

A person wearing a blue long-sleeved shirt is holding a stack of three cardboard boxes in a warehouse. The background is filled with more stacks of boxes on pallets, creating a sense of a large inventory space. The lighting is warm and focused on the person and the boxes they are holding.

INVENTORY MANAGEMENT

BEST
PRACTICES

RICS
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INVENTORY MANAGEMENT

BEST PRACTICES



DO YOU KNOW HOW YOUR INVENTORY IS REALLY DOING?
DO YOU HAVE ENOUGH STOCK ON HAND?
WHAT ARE YOUR TOP-SELLING ITEMS?



If you are unable to answer these questions, it might be time to consider rethinking how you manage your inventory. Inventory management allows you to run your business in the most effective and profitable way. When your inventory isn't moving out the door, you are actually losing money. Are you aware of the best practices you should be using to manage your inventory? Read on to find out what you can be doing to better manage your inventory!

KNOW THE
BEST PRACTICES:

USE YOUR DATA



Track your inventory

Your data is what gives you the information about how your products are doing and therefore will help you make informed buying decisions in the future. Tracking your inventory will give you the data necessary for these insights.

Plan before you buy your inventory

Use your data to see what you should be ordering. Don't just reorder the same quantities, instead see which products were the best and worst sellers and order accordingly. By taking the easy way out and simply replacing the same order, you will lose money instead of making it!

Use and analyze past seasonal orders to determine how to price product

Once again, use the data to your advantage! Look at previous seasons to guide your pricing decisions. Knowing how your merchandise has performed in past years will help you accurately buy and price for the current season.

Check data and reports frequently

Consistently checking your data will give you a good idea of how your inventory is performing overall. The more often you access these numbers, the quicker you'll see red flags that need your immediate attention. You also will be more reactive to inventory needs and can make adjustments on the fly.

Focus on demand forecasting

Study past sales trends to predict future patterns for inventory. By looking back at previous seasons from past years, you will be able to more accurately buy inventory for the future. This data will help you make educated buying decisions that will help you be more profitable.

KNOW THE
BEST PRACTICES:

IN-STORE PRACTICES



Keep as much product on the sales floor as possible

You lose money when you're not selling product. Try this rule of thumb, if it's in your store, it should be for sale. The stock room should only be a pit stop between the supplier and the store front and supplement products that are already being displayed in the showroom.

Buy from yourself first

If you own more than one store, look to see if you have that product in another store before buying it again from the supplier. It is beneficial to exhaust your own resources first so you don't end up with excess product in one store that you eventually have to markdown.

Count physical inventory regularly

This will help to mitigate the effects of missing inventory that could be a result of theft. Knowing exactly what you have on hand will be beneficial for you and will help make your customers happy. Make your life easier by counting inventory in manageable segments. Don't overwhelm yourself by doing it all at once! To avoid mistakes and ensure accuracy, focus your attention solely on counting inventory.

Account for items you can't sell

If you are unable to sell an item due to damage, make sure it is classified as non-sellable. Make a note that it needs to be replaced and either returned to the vendor or donated. It is important to keep non-sellable products separated from your regular inventory.

Liquidate non-moving items to make space for profitable products

If you have a product that isn't selling, it's always better to move it off the floor so you can replace it with a profitable item. Offering discounts and promotions are good ways to move stagnant inventory through the purchasing cycle.

Utilize drop shipments to avoid too much inventory on hand

Drop-shipping products lets you transfer customer orders directly to the manufacturer. This allows you to keep space open in your back room while still making a sale.

KNOW THE
BEST PRACTICES:

MONITOR IMPORTANT METRICS



Increase turn rate to move product steadily through the purchase cycle

By measuring your inventory turn rate, you can gain insight into which items are most popular or doing poorly. Your inventory turn rate is the rate at which inventory is sold within a certain time frame. The higher the turn rate, the more profitable you will be, so it is important to keep a pulse on your turn rate monthly.

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Know your inventory costs

Having an idea of how your inventory costs are divided will allow you to better understand where your money is going. Inventory costs are usually allocated accordingly:

6-12%	3-10%	2-5%	2-4%	1-4%
<ul style="list-style-type: none">• Opportunity• Obsolete Inventory	<ul style="list-style-type: none">• Taxes and Insurance	<ul style="list-style-type: none">• Warehouse/Storage	<ul style="list-style-type: none">• Handling• Breakage and Theft	<ul style="list-style-type: none">• Clerical

Know total costs

Manage your inventory based on profit margins so you know which items are the most profitable. To calculate the margin, subtract the cost from the sell price of an item. Be aware that the same items might have different profit margins depending on if they were discounted by the supplier or in your store.


Calculate sell-through rate


To ensure that you are not running out of inventory, you should be monitoring your sell-through rate. Knowing this number will allow you to make quick adjustments on your orders so that you are never running out of stock. You can also calculate weeks of supply to see how much inventory you'll have leftover at your current rate.


$$\text{Sell through \%} = \frac{\text{Units Sold}}{(\text{Units On-Hand} + \text{Units Sold})}$$

By managing your inventory and using these best practices, your business will be more profitable and you will see more return on your investment.

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