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EBOOK

The Retailer's Guide to Managing Inventory

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Introduction

There are many things that go into successful retailing, but inventory is of course an essential piece of the puzzle. You don't have a store if you don't have products to sell! But like many things, what seems simple on the surface can be complex once you get into the detail. Alas, it is the same when it comes to inventory management. Sure, you can just order some products from a wholesaler or supplier and hope for the best – but that's not a formula for success.

Successfully managing inventory requires a delicate balance, too much stock will tie up your capital and could hurt margins if you have to deeply discount the merchandise later on. But not

having enough can cause issues as well, resulting in lost sales if customers come in to purchase something that you don't ave. In order to take your business to the next level, and prevent you from making some truly hair–pulling mistakes, you'll need to implement some type of inventory management system at your store.

Keeping track of items has a long history. So long, in fact, that the oldest known written text – the Dispilio Tablet from 5260 BC – is thought to be an engraved tablet used to count possessions at an agricultural settlement. Lets just say things have come a long way since then. From dedicated inventory management

software packages to full-on Point of Sale software, technology has made the task of inventory management faster, simpler, and better. While some retailers stick with pencil and paper, or maybe a spreadsheet, it's rare for a successful store to go without software to manage inventory these days.

In this eBook we'll look at how to start managing your inventory with software, how you can set up a process for counting & re-ordering products, as well as digging into specific data to best manage your inventory profitably. Read on to learn more!

Implementing an Inventory Management System

When it comes to inventory management, data is king. There is a lot of data that can be compiled and tracked, and the more the better in most cases. And as with many things that are data–intensive, using software to manage it is the way to go. Point of Sale software, or dedicated inventory management systems, have the tools you need to track and manage all of your inventory data. Utilizing a point of sale is generally far superior, because along with tracking information about your inventory it can also update quantities on hand as items are sold as well as help to generate purchase orders. But whether you go with a POS or just inventory management software, there's a few basics that you'll want to ensure your choice covers.
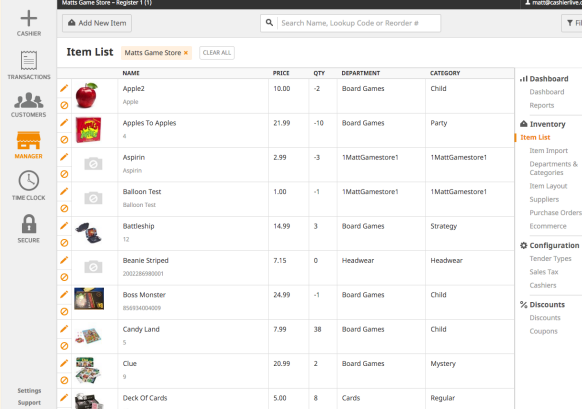
Here are some of the minimum requirements to look for:

▪ Can the software track Product ID/SKU
▪ Can you track supplier reorder # (and can you have multiple suppliers for one item, if necessary)
▪ Does it allow to have an item description?
▪ Can you tag items with your Supplier.
▪ Can you track the cost of the item? How does the system handle changes in cost over time?
▪ Can you select categories and departments for each item.
▪ And, of course, can you track the quantity on hand.

Another important but labor intensive part of the inventory management process is actually physically counting inventory. It's an unfortunate reality that theft happens despite our best efforts, so an actual physical count will need to be done periodically. To make that process easier, some inventory management systems now have mobile devices or apps that help with the counting process. This may be another requirement to add to your list when looking for a system to manage inventory.

Finally, you may also want to consider a web-based system for managing inventory. Online systems are quickly becoming the gold-standard in inventory management because they allow you to work seamlessly from multiple devices and locations, along with securing the data in a redundant way that prevents data-loss. Papers can get lost, hard drives can crash, but inventory data stored in the cloud will always be there.

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Conducting a Physical Inventory Count

Once you've determined which inventory management system or POS you'll be using to manage your stock, you'll need to enter in all of the data for your items. A key part of this process will be an inventory count. If you're just opening your store or you've already been keeping meticulous records in a spreadsheet you may be able to delay the inventory count step as most systems have a way to import data. But if you're already operating without a system in place then you'll need to conduct a manual inventory count.

