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# 6 inventory control techniques for stock optimisation

An EazyStock guide to optimised inventory.

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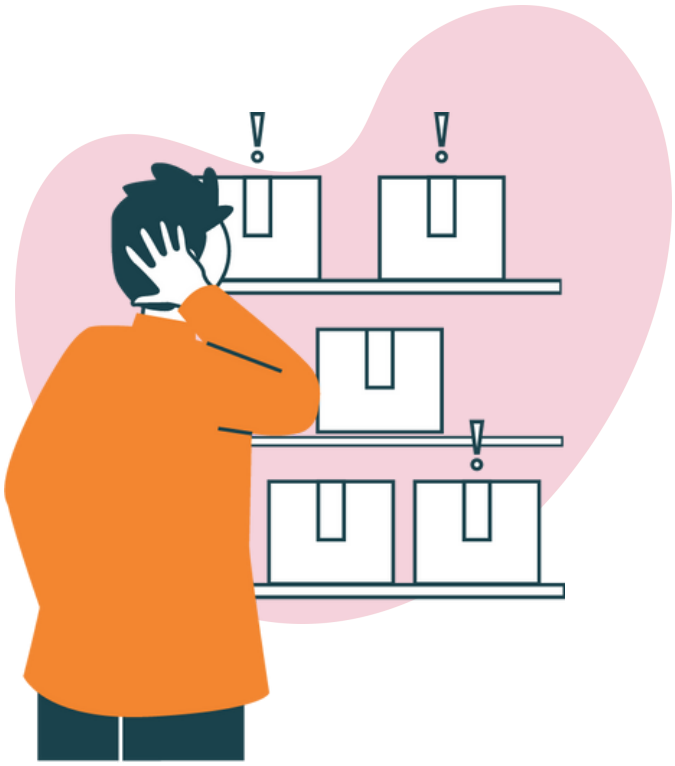
# Introduction to inventory control

**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."**

In this eGuide, we focus on maintaining stock levels to meet customer demand, without over or under stocking.

A critical goal of inventory control is to generate maximum profit from the minimum inventory investment without inhibiting or sacrificing customer satisfaction levels or order fill rates. To do this, you need to optimise your inventory usage effectively.



# Common challenges of inventory control

**Inventory managers face a wealth of inventory control challenges. The three most common are:**

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 about what is actually being stocked

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

# 30%

**Reduction in inventory management costs**

These challenges bring some industry best practices that can reduce or even eradicate their frequency. Distributors following some or all of the following best practices report an average 30% reduction in inventory management costs.

# 6 inventory control techniques for stock optimisation

# 6 inventory control techniques

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

Establish a stocking policy

Set annual inventory budgets

Perpetual inventory systems

Monitor inventory turnover ratio

Optimise purchasing and replenishment

Optimise stock across your business

# Establish annual stocking policies

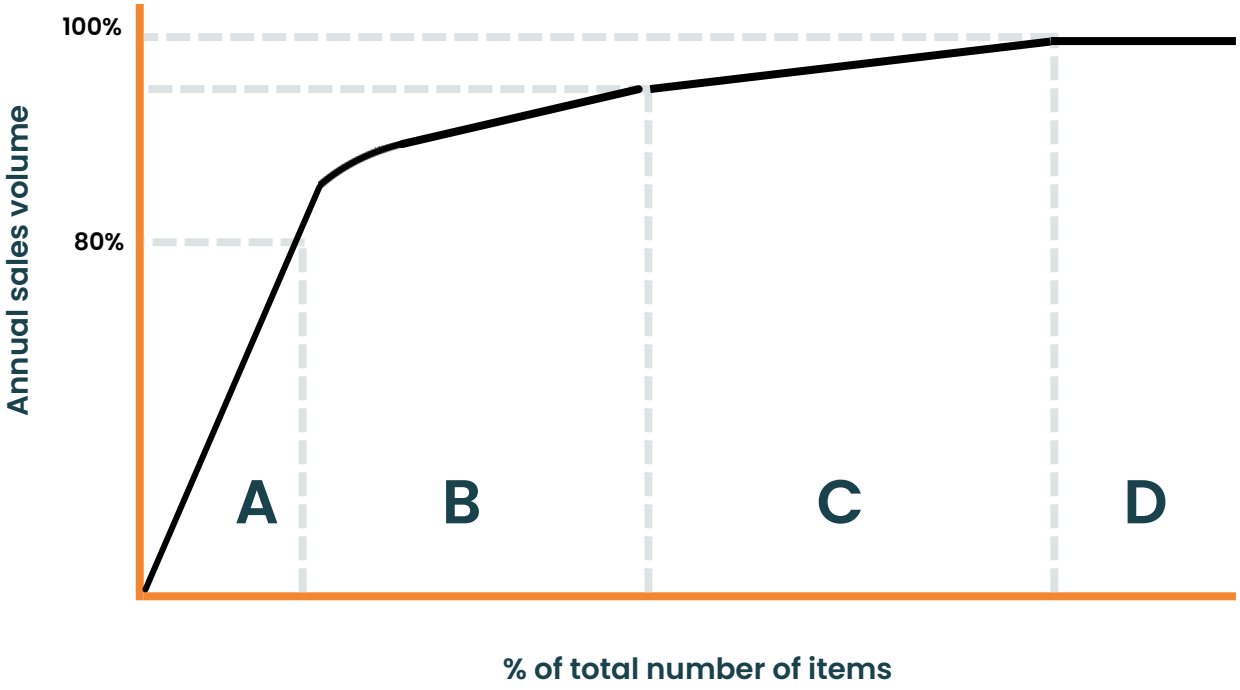
**Stocking policies are strategic benchmarks to ensure a specific inventory control model is followed for all stock keeping units (SKUs).**

