:

BLUEROSE PUBLISHERS
www.BlueRoseONE.com
info@bluerosepublishers.com
+91 8882 898 898
+4407342408967

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LEARN OUR EFFICIENT INVENTORY MANAGEMENT TECHNIQUES
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INVENTORY
MANAGEMENT

Overview

"Out of Stock." The final three words that a customer desires to hear. It's not enjoyable to hear, even for the Retail merchant. No sales, no inventory. For this reason, when managing a business, inventory control must be given top priority. Without effective retail inventory management, a retail business cannot succeed.

GOALS FOR IMPROVED INVENTORY MANAGEMENT

The following are inventory management's primary goals:

Ensuring sufficient inventory availability.

Making sure that inventory is available when needed is the primary goal of inventory management. This is due to the fact that excess inventory and storage are expensive for the company. The production process halts when inventory is unavailable. Either less production or none at all is the result. Resulting in fewer sales, lower revenue, less profit, or greater loss in either scenario. Conversely, excess inventory indicates that some goods has been sitting idle for a while, which suggests that cash has been blocked in inventory.

Additionally, this indicates that had the company invested its funds in inventories located elsewhere in the business, it would have in either case resulting in fewer sales, lower revenue, less profit, or greater loss in either scenario.

Conversely, excess inventory indicates that some goods has been sitting idle for a while, which suggests that cash has been blocked in inventory. Additionally, this indicates that had the company invested its funds in inventories located elsewhere in the business, it would have received a certain amount of return.

Reducing expenses and inventory investments. Minimizing the amount and expense of the organization's inventory investments is related to the goal mentioned above.
This is mostly accomplished by making sure the organization always has the necessary amount of inventory on hand. This helps the company primarily in two ways:

First, money that could be invested elsewhere is not stuck in idle inventory.

Secondly, it will reduce the carrying cost which in turn, will increase profits. In lump sum, inventory management if done properly can bring down the cost and increase the revenue of the firm.

Transport items effectively:

Inventory efficiency is the capacity to collect and store goods as they are received, remove them from storage, and ship them as soon as they are released. The cost of inventory management increases with each additional second spent on these procedures. Effective distribution also affects trade channel vendors' and retailers' consumer happiness.

Additional Goals:

To maintain optimal inventory investment levels.

To decrease losses from waste, theft, and other sources.

Help reduce the cost of ordering inventories.

To reduce the expense of carrying inventory.

VALUE OF INVENTORY

The accuracy of inventory orders is increased by effective inventory management: The exact amount of inventory you need to keep on hand can be determined with the use of effective inventory management. This will enable you to maintain adequate inventory without having an excessive amount in your warehouse and assist minimize product shortages.

A well-stocked warehouse promotes organization: An orderly warehouse is supported by a good inventory. Keeping an orderly warehouse will make it easier for you to manage your inventory. Many businesses decide to maximize their warehouse space by grouping and positioning the best-selling items in areas that are convenient for customers to reach. Consequently, this expedites the order fulfilment process and maintains client satisfaction.

Time and money can be saved with effective inventory management: Both financial and practical advantages can come from inventory management. You can avoid the hassle of doing an inventory recount to make sure your records are correct by maintaining track of the products you have purchased or on hand. Effective inventory management allows you to avoid wasting money on items that don't move quickly.

Productivity and efficiency are raised by effective inventory management: Inventory control tools, such inventory management software and barcode scanners, can increase your production and efficiency. Put another way, these tools make work more accurate and free up time for other tasks.

Effective inventory control keeps your clients coming back for more. It is a fact that good inventory management leads to what you're constantly striving for i.e. repeat customers. You can occasionally meet this demand with the use of inventory management.

Shields against variations in demand

There are occasionally minor discrepancies between the product's actual demand and the demand forecast. These variations can also be significant. In the event that there is an adequate inventory supply, these variations in demand can be corrected.

Improved customer services

The business can meet the needs of its consumers if it maintains an adequate stock of finished goods. This facilitates the timely and accurate delivery of items in accordance with Customer requests.

Continuity of production: By ensuring a steady supply of raw materials, effective inventory control contributes to the continuity of production activities.

Lower the risk of loss

By verifying that all inventory is current, effective inventory control lowers the risk of loss from out-of-date items.

Reduces the amount of administrative work:

It lowers the administrative workload associated with purchasing, inspecting, warehousing, and other tasks, which lowers the need for labour and labour costs.

