

## Getting Inventory Under Control

01/15/07

It's inventory time! I just completed my year end inventory count, and found that I have lots of things sitting in corners, partial lots, completed goods that never sold, leftovers, count errors, and un-returnable items. No matter what I do with this stuff, I know that it's costing me money, and I want to do better in the coming year – at making money by controlling my inventory. Help!

Inventory is a great item to focus on. It's like having a stash uncut diamonds – lots of potential and easy to overlook. There are a number of things you can do. Evaluate your inventory storage area and limit the amount of space available for inventory. Look at your procedures for ordering, tracking, returning. Periodically clean house. Set goals to increase turnover. Let's get to work.

Start by taking a look at how you store inventory. You want it organized and neat, so you can see what you have. Inventory should be on racks, racks should have labels of what they contain, when fully stocked.

Consider stocking your most frequent items on the shelves at the back of the storage area. Sounds inefficient? Think of it this way. You may waste a few extra steps walking to the back, but you'll be looking at everything that is slow moving, along the way. If you and your staff pay attention, you may find ways to

tackle the slow movers that are right up front.

Another trick to managing inventory is to limit available space. Force efficiency. Calculate the amount of square footage you need to carry what sells, plus an additional 20% for items you want to promote, test, or carry for the convenience of your best customers. Limit your square footage to that, and no more.

Review procedures and accountabilities for doing a good job of ordering, tracking and returning unused goods. Who is responsible for ordering? What triggers an order? Who is checking shelves for items that don't sell? How do goods get recognized as slow moving and tagged for return, before the manufacturer won't take them back? Define who does what, and check that they're on top of their jobs.

If you are manufacturing, how far ahead do you need to make parts? Maybe you can manufacture in shorter lots. Try allowing more time between customer order and delivery. Figure out which items move every month, these can be manufactured at a steady pace, and carried on the shelves. The rest, try to manufacture to spec, as orders come along.

Look at the role of pricing in moving inventory. Don't assume that reducing the price is the right

thing to do, to make goods fly off the shelves. Spend a little to promote slow moving goods. More visibility and customer awareness may be a more profitable way to move slow items. Limit the frequency of buying certain goods, to periods when you can get a high quality item at a good price; then let customers know you've got something special for them.

Slow down buying fast moving, but low profit items, and focus on finding goods for which customers are willing to pay a premium. Cut out customers who ask you for special orders, then don't take the goods once you get them. Define best customers as those who are willing to pay a premium, value what you do, and help you stay in business for the long term. Learn to work smart, rather than working hard, by picking your shots, in terms of customers, margins, and goods worth carrying.

At some point, you do have to clean house. Schedule regular times, tied to inventory counts, to clear out the slow movers. Try a schedule of quarterly, semi-annual, or, at a minimum, annual inventory clearance. Make a list of what's sitting around, and give it to your sales people to promote. Make offers to your best customers, giving them a special deal on slow movers. Declare a sale, and promote the items on e-bay. Find a discount buyer who is looking for cut-rate opportunities.



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Consider donating really old goods, taking a tax write off in the process.

Since it's the New Year, it's time for goals. Set goals for turnover – the number of times you buy inventory during the year. If you go through inventory twice / year, set a goal to get to four times. Lower inventory, as you buy more frequently. Or, gear up to sell more, in a shorter time period. If you're at four turns, set a goal to get to five, and so on. If you're not sure how many inventory turns you have, ask someone to help you figure that out, so you can set a goal, and work towards making progress, and profit.

Looking for a good book? Try *Inventory Accuracy: People, Processes, & Technology* by David Piasecki.

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