

6 inventory control techniques for stock optimization

Overcome the most common inventory challenges with our eGuide.



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Introduction to inventory control

Advanced inventory control requires frequent analysis and continual adjustments to maintain a balance between investment and performance.

Introduction to inventory control

According to the Merriam-Webster dictionary, inventory control is the “coordination and supervision of the supply, storage, distribution and recording of materials to maintain quantities adequate for current customer needs without excessive supply or loss”.

When it comes to durable goods wholesale and distribution, inventory control also includes the process in place to effectively maximize inventory use.

The goal of inventory control is to generate the maximum profit from the least amount of inventory investment without inhibiting or sacrificing customer satisfaction levels or order fill rates.





Common challenges for inventory control

You're likely not alone in the challenges that your business is facing. See if you recognize any of these issues in your own operations.

Common **challenges** for inventory control

When it comes to inventory control in the distribution industry, these are the top four challenges companies face:

01

Stock-outs for high demand products

This results in backorders, lost sales and dissatisfied customers.

02

Too much of certain products

Excess and obsolete inventory tie up working capital and cash flow.

03

Uncertainty around what is actually in inventory

Legacy applications cannot effectively keep up with increasing demand and growing business.

04

Inability to find material in the warehouse

Knowing that material is in the warehouse, since the warehouse management system (WMS) says it is on hand, but not knowing where.



With these common challenges come a few industry best practices that can eradicate or, at the very least, reduce the frequency and impact of these issues. Distributors that have committed to some of the following best practices report on average a 30% reduction in inventory management costs.





6 inventory control techniques

The best inventory management balances high service levels with low inventory investment. Here are 6 best practices to help you achieve that balance.

6 inventory control techniques

There are a number of different inventory control techniques for wholesalers and distributors to ensure maximized efficiency and profitability. The next section will dive into the 6 ways wholesalers and distributors can gain better control of their inventory:



Establishing annual stocking policies



Setting inventory budgets



Perpetual inventory control



ABC analysis and classification



Optimized purchasing and replenishment



Inventory turnover ratio

01 | Establish annual stocking policies

Annual stocking policies are strategic benchmarks put in place by inventory managers, financial managers and company leaders to ensure a specific inventory control model is being followed.

Stocking policies for wholesalers and distributors are used to set targets for all inventory items carried across the business. Not all inventory items carried in stock will have the same demand, which means that some inventory items will need to be more heavily stocked while others are not as urgent.

These policies should be put in place each year and revisited quarterly to ensure the correct metrics are in place to maintain the desired level of inventory control.

Additionally, management must also set optimized reorder levels, safety stock levels (the lowest level that stock is allowed to fall to before reordering) and an average inventory level to ensure costs are controlled. These metrics are critical for hitting KPI targets for order delivery and fulfillment.

Most businesses today manage this process for each item manually in Excel, which is labor intensive and often results in costly human calculation errors. An alternative method is to use an inventory optimization solution to dynamically calculate stocking policies for each and every item carried.

02 | Set annual inventory budgets

Innovative distributors invest time and resources into planning annual inventory budgets and are usually prepared well in advance before inventory is cycled into weekly or monthly purchasing activities. New product entries and removing obsolete products from the portfolio all need to be forecasted and planned in with the company's long standing, well performing products.

Planning and managing the company's budget is critical to ensuring cost containment and risk mitigation. Budgets should include the total cost of ownership to keep inventory on hand during that year's accounting period.

This includes cost of materials, fixed operational costs, carrying costs, logistics costs, redistribution costs (location transfers) and additional miscellaneous costs that contribute to the total cost of ownership.

Businesses that have tight control of their inventory cost model can more effectively increase profit margins and revenue over the long run. Specifically, inventory planners that have insight into product life cycles and customer demand over time will distance themselves from the competition.

Budgets should be a leading driver of what is ordered, how much is ordered and when it should be ordered to be stocked in the warehouse.



03

Maintain a perpetual inventory system

Perpetual inventory systems, also known as automatic inventory systems, are a technology used to keep constant track of the quantity and value of each stocked item. Many wholesalers and distributors leverage a combination of an Enterprise Resource Planning (ERP) or Warehouse Management System (WMS) in conjunction with an inventory optimization solution to optimize inventory balances.

Most ERP and WMS technologies struggle to keep costs contained and service rates high which is why optimization software can be so valuable to operation processes. Cloud solutions like EazyStock also come with mobile apps that make it easy to manage inventory data on-the-go. Increased visibility into inventory leads to smarter and more accurate buyer processes and faster forecasting and planning.



04

Monitor inventory turnover ratio

Inventory turnover ratio is a calculation used to determine how quickly inventory is used up or “turned over” in a given time period. The higher the rate, the shorter the shelf life of the inventory which typically leads to higher sales volume, revenue and profitability for companies in the distribution industry.

