4 Ways to Optimize Your Inventory

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*The **human** side of ERP*

Introduction

What's inside?

▶ Why is inventory management a challenge?

▶ What's the cost of poor inventory management?

▶ How can you get better inventory visibility and control?

Every inventory-based business faces the same challenge – right product, right quantity, right time. It doesn't matter if you're a distributor, manufacturer or even a service company relying on inventory to deliver jobs. Keeping optimal stock levels without compromising cash flow is a delicate balancing act.

The challenge can be greater for small and mid-size companies because they often don't have the right systems and processes in place. Using basic inventory management software – or worse, spreadsheets – leaves you in fire fighting mode.

You're facing constant stock-outs and spending too much on expedited orders to avoid losing the sale. Purchasing decisions are based on guesswork. Obsolete stock levels are high. The list could go on.

Perhaps some of this sounds familiar. But even if you think you're in good shape, we'd challenge you to dig a little deeper. Can you answer these questions about your inventory, using up-to-date, reliable data?

? What's your turnover rate?

? What's your days (or weeks) on hand?

? How many orders are stock-outs?

? What's your backorder rate?

? What's your lost sales ratio?

? What's your order cycle time?

? What percent of your inventory is dead stock?

? How accurate is your available inventory count?

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If your answers are a best guess (or you don't have an answer at all), you're not alone. Here are some common remarks we hear talking with other distributors.

❗ "We don't know what inventory we have and what we don't have."

❗ "Inventory is a mess and RMAs make it even worse."

❗ "Our biggest challenge is inventory inaccuracy."

❗ "We spend too much time processing shipping."

What comes out over and over in these conversations is that companies don't **really** know their inventory. And without answers to key inventory questions, they can't identify specific issues to correct. When inventory is your biggest asset, this is a huge problem.

Managing inventory by gut feel simply isn't sustainable – especially if you're trying to grow your business.

That's why we've created this eBook. Our goal is to show how you can tackle your biggest inventory challenges and get the visibility you need to confidently answer key questions about your performance.

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Why is inventory management a challenge?

This is a big question. As you well know, there are many moving parts that impact inventory management. Some you can control and others you can't.

But the strong systems and processes you put in place to improve operations will also make you better equipped to deal with the outside factors as they arise.

A complex and ever-changing supply chain

Dealing with shifting lead times, unexpected supplier delays and the like is nothing new. But the 2020 pandemic highlighted underlying issues for many distributors. And it hit hardest for businesses already lacking visibility and strong inventory management procedures.

Almost overnight, buying behaviors changed, making visibility even more critical. A report from Reuters Events and CalAmp shows that 51% of shippers see lack of clarity on customer demand as the biggest supply chain bottleneck. This is particularly challenging for smaller companies that have sales and operations data siloed in separate systems. Ordering inventory based on demand simply isn't possible without significant time and manual effort.

Things like single-supplier sourcing and heavy reliance on international suppliers made inventory challenges even worse. Quite simply, companies were caught off guard and many didn't have the flexibility to respond quickly.

While we don't expect to see major impacts like this on a regular basis, it's been a wake-up call for distributors and manufacturers alike. Now, many are focused on retooling the business and investing in technology that will strengthen their operations and make them more agile.

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**34% of companies continually find themselves either over or understocked.**

Finding the balancing between service levels and inventory

Distributors are constantly walking a tightrope, trying to keep enough inventory on-hand to fill customer orders without tying up excess capital. You want just enough, but not too much. That's not an easy task, to say the least.

Why is this so common? It's often related to how you track your inventory. The more you rely on manual inventory management processes, the more likely you are to have stocking issues. Here are a couple examples of how this plays out.

