



Managing Your Inventory

‘Managing Your Inventory this Christmas’

**Cordell Mullings, Chief Executive Officer
Attention to Detail Company Limited**

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MANAGING YOUR INVENTORY

What is an Inventory Management System?

An Inventory Management System tracks goods through the company supply chain from purchasing through production and sales.

A well run inventory management system ensures the Right Stock! Right Levels! Right Place! Right Time! Right Cost! At the Right Price!

Why Should You Manage Inventory Closely?

1. For visibility into what is in stock and where and how it moves in and out of the company.
2. To minimize cash “tied up” in inventory especially if you are borrowing money to keep the inventory.
3. To ensure better sales forecasting which facilitates predictions regarding sales in the future & understand sales concentration. What are your fast and slow moving inventories?
4. To understand for each item, what is the minimum stock levels, maximum stock levels and stock re-order point based on the order to delivery lead time.
5. To be able to avoid stock out or lost sales where customers come in for products but you do not have what they are asking for in stock.
6. To minimize dead stock such as those items that have been on the shelves for too long. Dead stock is very costly and takes up space!
7. To be able to minimize theft.
8. For tighter management of working capital overall ,which is the money you use to manage your business.
9. To save time and create greater efficiency as you will know what is in stock at all times.
10. To ultimately lead to more business profitability.



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There are basically Five Types of Inventory

- Raw Material (for example, if you are in manufacturing);
- Work in Progress (transformed but not yet complete);
- Finished Goods (ready for sale);
- Maintenance, Repair and Overhaul (MRO) (if you have damaged goods that need repair);
- Packaging used to send out your finished goods items (example bags, boxes and plastic wrapping etc.).

A Basic Inventory Tracking System includes the following information:

1. A Product Identifier/***Stock Keeping Unit (SKU)***
2. ***Quantity product purchased or produced***
3. ***Price Per Unit***
4. ***Quantity sold or used***
5. ***Quantity of “Stock in Hand”***
6. Commercial ***value of “Stock in Hand”***
7. ***Reorder Level based on the order to delivery cycle***
8. ***Quantity Missing (after Physical Count or Audit)***



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Critical Things to Understand in the Company Inventory System

1. What is the order to sales cycle time; from the time you order an item to when is it sitting on your sales shelf? How long does it sit on the shelf before it is sold?
2. Inventory costs: Holding Costs; Stock Out/Lost Sales; Storage costs in warehouse or on display shelves; Ordering and Delivery costs; Volume Discounts; Expiring/Dead Stock.
3. When and how much to re-order.
4. When to discount and clear dead stock.
5. Aligning the physical count with the system count.
6. First In First Out (FIFO) Inventory Management - Put old stock to the front and new stock to the back of shelves to ensure you sell the old stock first.
7. Minimum and maximum inventory levels for each item.



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This festive season promises to be like no other in recent history due to the Covid-19 pandemic & its effect on the global economy. As such, businesses involved in the trading of goods must take appropriate measures to ensure that they not only survive the pandemic but also build a stronger business by eliminating existing inefficiencies.



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Below is a list of inventory management initiatives that if effectively applied can be leveraged to achieve a balance between customer satisfaction & operational efficiency:

1. Develop Inventory Procedures

To effectively track & account for your inventory, there needs to be a documented process flow that prescribes the actions by all responsible personnel. Inventory procedures regardless of how basic they might be, will go a far way in preventing or detecting discrepancies.

These procedures must be simple, clear & detailed to ensure that the roles of everyone is easily understood. Additionally, you must ensure that your inventory software mirrors the actions of the physical operation in real time. In other words, any physical action involving inventory must be updated to the inventory system immediately.

2. Get Rid of Dead Stock Now

Do not continue to house obsolete inventory as it can be extremely costly, particularly if your warehouse & contents are insured. They also occupy precious storage space needed to store value added products. If your warehouse space is rented, this could be a valuable savings opportunity that is more than worth exploring. There are several ways to achieve this such as:

- Yard sale/Auction
- Advertised discounts
- Bundle offers
- Donations to charity (which are tax deductible & can also provide PR benefits)

The objective is to get rid of it now!

Applying this step will shrink the overall size of your inventory, making the management & security of your products a little easier



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3. Plan Purchases/Production Based on Expected Sales

Once you have liquidated all your dead stock, the next step is to ensure that you do not accumulate any further useless stock. Plan your purchases/production very carefully from a sales perspective & ensure that only products that are likely to be sold & are profitable are procured/ manufactured. Be very prudent during this process & pay special consideration to the effect of the pandemic on sales trends.

4. Maintain Adequate Inventory Levels

Following the above steps, maintaining adequate levels of stock for in demand products is also of critical importance. Due to the many options available to customers today, running out of stock is comparable to passing revenue over to your competitors. While estimating demand precisely can be virtually impossible, basic inventory control mechanisms must be implemented to replenish stock prior to running out completely. Quick response arrangements with suppliers can also be developed to assist in this regard.

5. Securing Your Goods

After clearing dead stock & acquiring adequate stock of in demand products, the security of your goods becomes even more important. This means that all those prevention & detection mechanisms must be activated now. The Christmas season is traditionally plagued by thieves and they will be even more desperate this year due to the economic challenges brought on by the pandemic.

Take note however that the criminals of today have become highly intelligent & difficult to identify. Therefore, maintaining effective procedures will become even more critical in protecting one's investment. Reference is made to LinkedIn article called Sophisticated Stealing (Cordell Mullings) detailing a specific example of high tech criminals & their ability to operate undetected



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6. Conduct Regular Spot Counting

Regular spot counting must be carried out on critical, high valued or sensitive products. Shutting down your business to conduct a full stock taking may not be a viable option for many businesses due to the associated costs & loss of revenue. As such, establishing a list of critical items, counting them regularly & comparing verified quantities to system balances can also be highly effective.

You may start by identifying the products that are:

- Most likely to be stolen;
- Most expensive or highest cumulative value;
- Most in demand from the public.

Once selected, items can be counted at the close of business or during slow periods on a rotation basis, ensuring that you cover the entire list at least once weekly/fortnightly.

7. Train Your Staff

The training of team members is a critical component in the overall success of your inventory process. The success of the procedures will be dependent on how well everyone understands their role.



Resources

Cordell Mullings

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- Inventory Expert
- Email: cmullings@attentiontodetailja.com
- Phone: 876-449-1834

Inventory Management 101: How to do effective inventory management for small businesses

- <https://squareup.com/us/en/townsquare/how-to-do-effective-inventory-management-for-small-business>

TOP FIVE BENEFITS OF A GOOD INVENTORY MANAGEMENT STRATEGY

- <https://www.scanco.com/blog/top-five-benefits-of-a-good-inventory-management-strategy>

Your Essential Guide to Effective Inventory Management + 18 Techniques You Need to Know

- <https://www.bigcommerce.com/blog/inventory-management/#common-inventory-management-questions>

10 Essential Tips for Effective Inventory Management

- <https://www.businessnewsdaily.com/10613-effective-inventory-management.html>

Inventory Software Buying Guide for 2020

- https://www.business.com/categories/best-inventory-software/?_ga=2.192549930.1255631537.1605746620-1896926720.1605746620

The Benefits Of Using An Inventory Management System (2020)

- <https://www.linnworks.com/blog/inventory-management-benefits>

The Best Inventory Management Software for 2020

- <https://www.pcmag.com/picks/the-best-inventory-management-software>