Stocking policies set targets for all inventory items carried across the business. Not all items have the same demand, so some have higher stock than others.

ABC inventory analysis is one inventory policy method based on the importance or 'value' SKUs bring to your business. Value can be quantified differently, but annual sales volume is the most common metric.

Inventory is divided into groups based on the Pareto Principle, also known as the 80/20 rule. This means 80% of your annual sales volume comes from approximately 20% of your stock items.

With ABC classification, your SKUs are classified into A, B, C, (and sometimes D) segments, split approximately 80%, 15%, 5%, and 0%.



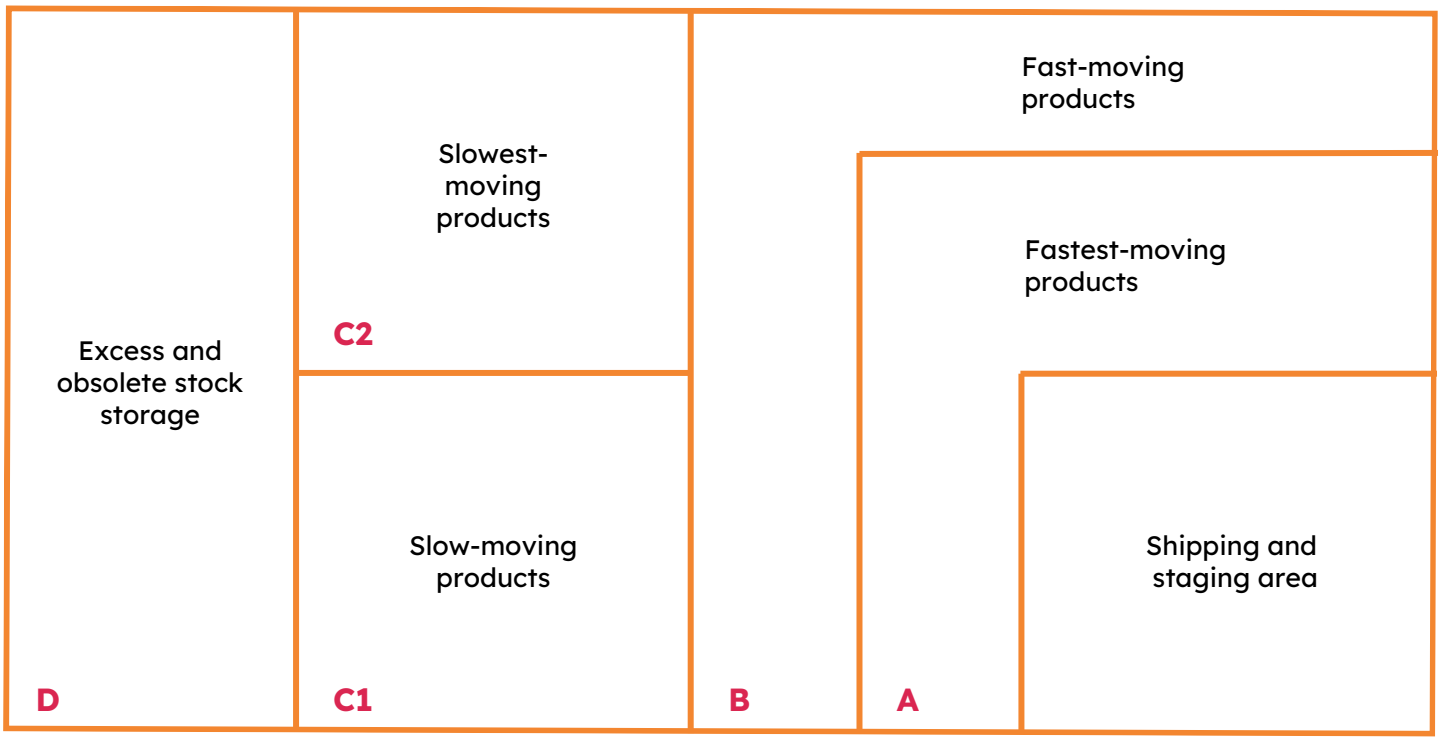

ABC analysis will help you work out appropriate inventory rules for each category. For example, you should be setting inventory stocking policies that optimise:

- Reorder levels - the lowest level that stock is allowed to fall to before replenishment. Learn more about replenishment here.
- Safety stock levels - also called buffer stock, are the layers of inventory kept to prevent stockouts and back orders. Learn more about safety stock here.
- Order quantities - the most economical amount to re-order. Learn more about economic order quantities here.