Undersupply – demand exceeds available inventory

Let's say you start out with an incorrect inventory count in your system – it's higher than the physical inventory. Paired with a demand forecast that's lower than actual demand, you end up with repeated stock-outs. At the very least, you're likely to lose sales as your customers buy these items elsewhere. But if it happens often enough, you risk losing those customers for good as they seek out more reliable suppliers.
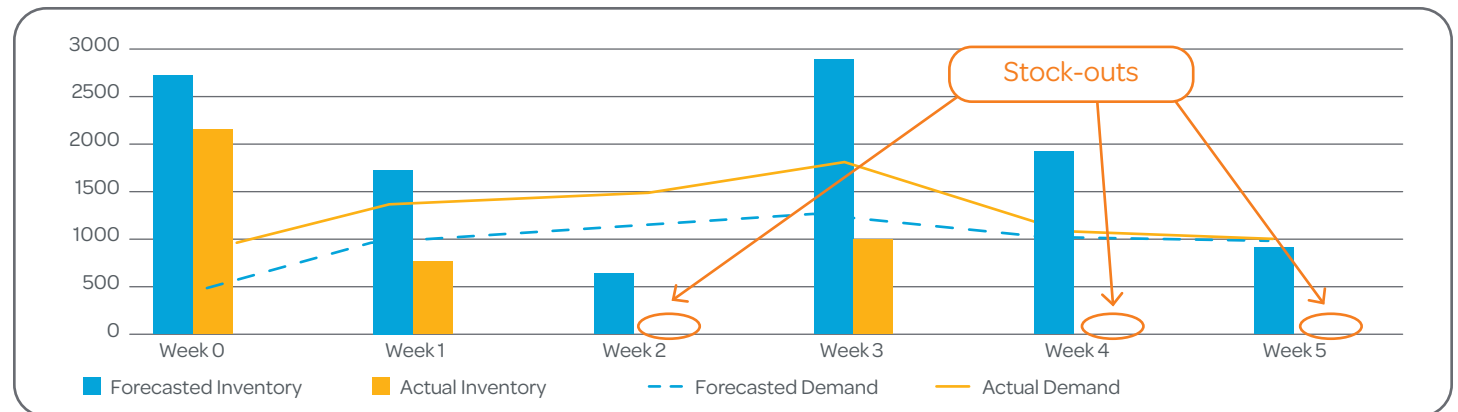
Source: ChainLink Research, The Right Stuff: Managing Inventory to Enable Agility for Manufacturing and Distribution Companies
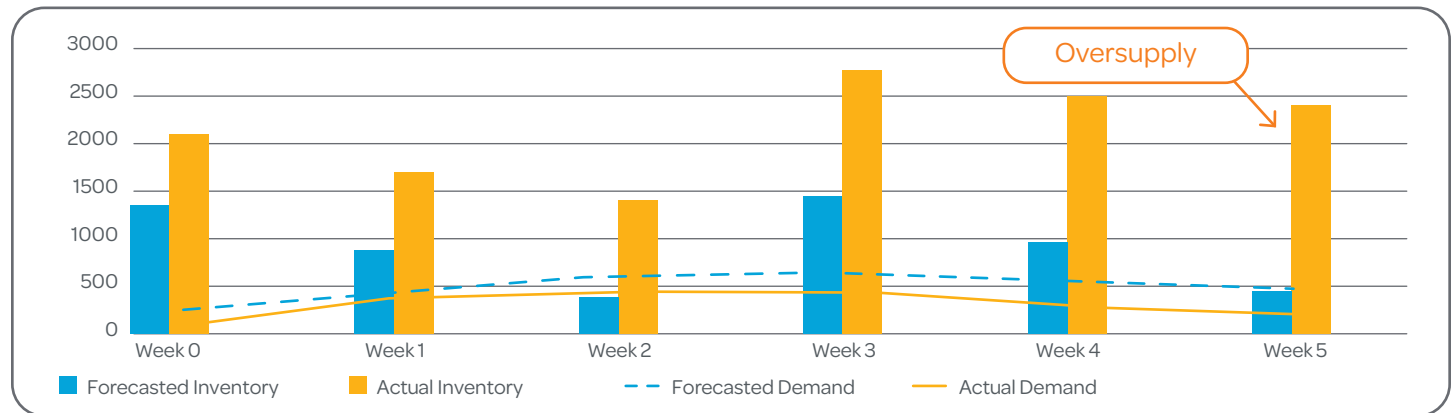
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32% of companies have inventory counts that don't match what's on the shelves.

Source: CFE Media & Technology, Inventory and Supply Chain Management: Executive Challenges and Best Practices

Oversupply – inventory exceeds demand

Now let's look at the opposite scenario. Here, you can see the inventory count in the system is less than what's on-hand. And the demand forecast is on the high side compared to actual demand. So, when the replenishment order is placed based on these numbers, it increases your excess inventory even more.