Protects against output fluctuation: By utilizing stock stocks to close the gap between planned and actual production, one can mitigate production schedule obstacles such as unexpected machine breakdowns, material supply issues, abrupt labour strikes, etc.

Inventory Management Process

The most crucial component of a good and precise physical inventory is careful planning and setup. An excellent first step in ensuring a well-controlled and disciplined count that will be more effective and take less time is to have written rules that are understood by everyone involved.

Step One: **Getting Ready for a Hard Copy Inventory**

First Step: Plan the dates for the count: Establish the count date far in advance so that everyone can plan their schedules and get ready for it.

Taking into account human resources: Checks and balances and individual accountability are just as crucial as personnel availability and experience. Retailer cannot rely on a totally accurate count if internal theft is an issue. Retail should, wherever feasible, shift his employees to different locations for which they don't have direct responsibility.

Step Two: **Choosing counting techniques**

There are several ways to count. The optimal approach will vary depending on how inventory is handled and how your stores or stock locations are organized.

Count sheets produced by a computer:
You can utilize these pre-printed inventory lists, which are produced by the retailer's software, to keep track of your inventory during hand counts.

Count sheets by hand:

These are just simple forms that let you enter the product ID, quantity, and retail price of the goods being counted, if applicable. Wall-to-wall counts may have an impact on this manual procedure.

Devices for portable inventory: When barcodes are applied to the goods, portable inventory scanners may be the most efficient way to take an inventory. The best results from portable scanners come from barcoding the entire inventory.

Outsourcing services for inventory:

Numerous outside businesses are experts in performing physical counts. Their neutrality and expertise in inventory management are their advantages. An inventory service's drawback is that their staff lacks expertise and quality, and they have no knowledge of your products, inventory procedures, or stock locations and also lack of quality and professionalism of the count team.

Step Three: Making a map of the fixtures

An actual layout of the store with all of the merchandise locations is called a fixture map. A fixture map code that corresponds to a slip code that will be used for counting should be assigned to each fixture rack and back stock location.

Make sure your code can be utilized by your counting software, hardware, and/or services before allocating fixture map slip codes.

Step Four: Assemble, Place Order, and Provide Test Procedure

a) Verify that the count slips and the actual scanners have been ordered and scheduled.
b) Verify that teams are able to upload data in a format that your program can read and that portable devices have been validated.
c) Verify that all previous counts have been removed from memory, then restart the download process.
d)Refresh memory of procedures, the last thing someone wants to do at the end of the long day counting is to inadvertently delete data from its readers before it is captured and confirmed.

Step Five: Looking over the inventory

The most crucial step in inventory counting is to review and double-check the counts. Teams should inspect each display to make sure that no inventory is lost, broken, or unaccounted for, and to check that all items are properly tagged.

This will allow you to clean up, restream, discount, or even return damaged or expired inventory, in addition to saving time throughout the counting process.

Step Six: Compiling the total

All movements and transactions involving inventory should be halted prior to the count starting and up until the initial count audit. Only when the store is closed, when sales are not taking place and inventory is not being moved for clients or suppliers, should physical counts take place.

Step Seven: Audit and count verification

Preliminary auditing must be done while the commodities are being counted. You may easily accomplish simple verification counts of the total number of pieces per fixture or slip, which will enable you to recount any anomalies in the slips and ensure that no sessions have been missed.

How to enhance your inventory management

Effective inventory management strategies can improve the cash flow and profitability of a company. Take into account these ten suggestions to enhance your inventory control.

1. Set inventory priorities to improve inventory control.
You can better grasp your optimum ordering volumes and frequencies by grouping your inventory into priority categories. You can also identify the goods that, although they could cost more and move more slowly, are necessary for your firm.
Experts advise dividing your inventory into groups A, B, and C.
A group: Higher-priced things fall under this category. Fewer of these are required.
C group: Quick-turnaround, lower-cost items are found in this category.
B group: The elements in the B group are intermediate. These items with a moderate price range move faster than A items but slower than C goods.

2. Keep track of every product detail for improved inventory control.

Maintain product details for every item in your inventory. Included in this data ought to include the following:
SKUs Data Barcode information
Origin Countries of Suppliers
Lot numbers
You might also think about keeping track of the price of each item over time so you can identify elements like scarcity and seasonality that have an impact on pricing.