Inventory turnover needs to be closely monitored for every item in the warehouse as products will inevitably go through changes in demand over time. Over the course of the product’s life cycle, demand will fluctuate and cause variability in the supply chain. Tracking demand patterns is one way to ensure product replenishment calculations are accurate and optimized.

Distributors with multiple stock locations can employ tactics such as inventory redistribution to transfer excess stock in one location to another without needing to invest capital into new stock from suppliers. Inventory redistribution ensures that inventory turnover is maximized, customer service levels are maintained and unnecessary orders to suppliers are avoided.



05

Optimize purchasing & replenishment

Inventory purchasing and replenishment should never be manually calculated. Unfortunately, most distributors using ERP systems are forced to extract data and run manual calculations in Excel for purchasing needs. For purchasers managing hundreds or thousands of unique items, this process can be extremely time consuming and labor intensive.

For businesses that manage large quantities of different items, there isn't enough time in the day, week or month to manage accurate or real-time calculations. Worst case - the order replenishment is set up to automatically submit orders to suppliers for each purchasing cycle. This process typically ends up causing two very costly issues:

1. **Excess stock:** too much inventory with low demand is ordered which ties up working capital and valuable space in storage locations
2. **Stock-outs (backorders):** not enough inventory is ordered to cover customer demand

To ensure that inventory is under control, management must adopt purchasing processes that align with actual sales history and demand pattern data.

All inventory items that have not had an inventory turnover or have not been sold within an accounting period, typically 12 months, should be classified as obsolete stock and should be liquidated from inventory to eliminate unnecessary carrying costs.

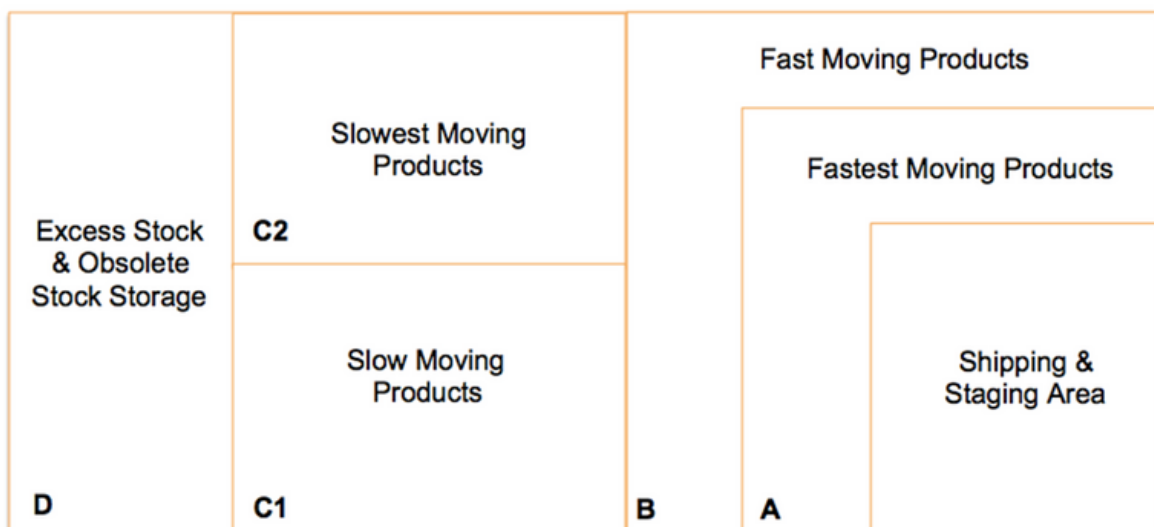
06

Organize items by ABC classification

ABC Classification is a tactic used by warehouse managers to ensure the fastest picking, packing and order fulfillment for customer orders. The fastest moving products in your inventory should be located closest to the shipping, staging and receiving area. (See diagram)

Any item with declining customer demand should be flagged in the system and its safety stock level threshold and reorder point count should be adjusted accordingly to mitigate the risk of obsolescence and unnecessary costs.

As the demand for each product decreases over time, products should migrate towards the back to free up space for items with higher inventory turnover or for new product introductions that have a high demand. Since the majority of picking activity is performed in a rather small area, the warehouse layout should be optimized to reduce time spent looking for products throughout the warehouse.





Summary

The best way to implement these 6 inventory control techniques? With a software solution created for inventory optimization!

Summary

Most companies don't realize the savings they are ignoring with poor inventory control; optimized inventory control brings lower inventory levels, higher service levels and faster processes – saving both time and money in more ways than one.

This guide gives an overview on six of the best practices you can implement into your own inventory control management to achieve these savings. From planning with annual stocking policies and inventory budgets to investing in software such as a perpetual inventory control

system to implementing better processes like redistribution, purchasing and replenishment, and ABC classification and organization, you should have an idea of where you can implement changes in your inventory control for a more streamlined supply chain and higher returns.



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inventory optimization**

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