



Rules of Inventory Management

(And How to Live by Them)



Optimizing inventory levels has traditionally been a matter of answering the question, "How much inventory should we carry?"

But managing inventory is not just an exercise in coming up with numbers; it requires accurate real-time data so you can identify issues and deal with them before they affect operations.

Have Enough Inventory to Service Demand

Today's consumer is used to a higher standard of service and order processing within 24 hours, prompt shipping, and speedy delivery at a low cost. Needless to say, consumers with these expectations do not tolerate backorders.

Don't Overstock

There are hidden costs of having too much inventory as well. Having lots of extra inventory means you have capital tied up, unavailable for other things. Pinched cash flow makes doing business that much more difficult.

Know Thy Inventory

The main problem is; not knowing your precise level of inventory and what state it is in. Having inaccurate data on your stock levels leads to a number of problems. Poor inventory and inaccurate data can cause other inefficiencies:

- Harder to detect theft and prevent.
- Supply chain problems
- Creates missed sales opportunities or backorders

So What Data Should We Collect?

That's a great question and one that takes us far beyond this post. But we do have a few pointers.

What SKUs do you have and in what quantities?

What is your On Hand quantity, your unavailable and/or damaged quantity, and open order quantity? How are these numbers changing over time?

Where is each SKU located?

This will be extremely important when it comes to forward staging and general warehouse layout.

What's the lead time needed to order (or manufacture) each item?

This will help you determine how far out you need to plan and when you need to reorder.

Is there enough labor force to move the stock when needed?

Products are not the only assets that need to be coordinated. Having appropriate quantities and floor placement will not matter if you do not have the labor necessary to move those items in a timely manner. This is why having real-time data is important