3. Conduct an inventory audit to improve inventory control.

Every year, several companies conduct a thorough inventory count. Some others spot check their hottest things every day, every week, or even every month. Many follow the above actions.

Prioritize physically counting your inventory on a regular basis, regardless of how often you do it, to make sure it corresponds with what you believe you have.

4. Examine supplier performance to improve inventory control.

Inventory issues can arise from an untrustworthy supplier. It's time to take action if your supplier consistently misses delivery, shorts orders, or causes delays in the supply chain. Find out the source of the issue by having a conversation with your supplier. Be ready to change partners, or to cope with erratic stock levels and the potential for inventory depletion.

5. To improve inventory management, apply the 80/20 inventory rule.

Generally speaking, 20 percent of your stock accounts for 80 percent of your profits. Give careful attention to this twenty percent of your goods.

You should be aware of the full sales cycles for these products, including the quantity you sell in a given week or month, and keep a careful eye on them. Since these are the most profitable commodities, proper management is essential.

6. To improve inventory management, maintain consistency in the way you receive stock.

Making sure your team processes incoming inventory may seem like common sense. But does every employee receive and process incoming merchandise according to a set procedure, or does everyone operate according to a distinct one? When your statistics don't match your purchase orders at the end of the month or the year, even little differences in the amount of new stock you receive can leave you perplexed.

To ensure that every team member receives goods in the exact same manner, implement efficient employee training strategies. Make that each box is accurately counted, inspected for accuracy, and confirmed to have been received and unpacked together.

7. Monitor sales to ensure efficient inventory control.

Sales tracking could seem self-evident. Effective sales tracking, however, entails more than just tallying up sales at the end of the day. Every day, you should be aware of the kinds and quantities of goods you sell, as well as updating your inventory totals.

Analyzing your sales data is also necessary. As an illustration:

Do you know when certain things start to sell out quickly or stop?
Do certain products have seasonal sales?
Is there a particular day of the week when you sell particular products?
Do some products typically sell together?
It is crucial to comprehend the bigger picture of product sales in order to manage your inventory.

8. Place your own restock orders for improved inventory control.
Some suppliers offer to place new orders for your goods. Initially, this appears to be advantageous. Someone else handles the refilling process, freeing up your time and the time of your team.

Your vendors, however, don't always agree with your priorities. You want to stock the products that will bring in the greatest money for your company, while they want to move their inventory. Spend some time reviewing the stock and placing your own orders for refills.

9. Make a technological investment in inventory control.
Spreadsheets and notebooks may be sufficient for very small enterprises to manage inventory. But when your company expands, you run the risk of dedicating too much time to inventory management rather than business operations.

Inventory tasks are made easier by good inventory management software. Make sure the product is user-friendly and has all the necessary analytics capabilities before selecting a solution.

10. Make use of inventory control methods that work well with the other products you offer.

Technology for managing stocks is not limited to inventory management software. POS systems and mobile scanners, for instance, can assist you in staying on schedule.

When making technological investments, give priority to interoperable systems. For instance, communication between your inventory management software and the ideal point-of-sale system for your company is essential. You won't have to take the chance of having wrong inventory counts by transferring data between systems.

Top Techniques and Professional Advice for Managing Retail Inventory

Retailers that adhere to best practices in inventory management create the groundwork for increased profit margins, decreased expenses, decreased shrinkage, and improved stock accuracy. Aim for industry norms and heed the counsel of inventory specialists.

Flex Your Ordering Muscles:
Make every effort to guarantee that, in order to meet demand and please clients, the correct quantity of goods is ordered at the appropriate time. This entails utilizing the open-to-buy technique to plan purchases, understanding reorder thresholds, optimizing order sizes with economic order quantity (EOQ), and setting data-backed levels for your safety and par stock.

Take Charge of Your Supply Chain:
Provide vendors with sales and product projections and request exact lead times. Monitor the service quality of your suppliers by keeping an eye on things like fulfilment delays and the proportion of finished orders. Engage in dialogue with suppliers who have room for improvement, outlining the specific steps needed to fulfil your requirements. Make backup plans to find other sources for your essential items in the event that your primary provider is unable to provide them.

Analyse Your Data:

Pay careful attention to your KPIs. Utilize ABC, FSN, or XYZ analysis to keep tabs on which of your products are performing the best and worse. Recognize seasonal variations and consumer demand indications; also, be aware of your turnover rate and GMROI. Make a conscious effort to raise the Caliber of your sales and client demand projections.

