



GUIDE:

How to Optimize Inventory Management

Author: Andrew Forest

www.actsoft.com/teamwherx

Why Strengthening Inventory Management is Critical to Your Business

Whether you're providing services to clients or selling products to consumers, everything comes down to effective inventory management. With in-stock goods making up a substantial portion of a company's total assets, not having accurate counts of supply in a warehouse can lead to lost revenue, customer dissatisfaction, and a lack of employee accountability. Even if your business provides a service to customers (and not tangible products), your team probably still relies on equipment to get each job done, making it essential to keep record of where that equipment is at all times.

There are several causes for why inventory management might not be truly optimized in your business; namely, supply chain issues, inventory shrinkage, and inadequate auditing practices. In this guide, we'll explore the basics of inventory management and go over how to improve each of its fundamental challenges.

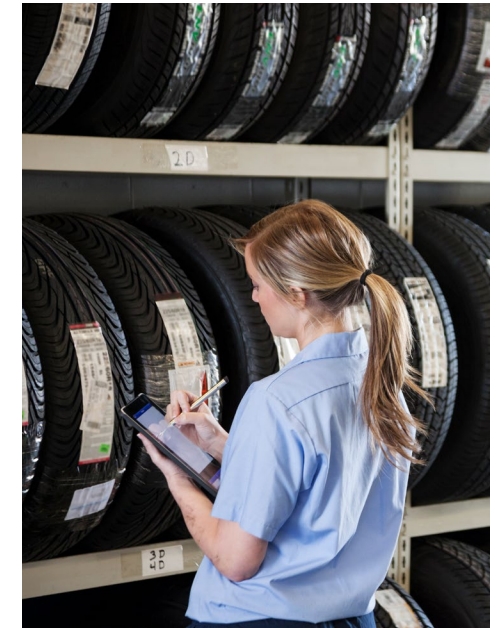


What is Inventory Management?

Inventory management details the process with which you track and control all the goods your company provides and/or the equipment its employees use during day-to-day operations.

Benefits of Good Inventory Management

Strong inventory management helps you run a more organized operation, reduce costs from asset loss, and provide better service to clients. Companies with a direct-to-consumer business model that are solely in charge of supplying their clients with goods or services need to be even more vigilant when it comes to ensuring their inventory management is optimized. This is because they're not providing their products through any third-party distributors, wholesalers, or stores.



For businesses that primarily provide a service, having accurate counts of what equipment is in use and where it is enables them to reduce theft and misuse. It also allows them to quickly and thoroughly clean up a job site after a lengthy project is complete. To receive benefits like these, however, both retailers and service-based organizations must verify that they're giving their employees the requisite tools to perform detailed and scalable inventory management.

Impact of Poor Inventory Management

Conversely, weak inventory management can destroy finances for an organization and cloud their perceptions of where their bottom line currently stands. Specific dangers posed include shipment overpayments, low asset recovery rates, and disappointed clients. All three of these major aspects are directly responsible for depleted revenue and profitability for companies.

Stocking perishable goods also presents increased risks to maintaining strong inventory management. With certain products having limited shelf-life, it's critical to sell these items as quickly as possible, keep close track of when exactly they were received, and notice trends in how frequently they sell to avoid waste and purchasing unnecessary stock.

Three Tips to Optimize Your Company's Inventory Management

Here are three essential focuses your company should prioritize to enhance its overall inventory management process.



Reinforce Supply Chains

Supply chains are critical to making sure that you're fully stocked and able to handle all your business's demand accordingly, so it's imperative that they're resilient (have backups in place to help you avoid single points of failure). While some uncertainty in supply chain management is always inevitable, having strong communication plans in the event of any unforeseen circumstances also helps you effectively manage delays.



Reduce Inventory Shrinkage

Shrinkage is caused by misreported inventory. It can be due to clerical inconsistencies, accounting errors, or willful deception and theft. When transporting or receiving shipments, use barcode scanning to prevent shrinkage and verify that complete deliveries took place. Double-check all calculations to avoid errors; plus, use new concepts like the Internet-of-Things (IoT) to better connect everything in your inventory management process and eliminate gaps.



According to [Business Insider](#), the Internet of Things (IoT) describes interlinking all your devices to the internet (and with one another), allowing them to all exchange data. Having an IoT network can make information transfer more seamless and efficient across your entire business.

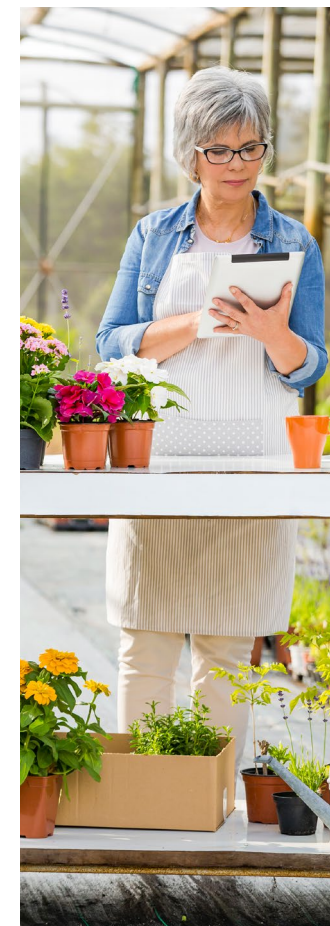


Tighten Your Auditing Practices

Implementing spur-of-the-moment audits of your inventory helps keep your staff more engaged and prepared in the event of an external audit, where your reported sales must accurately match inventory records. Using a digital app for inventory management adds greater versatility to your operation and enables you to keep a faster, more detailed track of things.

How to Measure the Impact of Inventory Management on Productivity and Profitability

As discussed, having quality inventory management directly enhances profitability. However, too much inventory can also cause costs to rise for your business unnecessarily. [Kristie Wright with Industrial Machinery Digest wrote an article](#) detailing the perils of excess inventory. In it, [she estimates that between 20 and 40% of an average company's working capital](#) is linked to their in-stock items. Paring down your inventory to only what current demand is requiring helps you optimize these expenses and reliably serve your customers.



- In her article, Wright also references a [study carried out by Stephen Powell of Tuck Business School at Dartmouth College](#), which discovered that at least seven critical human errors in various sample inventory spreadsheets caused between \$4 and \$110 million in losses for a company. These findings make it clear that both human errors in inventory management and excessive stock are two of the most major causes of unnecessary expenses for organizations.
- From a standpoint of internal culture, enhancing inventory management also helps you foster greater responsibility and productivity in your workforce. Upholding honest, accurate standards in your organization (whether during the inventory tracking process or not) helps you further keep costs in check and promote accountability.

Using all this information, improve each aspect of your inventory management process to enhance your business's profits and output. With effective, new methods to bolster supply, prevent shrinkage, and audit effectively, you can better ensure that this essential part of your business is optimized.

Learn about how our platform can help your organization revolutionize its inventory management today at www.actsoft.com/teamwherx.

Sources:

<https://www.businessinsider.com/internet-of-things-definition>

<https://industrialmachinerydigest.com/industrial-news/columns/business/how-bad-inventory-management-can-impact-your-firms-organizational-performance/>

<https://faculty.tuck.dartmouth.edu/images/uploads/faculty/serp/Impact.pdf>