Good inventory management is a process that starts with one seemingly simple question. Do you know what is happening to your inventory?

Unfortunately it's a loaded question because to know the answer you have to consider a great many issues, such as: Do you know where your inventory is? How long have you had it? What did it cost to get it into your warehouse? And when (if at all) should you re-order?

These are all problems that at one time or another confront every distribution company. How you respond to them will be a determining factor in your overall business success.

You know yourself; it's all too easy to turn cash into inventory. It is much harder to turn inventory into cash.

What is “good” inventory management?

Inventory management requires three things:

- Controlling the inventory you already have;
- Understanding trends and seasonality within your SKU’s; and
- Knowing when, how and where to order new products.

Good inventory management combines these elements in a way that delivers the most effective business outcomes for you and your customers. It involves understanding your stock; knowing what’s available; being able to identify gaps; dealing with excess product; organising your stock for most efficient picking; monitoring and forecasting future needs; plus all the processes surrounding efficient and timely restocking.

If your inventory practices aren’t as good as they should be, here are four tips to help you take back control over your warehouse and to improve your bottom line.

Step 1: Take stock of your stock

Work out what is your useful stock and what is obsolete, excess or dead stock. In other words, what sells and what doesn’t? Rank each of your warehouse products based on the past year’s sales or the number of “hits” (a figure that includes sales orders, transfers, or other use of the product).

Tip: you should be able to obtain a report identifying all of this information through your enterprise resource planning (ERP) software.
The above example shows a report listing products in order of frequency of hits. It includes the product part number and the number of times the product has been hit in the past year.

Column 5 adds up the number of times that the part and all parts listed above it have been hit during the year, while column 6 turns that accumulated hits figure into a percentage of the warehouse’s overall product demand.

The 3rd column uses the accumulated demand figure to divide all stock into one of five different tiers. The top tier — or “A” class products — account for 80% of overall hits. The “B” tier includes the next 15% of hits. “C” products account for the next 4%, while “D” is assigned to the final 1% of hits. Any remaining products (i.e. those with no hits) for the past year are classed as “X”.

Armed with this information you can start to understand what you have in your inventory plus patterns in demand. Now is also the time to ask why you hold certain items. Look at any “D” or “X” ranked products and consider whether you really need to continue to stock them. Are they repair or demonstration stock? Do they serve a purpose or are they remnants from a previous business strategy?
Step 2: Get rid of your unnecessary stock

Once you have analysed your stock in the light of an A-to-X hits report, you will most likely see that some stock needs to go. Following are some hints to help you get rid of your space-wasting obsolete, excess and dead stock.

- Ship it to other warehouses, perhaps even other states, where there is a demand for that item. Refer to your stock sales/usage records to see if you have situations where this might work.
- Send the problem stock back to your supplier (and remember that the best time to talk about returns is when you are placing that next big order).
- Reduce prices to clear. This strategy will not only help free up your warehouse; it may also prove to be a popular promotion with your customers.
- Give your sales team additional incentives to move the stock.
- Consider liquidating the stock via disposal stores, Internet sites or online auctions.
- Try to up-sell customers by offering them the higher-rated older models, rather than lower-rated newer models. After all, obtaining some money is better than having the stock sitting in your warehouse for the next three years.
- Donate the items to a charity or suitable tax-deductible cause.
- If all else fails, dispose of the items that you can't move. Keeping unnecessary, unwanted stock in your warehouse costs your business money.

Once you have identified and removed unnecessary stock, you need to make sure that it is not re-ordered. This requires changing purchasing re-order methods to ensure that no automatic or accidental re-ordering is possible. You don't want to have to go through the whole process again in 12 months time.

Step 3: Organise your warehouse into zones to minimise time and cost of fulfilment

The faster employees can locate a product, the faster it is packed and can be despatched. It's the basic formula for an efficiently operating warehouse.

If 80% of your hits come from “A” ranked stock items, this is where your employees are going to be spending most of their time. Therefore it makes sense that “A” ranked products should be located together in the zone closest to shipping, staging and receiving. “B” ranked products move slightly less frequently but should be the next most accessible group of items. Then comes “C” and “D”. By organising stock into ranks and establishing zones within the warehouse based on distance from the packing benches, you will minimise the time and cost of filling each delivery.

Step 4: Determine how much stock you need to hold in each warehouse zone

Accessibility isn't the only concern when allocating warehouse space to stock. There's also the issue of what to do with bulky stock items.

If one of your A ranked products is especially large and eats up an excessive amount of your primary warehouse space, it doesn't make sense to store the entire stock of that item in your optimal picking zone. The same goes for B ranked products.

Inventory management expert, Jon Schreibfeder, president of Effective Inventory Management, Inc., recommends that the greatest efficiencies come from maintaining a limited supply – such as 7 to 14 days worth of stock - in the optimal zone and placing the remainder in a bulk storage area. Slower-moving C, D and X stock items are unlikely to require bulk storage as low turnover rates should dictate reduced stock quantities.

It's an approach that ensures fast and efficient day-to-day picking, packing and despatch and which also accommodates the need for bulk purchase and storage of high-turnover products.
Conclusion

The four steps described in this white paper focus on helping you to achieve the first part of the good inventory management equation - organisation and control over your existing inventory. Together these steps will allow you to free up warehouse space, reduce inventory and unlock money currently tied up in unproductive stock.

Clearly, a system that provides up to date inventory numbers and status will go a long way to putting you back in control. Running a logistics business without visibility of stock cost, stock turns and stock procurement planning is a recipe for pain.

Good inventory management is not rocket science but it is the critical basis for a sound logistics or distribution business. It is also the natural result once organisation and knowledge are applied to inventory practices.

White Paper Feedback and Questions

Any feedback or questions, generated by this white paper, would be much appreciated.

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