

Inventory Management

03/24/08

We need to get a better handle on our inventory. It seems we're using a lot more than we used to. As prices keep going up in my business, I'm concerned we could end up getting priced out of the marketplace. A big expensive inventory system is out of the question. Any suggestions on things I can do that won't cost much?

Inventory seems to sprout legs and walk off. Every small business owner cites inventory control as a major dilemma. Inventory arrives, some goes out in the trash, some is left on the shop floor, some hides in corners, and some may go home with employees who may not think about anything other than doing something useful with a material they use all day long don't perceive to have value. There are options for control.

Giving inventory its proper place in the business, treat it with respect. Label it. Assign it a location. Count it as it goes in and out. Decide what to do about waste and agree with everyone that reducing waste is important. Educate employees about the value of the inventory and what is to be done with leftovers. Those are simple steps you can take to quickly reduce inventory waste.

The first priority is being sure that inventory actually arrived. Often there are discrepancies in what was packed. The shipper may have missed a crate at the

loading dock or a box was misdirected. It's easy to make a mistake and you can end up paying for those mistakes.

Often, I find that inventory – the stuff that comes off the truck – ends up being dropped at the edge of the shop. It sits around until needed. The bigger the delivery, or more awkward the pallet or crate is to handle the more likely it is to sit. As it sits, people bump into things, knock them over, shove them out of the way. All of a sudden these valuable goods get damaged or can't be found when they're needed.

Instead, insist of a process to check inventory in and out. Assign one person the responsibility of meeting with every shipper, going over the delivery paperwork, insuring that what was to be delivered actually arrives. When goods arrive, immediately check them into a specific inventory area.

Take a look at the area set aside to manage inventory. Is it neat or messy? Is there enough room to work? Are there labeled shelves? Is it big enough to store large items?

Remember, the bigger your storage area, the more inventory you can store – that's not necessarily a good thing. Never have more storage than you need. Unless you have difficulty securing goods, maintain 1-2

months worth of goods. That will increase inventory turnover, which will keep your money moving.

Build shelving for the goods you plan to store. Build bins for small items. Label the shelves and bins with the products and quantities they are supposed to hold. Regularly inspect the shelves to be sure they are neat and well-stocked, but not over-stocked. Try to store goods in the order they're used in production, so that they flow out in an orderly fashion.

Count inventory as it goes in and out. Create a form that the person in charge of inventory can use to report on what's checked in and checked out. Insist that those counting sheets are used daily, for every item. Have the sheets turned over to the bookkeeper daily, for input into your accounting system. Secure access to the inventory area. Keeping goods under lock and key, with one person in charge will go a long way to maintaining control.

Do inventory monthly. While the process may be labor intensive, think about this, if you're not willing to count inventory, how serious are you about truly controlling it? Counting more frequently often reduces the cost of counting, as less is misplaced in a shorter timeframe and the counters get better at the process with repetition.



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Set a policy about what to do with inventory waste. Often I find that much of what goes on the shop floor can be re-used with a little creativity and thought. Spend time watching what happens, from a distance. Make a list of changes you'd like to see, and share them with the person in charge of the shop. Ask that person for suggestions on how to implement changes.

Teaching employees to reduce waste is important and can go a long way to reductions throughout the shop. Feel free to tell employees about the value of what is wasted, if you have an idea. Share with them that their future raises and bonuses may be swept out the door with any lost and wasted inventory.

Looking for a good book? Try Hands-On Inventory Management by Ed Mercado.

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