GRIP REPORTS

We're in the NOW Business!

by: Elias Amash

We're in the NOW Business!

Elias Amash
President
GRIP

As far as consumers are concerned, retailers are in the business of Now! They want what they want right now and will quickly go elsewhere if they can't get it. Inventory is usually a retailer's largest asset and its lifeblood. Too much inventory can destroy you and too little can do the same thing. Inventory is a double edged sword. If you have too little, your customers go elsewhere. If you have too much, the costs can kill your business.

Too often cost-obsessed retailers believe they can get a better deal on inventory by bypassing distributors and ordering directly from China. But the hazards of this approach include having to order by the container load when much smaller quantities may suffice. In addition, the long delivery times may result to not enough merchandise before delivery and too much after. There is a huge cost to using LCL freight as well. By using a distributor you get quick inventory at a reasonable cost

Having a distributor who handles these inventory concerns allows retailers the flexibility to plan and execute promotions, plan for new product launches, and provide excellent customer service -- which will ensure that customers remain loyal. A good inventory management strategy that leverages distributors improves the overall health of the business. More importantly, it keeps customers coming back for more.

In addition to using distributors to manage inventory levels, every business should strive to remove human error from inventory management as much as possible. Let's look at some methodologies:

Set Par Levels

Par levels are the minimum amount of product that must be on hand at all times. When your inventory stock dips below the predetermined levels, you know it's time to order more. Ideally, you'll typically order the minimum quantity that will get you back above par. Par levels will vary by product based on how quickly the item sells, and how long it takes to get back in stock.

First-In, First-Out (FIFO)

"First-in, first-out" is an important principle of inventory management. It means that your oldest stock (first-in) gets sold first (first-out), not your newest stock. It's a good idea to practice FIFO for non-perishable products. If the same boxes are always sitting at the back, they're more likely to get worn out. Plus, packaging design and features often change over time. You don't want to end up with something obsolete that you can't sell. In order to manage a FIFO system, you'll need an organized warehouse. This typically means making sure old product stays at the front.

Manage Relationships with Good Communication

Whether you need to return a slow selling item to make room for a new product, restock a fast seller very quickly, troubleshoot manufacturing issues, or temporarily expand your storage space, it's important to have a good relationship with your suppliers. That way they'll be more willing to work with you to solve problems.

Obviously, the more you sell, the more you will order from them, and everyone makes money. You may be able to negotiate the quantities of minimum orders, so that you won't need to carry as much inventory -- reducing risk and saving on warehousing costs.

Contingency Planning

A lot of issues can pop up related to inventory management. These types of problems can cripple unprepared businesses. For example: (1) Sales spike unexpectedly and you oversell your stock – the opposite of having too much stock, (2) You run into a cash flow shortfall and can't pay for product you desperately need, (3) The warehouse doesn't have enough room to accommodate your seasonal spike in sales (4), A miscalculation in inventory means you have less product than you thought. Figure out where your risks lie, do some forecasting, and prepare a contingency plan.

Regular Auditing

Regular reconciliation is vital. In most cases, you'll be relying on software and reports from your warehouse to know how much product you have in stock. However, it's important to make sure that the data matches up. There are several methods for doing this.

a) Physical Inventory: A physical inventory is the practice is counting your entire inventory at once. Many businesses do this at their year-end because it ties in with accounting and income taxes.

b) Spot Checking: If you do a full physical inventory and often run into problems, or have a lot of products, you may want to start spot checking throughout the year. This simply means choosing a product, counting it, and comparing the number to what it's supposed to be.

Prioritize With ABC Analysis

Some products need more attention and resources than others. Use an ABC analysis, also known as selective inventory control, to prioritize your inventory management. Separate out products that require a lot of attention from those that don't. Review your product list and categorize each product as follows: A - High-value products with a low frequency of sales B - Moderate value products with a moderate frequency of sales C - Low-value products with a high frequency of sales

Accurate Forecasting

A huge part of effective inventory management comes down to accurately predicting demand. There are so many variables involved and you'll never know for sure exactly what's coming—but you can get close. Here are a few things to look at when projecting your future sales: (a) Market trends and the overall economy, (b) Last year's sales during the same week, (c) This year's growth rate, (d) Guaranteed sales from contracts and subscriptions, (e) Seasonality, and (f) Sales of products sold by your competitors. No doubt, you have access to reams of data that can address all of these concerns. Use analytics and data visualization to have the most complete picture of your inventory forecast.

Drop Shipping

Drop shipping is often considered an ideal scenario from an inventory management perspective. Instead of having to carry inventory and ship products yourself — whether internally or through third-party logistics — the manufacturer or distributor takes care of it for you. Basically, you completely remove inventory management from your business. Many wholesalers and manufacturers advertise drop shipping as a service, but even if your supplier doesn't, it may still be an option. Products often cost more this way than they do in bulk orders, but you won't have to worry about expenses related to storage and fulfillment.

Conclusion

If your organization is constantly putting out fires to meet customer demand, then you are losing the 'war' to keep customers and gaining new sales," The pervasiveness of e-commerce has given consumers the sense that a store will always have an item available in stock. In fact, consumers now demand it. Effective inventory management that leverages distributors and inventory management techniques builds relationships with your customers so they trust you to be there for them. Remember this: You are not in the tool business or the inventory business. You are in the NOW business. If you don't have it now, your customers will go elsewhere.

About the Author: Elias Amash, President of GRIP, is an industry veteran with more than 20 years of experience in global sourcing, manufacturing, distribution, retail merchandising, fulfillment, marketing, technology and operations. He is a trusted partner to hundreds of retailers and has "leveled up" the industry with GRIP's undying commitment to offering the highest level of service to its customers. Amash has recently published his third business book, The Future of Retail, which is available on Amazon. He is also the author of Importing from China: The Good, the Bad and the Ugly, and 101 Bright Ideas: Winning Tactics to Increase Retail Sales.