While you certainly don't want to lose customers due to stock-outs, you also don't want to go too far in the other direction. With an overstock position, you'll have cash tied up in inventory that's just sitting on the shelves – possibly to the point that it becomes obsolete, and you have to write it off or liquidate. Neither scenario is ideal. This is why accurate inventory control and planning are essential to achieving the right balance.

Source: ChainLink Research, The Right Stuff: Managing Inventory to Enable Agility for Manufacturing and Distribution Companies

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Simplistic systems limit inventory management success

Real-time visibility is the top priority for 46% of distributors and manufacturers.

Source: CFE Media & Technology, Inventory and Supply Chain Management: Executive Challenges and Best Practices

Handling all the complexities that feed into inventory management becomes infinitely more difficult when you're doing it manually. Whether you use spreadsheets or a collection of basic software applications, it only adds to the complexity.

Think for a minute about all the various processes that impact inventory management in your business – demand planning, purchasing, receiving, picking and packing, etc. How many different tools, spreadsheets and paper forms do you need to get the job done? How many people does it take? How often do you find inaccuracies in your data?

Yes, inventory management can be complex. But it could be simpler. The key to getting inventory accuracy is using methodical processes and an integrated system that ties your data together. And that's the direction companies are headed. According to Reuters Events, the pandemic has increased technology budgets and implementations. If you want to remain competitive, now is the time to double down on your inventory management systems.

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What's the cost of poor inventory management?

Wholesalers can have 30% to 60% of their inventory costs tied up in excess and obsolete stock.

With $10M in inventory, there's $3M to $6M being misspent – a high price to pay for any size company!

With the lack of visibility that's common in small to mid-size companies, it can be tough to measure the impact of poor inventory management.

! You can't forecast demand based on sales orders, quotes, etc.

! You continually find yourself either overstocked or understocked.

! Inventory counts don't match what's really on the warehouse shelves.

! You can't easily measure key metrics that help you optimize inventory.

! You're overstocking just to make sure you have enough product on-hand.

! You're losing sales due to regular stock-outs.

! Inventory is hard to find in the warehouse, slowing down order fulfillment.

Even if you know there's room for improvement, how do you know when the problem is bad enough to warrant a new system? Here are some common signs to watch out for.

! Creating reports takes a ton of time and they're outdated by the time you get them.

! Maintaining spreadsheets is painful and you're constantly finding errors.

! The capital invested in excess or obsolete stock is impacting cash flow.

! You need a bigger team to manage your manual processes.

! Your receiving, putaway, picking, packing and shipping processes take longer than they should.

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How can you get better inventory visibility and control?
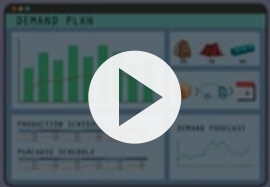
Knowing how much of each item you have on the shelves is only one piece of the inventory management puzzle. Demand planning, warehouse operations and order fulfillment all play a role. Making improvements in any one of these areas will give you a boost in performance. But you'll see true transformation when they're all working well together.

Putting the right systems in place will make your life easier across the board. That's what we'll dig into here – showing how ERP software can help you make smarter purchasing decisions, free up cash for other investments and boost customer satisfaction with accurate, on-time orders.

What is demand planning?

Optimize demand planning

Imagine you run a successful promotion that doubles your product sales in June. As you're planning orders the following June, you might accidentally over-forecast demand based on the previous year. A basic inventory software or Excel sheet will show that spike in demand, but you might not know why.

Context is important when you're creating demand forecasts – historical demand, seasonal periods, promotions and current orders all impact your ordering processes. If you have multiple warehouses, that adds another element to the mix as you need to consider both on-hand inventory and demand across all locations in your planning.

Simple inventory management software can't always keep up with this level of complexity. To truly be competitive, you need deep visibility when you're deciding what products to order, in what quantities and when you need them. And the more accurate your inventory counts and sales forecasts are, the more accurate your demand planning will be.

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Streamline warehouse management

What is warehouse management?

Optimizing warehouse operations has a big impact on both the accuracy of your inventory and the productivity of your team. This includes everything from receiving and putaway procedures, to assigning bin locations, cycle counting and returns.