Optimize Efficiency:

Don't give up on improving the effectiveness of any aspect of your inventory management. Keep your warehouse orderly and appropriately arranged. Here are some more methods to increase productivity.

Choose a picking procedure based on the product types and order volume that works best for you.
Items should be kept as close as feasible to the areas and communities where demand is greatest.
Examine which logistics provider—drop shipping or third-party—would improve the efficiency of your store inventory management.

Utilize loss prevention measures to fight shrinkage, and keep an eye on incoming merchandise.
Conduct a carrying cost analysis using SKU management.
Ensure that you are identifying your highest-velocity items and providing the appropriate number of products.
To guarantee uniformity, keep records of every procedure you use, including receiving.

Prioritise Accuracy

Put accuracy first by doing routine inventory counts and audits. Set performance targets and provide inventory management training to the workforce. Create a culture that values the quest for truth.

Employ an Inventory Management System: You may quickly achieve objectives like accuracy and efficiency by automating a lot of tasks and utilizing technology.

With the correct tool, you can combine inventory management with your point-of-sale (POS) system, reducing errors and producing richer data by doing away with the need for human data entry. Additionally, an automated system can make it easier for you to manage inventory across several locations by sending notifications for stock alerts.

Why should a Retailer invest in an Inventory Management System?

Stock tracking with spreadsheets or pen and paper will soon become outdated for a retail organization. Retail inventory management systems lower costs, improve customer satisfaction, increase accuracy, automate paperwork and administration, and identify important trends.

Among the advantages are:

Precise receipt and dispatch documentation
Reliable and up-to-date inventory counts
Product tracking with bar codes or RFID
Returns that are simplified
Improved prediction
Using KPIs to measure performance
A closer look at sales trends
Implementing discounts and promotions more easily
In favour of strategic and dynamic pricing

Personalized alerts
Simple report creation
If you operate an ecommerce, multichannel or omnichannel business, managing inventory is virtually impossible without an automated solution.

What's a Reasonable Retail Inventory Turnover Rate?

The number of times inventory is sold in a year is measured by the inventory turnover rate. In general, a higher figure is preferable. According to a study, the average U.S. retail inventory turnover rate in 2019 was approximately eight, thus anything above that is considered acceptable.

Walmart, for instance, had an inventory turnover ratio of 8.48 turns in 2019. In order to meet customer demand, Walmart replenished and sold its inventory 8.48 times in 2019, or once every one to two months. The best use case for this rate is company comparison.

However, store types differ greatly in turnover, therefore merchants should assess their rate in relation to their competitors.

Planning for merchandise
Indicators of poor merchandise planning in an organization include increasing inventory expenditures and receiving lower returns on those investments. Planning merchandise is "A systematic approach."

By strategically managing sales and inventory, it seeks to optimize returns on investment and boost profitability. It achieves this by reducing losses from markdowns and stock outs and optimizing sales potential.

Thus, the majority of businesses are primarily driven by profitability. Profits are directly increased by efficient merchandise planning. In retail, there are two main places where profit leaks occur. First, revenues were lost because of insufficient inventory, and second, margin had to be reduced because of surplus inventory.

SETTING MERCHANDISE PLANNING OBJECTIVES

a) Increasing profit is the main goal of merchandise planning. Merchandising has an impact on other business domains since it pertains to the retailer's actual product acquisition.

b) Planning also aims to keep inventory levels high enough to satisfy projected demand from customers.

c) It assists in scheduling the delivery of purchases so that goods are offered for sale when consumers want them.

d) It also aids in maintaining purchases in proportion to the store's capacity to cover them.

e) It also seeks to ensure that money is on hand to buy new items as needed.

ORGANISING THE BUYING PROCESS THROUGH OTB

OPEN TO BUY (OTB)

As you will see from the following explanations and calculation, Open to Buy is a formula used by Merchants and Buyers for the purpose of determining how much inventory they need to purchase in order to have enough merchandise to meet the sales plans.

Generally speaking, most companies develop an annual plan and then break it down by month in order to make it manageable and relevant.

Many changes can occur throughout a fiscal year and all areas of the company have to be able to flex and manage according to the realities.

Sometimes business becomes so good that buyers have to get more merchandise to sell and they can't get it fast enough, and other times the market cools and buyers have to stall or cancel future orders to avoid the huge financial and logistical burden that comes with having too much inventory.