These factors are critical for hitting KPI targets for order delivery and fulfilment.

Setting different service levels, safety stock levels, and re-ordering parameters for your A, B and C products makes sense. You can then prioritise the management of the policies based on their category classification. For example, you may want to focus on improving the service levels of your A-class products over your Bs and Cs by increasing your safety stock levels to avoid stockouts of your most important SKUs.

As the demand for each product decreases over time, products should be migrated backwards to free up space for items with higher inventory turnover or new product introductions with high demand. Since most of your picking activity is performed in a relatively small area, your warehouse layout should be optimised to reduce time spent looking for products in the back of the warehouse.




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

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

# Set annual inventory budgets

**Invest time and resources into planning your annual inventory budgets and prepare well before inventory is cycled into weekly or monthly purchasing activities.**

Make sure you forecast for the launch of new products and the removal of obsolete ones from the portfolio.

Planning and managing the company's inventory budget is critical to ensuring cost containment and risk mitigation.

Budgets should include the total cost of ownership to keep inventory on hand during the year's accounting period. This includes the 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. Inventory planners with insight into product lifecycles and customer demand over time will improve their control over inventory costs and consequently increase profit margins and revenue over the long term.

Budgets should be a leading driver of what is ordered, how much is ordered and when it should be ordered.

# Perpetual inventory systems

**Perpetual inventory systems, also known as automated inventory systems, are used to track the quantity and value of each stocked item constantly. Many companies use an Enterprise Resource Planning (ERP) or Warehouse Management System (WMS).**

However, most ERP and WMS technologies struggle to contain costs while keeping service rates high, so additional inventory optimisation software can be a valuable plug-in.

Cloud solutions like EazyStock also come with mobile apps that make it easy to manage inventory data on-the-go. Increased inventory visibility leads to smarter and more accurate buyer processes and faster forecasting and planning.

# Monitor inventory turnover ratio

**Inventory is expensive, so the last thing a business wants is to tie up capital in stock that sits on a shelf and has no demand. Simultaneously, having too little inventory to fulfil demand can lead to stockouts, poor customer satisfaction and missed sales opportunities.**

The inventory turnover ratio calculation determines how quickly inventory is used or “turned over” in a given period. The higher the rate, the shorter the shelf life of the inventory, which typically leads to higher sales volumes, revenue and profitability.

You should, therefore, aim for high inventory turnover rates, but the key is to achieve sustainable inventory reductions while maintaining or improving your service levels.

You need to closely monitor inventory turnover for every item in the warehouse, as products will inevitably go through changes in demand over time.

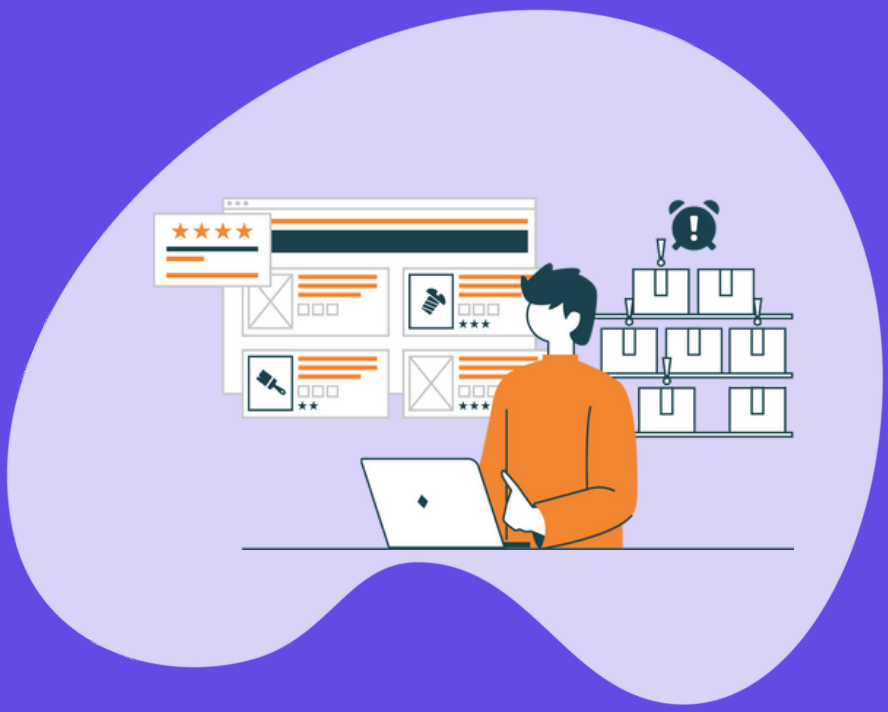
By forecasting demand and managing re-order quantities effectively, you can ensure you order the right products at the right time in the right amounts to hit your target service levels.