Using barcodes or QR codes is a great way to automate tracking as items move through your warehouse. You simply scan the items to update your system as they're received in the warehouse and again when they're picked for a customer order. This allows you to process items much faster and eliminates manual data entry errors. You can automate even further with radio frequency identification (RFID) tags that can be read remotely, eliminating the scanning step. This is a more expensive option, but it's an effective way to protect high-value items.

Once items are received into stock, putaway functions can be grouped by zone so your staff make fewer trips throughout the warehouse.

When it comes to picking orders, bin locations in your system tell your staff the exact location to pick from, ensuring they pull the right items at the right time. Similarly, you can incorporate cycle counts into your everyday processes to keep inventory counts up to date without having to interrupt business for a full physical count.

Inventory handling tips

▸ Label every item using barcodes, RFID tags or QR codes to keep accurate inventory counts and fill orders faster.

▸ Determine a counting schedule that works for you (once per quarter or focus on the 20% of inventory that accounts for most sales).

▸ Process all order picking, shipping and receiving before a cycle count to get the most accurate count.

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What is order fulfillment?

Improve order fulfillment

Whether you're in B2B or B2C, today's customers have high expectations. They expect fast, accurate delivery. And the minute you drop the ball, they look elsewhere. Using effective demand planning and inventory control processes ensures you have the right product at the right time. Fulfillment is the other part of the equation – locating the items, picking, packing and shipping the order.

We touched on using bin locations to simplify order picking. But what happens when you have multiple warehouses? Which warehouse do you pick from? Ideally, you'll fill the order from the location closest to your customer, keeping shipping costs down and speeding up delivery. But if you can only fill part of the order from that warehouse, you'll have to do a split shipment, increasing your costs and possibly impacting the customer experience. And if you're trying to do this manually...it becomes much more complicated.

A comprehensive ERP system is critical when you get to this level. Not only does it incorporate strong inventory management and demand planning features, but it will automate a lot of the steps we talked through above. When orders come in, they can be automatically checked against inventory available at all locations and routed to the most efficient location based on pre-defined rules. This allows you to meet customer expectations, without the manual effort on the back end.

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Optimizing inventory processes is a top priority for manufacturers.

Source: CFE Media & Technology, Inventory and Supply Chain Management: Executive Challenges and Best Practices

Simplify inventory management for production

When it comes to the production process, inventory is a critical component that can bring your production line to a screeching halt if not managed properly. Visibility into inventory levels, lead times and expected availability dates becomes even more important when it's feeding your production schedule. Real-time reporting on material availability and shortages help you adjust production plans proactively to keep workers and equipment active.

Here again, an ERP system works in your favor with all inventory and production data in one system. You can allocate parts to work orders or customer orders before you've received inventory to avoid over-allocating components to multiple builds. This level of visibility also helps you prevent unplanned, expedited replenishment orders for unfulfilled work orders.

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Get to know your inventory with the right ERP software

Interested?

As a leading Canadian ERP partner, building the perfect solution to make life easier for your team is what we're all about!

Book an intro call ›

Simple inventory management systems can do the trick for a while. But once you've outgrown them, you'll feel the pain in the form of unnecessary complexity and limited inventory visibility.

While the wrong software is part of the problem, the right software is the solution.

While you could seek out software for each component that we've discussed, an ERP solution is a much better fit. ERP software is built for inventory-based businesses. You get strong functionality for inventory management, demand planning, order management and production to optimize the inventory side of the business. But it goes further than that, tying in sales, finance and service so your entire business is operating in one solution.

Our leading ERP solutions give you clear, reliable answers to key questions about your inventory.

ORACLE NETSUITE   **SAP Business One®**

Plus, you could see benefits like this...

- ✓ 80% fewer stock-outs
- ✓ 30% lower inventory costs
- ✓ 10% higher revenue performance
- ✓ 5% boost in gross margins
- ✓ 55% reduction in time to close the books
- ✓ 36% decrease in decision making time
- ✓ 11% reduction in operational costs

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We sell, implement and support best-in-class ERP software for small and mid-size businesses. We believe putting people first is the best way to make technology work for them. It's a conviction that sets us apart.

The shift to a new ERP system can be daunting and disruptive. But it doesn't have to be. We ease the inevitable uncertainty that comes with an ERP project, helping you transition with the highest level of empathy, consideration and fit.

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