There are a few things to consider before you start actually counting your items. First, you should determine the details of the process like when and where. Many retailers conduct their inventory counts in off hours, before or after the store is open. Others may have their associates work on counts when there are no customers to serve in the store. You'll want to consider which option is best for you before you get started. In most cases it is preferred to count inventory when the store is closed but depending on the size of your store, your hours of operation, or your employee's schedules that may not be possible.

Another consideration is whether you can do the count all at once, or if you have to spread it out over a number of days. If you have a day of the week when the store is closed and you can dedicate the time, it may be possible

to get the count done in one pass. But if you can only work on the inventory count in off hours or when there are no customers in the store, you'll need to break up the job into pieces. If that's the case, you'll want to map out the layout of your store and divide it by the number of days you'll spend on the inventory count. This way you can have a clear process that will prevent duplication of efforts.

Once the schedule has been determined, you'll need to figure out how you'll be collecting and entering the data. The best method will largely depend on the software you've chosen. Some offer system-specific count sheets that list your inventory so that you can note the quantity on hand. Others may not have this type of feature which would require you to have a self-generate form where you can enter in the item information. These methods can be tricky because in order for the count to be effective you'll need to enter the data before the item is purchased again or else your count will be inaccurate. The best method would be to utilize a portable inventory device or inventory counting app, if your system features one or integrates with one. These devices or apps allow you to scan the barcode of an item or pull it up via a search, and then after you enter data like quantity on hand it syncs with your inventory management system instantly.

How often you conduct a manual inventory count
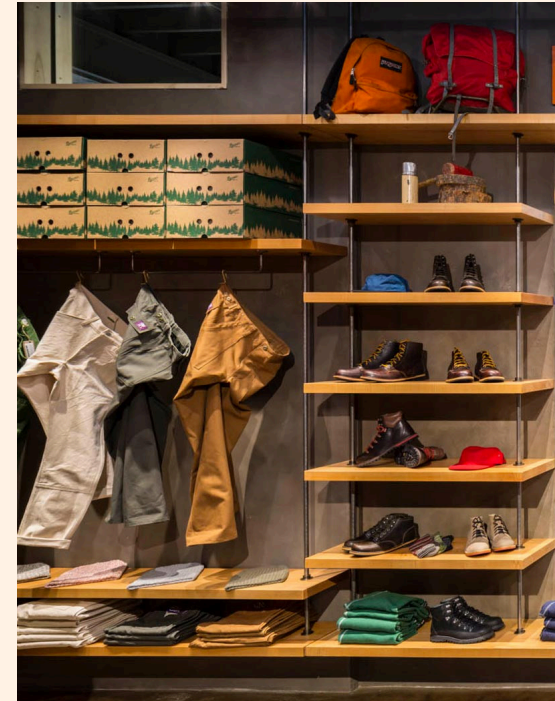
depends on your store's situation. If you have a problem with theft then you may want to institute a cycle of inventory counts on an ongoing basis. If that is not an issue, and you have a point of sale in place that tracks item sales and updates inventory, you may need to conduct a manual inventory count far less frequently.

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Establishing a Process for Reordering Products

Have you ever had a customer come into your store to purchase a specific item, only to find that it's out of stock? Or have you ever had an item that just sits there without sales coming in, only to eventually sell it at a deep discount? Then you know how important it is to balance your inventory needs. A key part of successful inventory management is setting up a process to forecast your inventory needs, and then set up a purchasing and reordering process to make sure you have just the right amount of stock at the right time.

There are three main methods for restocking items:

▪ Manually determining which items need to be re-ordered.
▪ Re-ordering items that were sold on a 1-for-1 basis.
▪ Re-ordering based on a perpetual inventory system with re-order points and re-stock levels.

Creating purchase orders based on your own observations could be a recipe for disaster. As a store owner you have a multitude of tasks to complete each day, and having to walk the store, note products that need to be re-ordered, and creating the purchase order will add a complex and time consuming task to the pile. Despite your best efforts, there will be occasions when items slip through the cracks. When customers come to purchase something and it isn't in stock you don't only

lose a sale, you cause a customer service issue that could prevent the customer from coming back.