As in any other area of the business the buyers must perform a balancing act in order to have just enough but not too much.

Their job is made more difficult by the fact that many retail buyers purchase goods well in advance of the date of delivery as a long lead time is needed for the manufacturer to produce the goods to the exact specifications of a particular retailer.

Suffice it to say that although the OTB calculation is a fairly simple one but managing the process certainly is not.

Example Open to Buy - February

Planned EOM Inventory (this is the inventory we plan to have by the end of February): Rs 90,000

Planned (budgeted) sales for the month of February: Rs 30,000

Planned markdowns for the month of February: Rs 2,000

Inventory on hand at the beginning of the month (BOM) of February:

Rs 60,000
Inventory already on order for February: Rs 26,000

Using the figures above, here is the calculation for Open to Buy for the month of February.

Description	**Value in Rs**
Planned End of Month Inventory	90,000
Plus Sales of February	30,000
Plus Mark Downs	2,000
Inventory Required	1,22,000
Beginning of Month Feb Inventory	60,000
Allowable Receipts	62,000
On order for February	26,000
Open to Buy (OTB)	36,000

SELL THROUGH

Sell-Thru is a key performance indicator (KPI) for retailers. Sell-Through allows us to understand the velocity with which inventory is being sold as it relates to our sales. Generally used by the Buying or Merchandise teams, sell-thru is a leading indicator which is very useful for tracking inventory performance and for predicting outcomes.

Before determining the sell-thru formula that will be most beneficial for your use, you need to determine whether to use:

1) all available information – meaning all weeks of sales and inventory for the period

2) most recent information – meaning only the weeks of sales and inventory you determine to be relevant (i.e. 4 weeks)

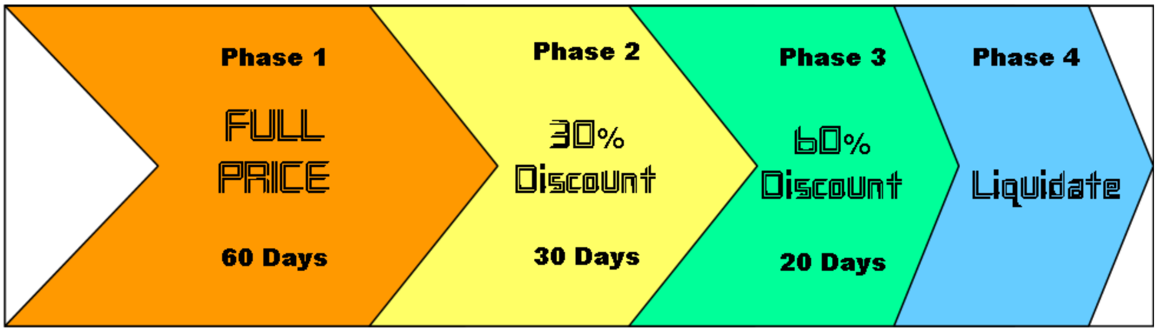
You will get different results depending on the choice you make. If the product being measured is a regular item which is replenished according to established minimum/maximum guidelines, you might want to use all information available.

However, if the particular product being measured is strongly promoted and you want to see how the sales are affected by the promotions in a given time frame, then using information covering a shorter time span will be more beneficial.

Either way you will get accurate information, but using the one most applicable to the circumstances will give you better information on which to base decisions.

A Typical Mark Down / Sell Through Cycle

for a promotional Product



To Obtain Different Scenarios, Try Changing MD Amount									
Mark-Down Timeline	**Full Price**	**Sell Price**	**Margin %**	**Cost**	**Units Remaining**	**Units Sold**	**Sell-Thru %**	**Total Sales Rs**	**Total Margin Rs**
Days 1-60	59.99	59.99	50.0	29.99	600	330	55	19,796.80	9,900.00
Days 61-90	59.99	41.99	28.5	29.99	270	108	40	4,534.92	1,296.00
Days 91-110	59.99	23.99	-20.0	29.99	162	48	30	1,151.52	-288.00
Days 110+	59.99	5.99	-80.0	29.99	114	114	100	682.86	-2,736.0
			31.23	**17,994**		**600**		**26,166.1**	**8,172.00**

NOTE: A RETAIL MERCHANDISING PLAN TEMPLATE IN EXCEL (FREE DOWN LOAD) IS ATTACHED ALONG WITH THE PURCHASE OF THIS DOCUMENT.