# Optimise purchasing and replenishment

**Many businesses using ERP systems find that they have to extract inventory data and work manually in Excel to carry out more advanced replenishment calculations and determine purchasing parameters.**

This process can be extremely time-consuming and labour-intensive for purchasers managing hundreds or thousands of unique items. It also typically ends up causing two very costly issues:

1. **Excess stock:** Too much low demand inventory is ordered, which ties up working capital and valuable space in storage locations.
2. **Stock outs:** Not enough inventory is ordered to cover customer demand.

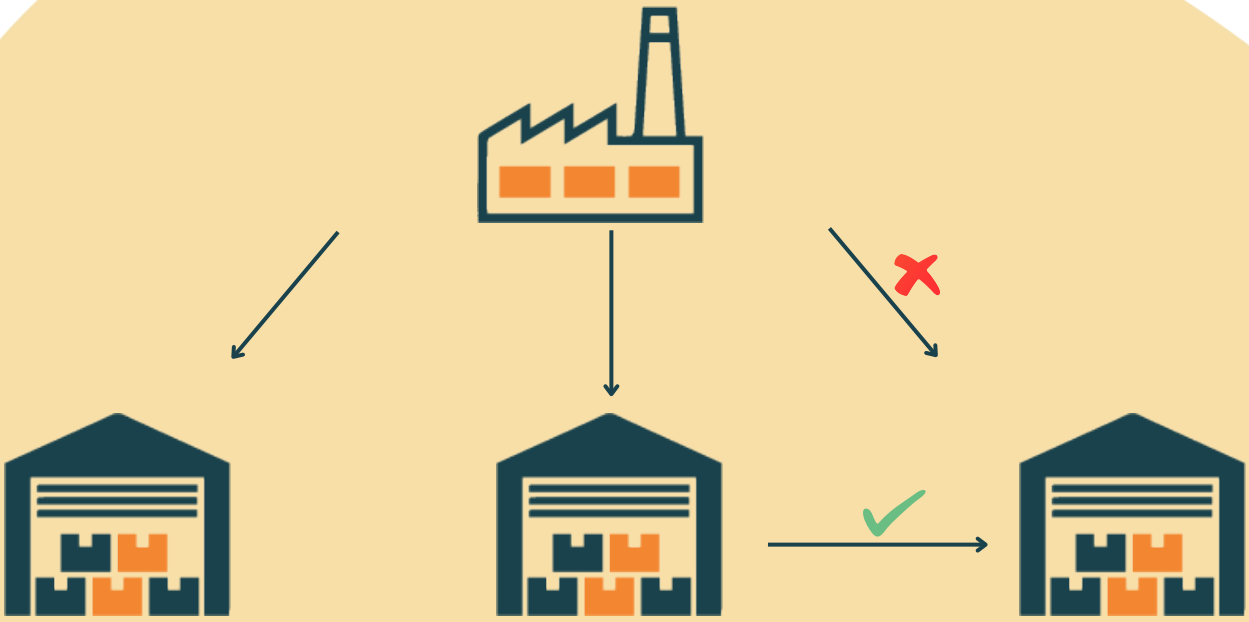


# Optimise stock across your business

**Businesses with multiple stock locations can employ tactics such as inventory redistribution to transfer excess stock from one location to another without needing to invest capital in new stock from suppliers.**

Inventory redistribution ensures maximum inventory turnover and high customer service levels while avoiding unnecessary supplier orders.

Inventory redistribution model



# Summary

**By optimising your inventory management activities, you can quickly lower your inventory levels while improving product availability – both at the same time. With the help of inventory optimisation software you can also benefit from faster replenishment and purchasing processes to save time, resources and money.**

An inventory optimisation tool like EazyStock will help you implement all six inventory control practices covered in this eGuide. Its sophisticated algorithms update your inventory control parameters and ensure accurate forecasts and replenishment for all items.

The system easily plugs into existing business management software, so you can easily track forecasts, service levels, safety stock, back order recovery and inventory turnover. With all this data to hand in easy-to-read dashboards and reports, your team will have more time to make informed, strategic inventory control decisions to improve efficiency and profitability.

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# Powerful inventory optimisation made simple

Book a free demo and learn how to optimise your inventory management

Book a demo