Re-ordering items as they are sold is a much better system than doing everything manually. Whether you re-order daily or weekly, replacing what you sold within that time period will ensure that you always have the products that your past customers purchased at your store. That being said, it can lead to some inefficiencies especially for seasonal products. This process for creating purchase orders is a step in the right direction, but in the end it could result in simply treading water.

Instituting a perpetual inventory process is more difficult that other methods, but it results in the biggest payoff. First, it lends itself to greater time savings as you can automate the process of creating a purchase order. By setting a reorder point the item will be added to a PO as soon as the inventory level drops down to a certain level, ensuring that you have the products your customers want. Setting a re-stock level will automate the process of determining how many to reorder, and is something that can be easily adjusted for seasonal items.

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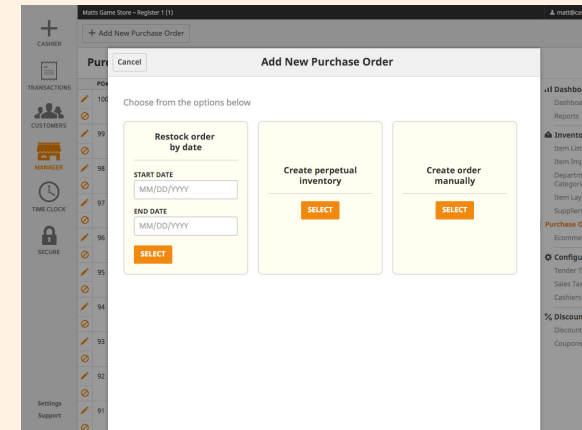
Monitor Key
Inventory Metrics

Now that you've implemented a system to track your inventory, counted your stock, and established a process for reordering, you'll want to keep an eye on some key inventory metrics. This is another occasion where a point of sale system will come in handy, as you'll need some key numbers to determine the health of your inventory processes.

The first metric you should be concerned about when it comes to your inventory is the sell through rate. This metric will help you understand how quickly the items you have are selling, and will help you determine which items to keep on hand. While you could track your sell through rate on a whole-store level, you may want to narrow it down to specific departments or categories as it will help give you a more granular view of how your inventory is performing so that you can make any necessary adjustments. To calculate your sell through rate, you'll divide the number of units sold by the beginning count of on-hand inventory.

FORMULA: Units Sold / Inventory at start of the month = Sell Through %

Another metric you'll want to monitor over time is the number of inventory turns at your store, typically on an annual basis. Inventory turns help to give you an idea of how many times your store "uses" and then replaces

its inventory value. This is a measure of efficiency as a higher number means that you have less money tied up in unsold inventory per dollar of revenue. A high inventory turnover means you're selling items at a brisk pace, but you also want to ensure that you'll have adequate inventory to cover customer demand. To calculate your inventory turnover you'll need to start by establishing your average inventory. Do this by taking the cost of your beginning inventory and adding it to your end or year inventory cost, then divide it by two ((Beginning inventory + ending inventory) / 2). Once you've determined your average inventory cost, you'll take the cost of goods sold and divide it by your average inventory cost.

FORMULA: Annualized Cost of Goods Sold ($ amount) / Average Inventory Cost ($ amount)

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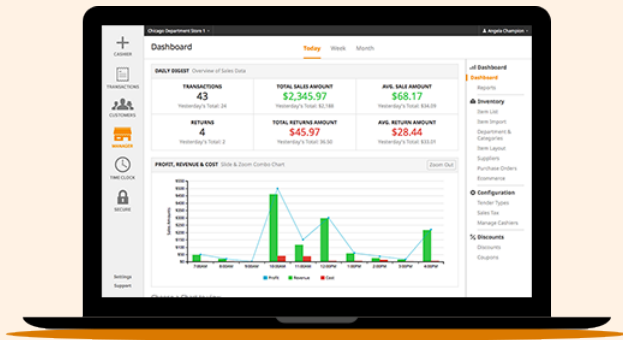
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