Optimized Inventory Management:

Creating a System for Retail Success

accumula

Table of Contents

Introduction

Efficient inventory management is critical to retail success. But with more channels, more competition, and greater customer expectations, the stakes are higher than ever; 43 percent of retailers ranked inventory management as their No. 1 day-to-day challenge.[1]

It's a struggle to know what products to order, in what amounts, and when, especially as seasons and trends change. Even major brands with all the latest planning tools end up with overstock. The new reality is that inventory is tracked across multiple channels with multiple store locations and online stores.

You need real-time access to accurate inventory—and so do your customers. This access can't come at the expense of other operations or customer satisfaction. Accuracy has to become part of the company culture, not just the sad domain of an unlucky few staffers responsible for reconciling everything. As your business grows, supply chains grow more complex and so does fulfillment, with stock movements between warehouses, storefronts, and customers creating new challenges all the time. You need an action plan.

The new reality is that inventory is tracked across multiple channels with multiple store locations and online stores.

Chances are you have at least one piece of software already that can help your team. If you don't, then good news: You get to pick. Either way, these challenges are so significant that they can hold you back from profitability or expansion—you've got to implement an inventory system that can operate at scale.

Overwhelmed by the size of this challenge? Don't worry. Though inventory management is a common headache for businesses of all sizes, the right mix of tools and strategy can help you get a handle on stock and give you a much better understanding of your business.

In this guide, we'll cover the basic tenets of inventory management as well as next-level steps you can take to be more efficient and profitable.

What Is Inventory Management, and Why Is It Important?

Inventory management is the critical link in the supply chain where inventory and stock quantities are tracked into your warehouses or stores and, hopefully, out into the hands of your customers. Many activities fall under the umbrella of inventory management, even post-sale activities such as managing returns and restocking.

The goal of inventory management systems is "to know where your inventory is at any given time and how much of it you have in order to manage inventory levels correctly."[2] Depending on the design of your retail stack, inventory may be managed by (gasp) a spreadsheet, your ERP software, an inventory or warehouse management system, your point of sale software, or any combination of these solutions.

The goal of inventory management systems is "to know where your inventory is at any given time."

Inventory management has a critical impact on your bottom line. Selling out of a product in your warehouse can tank your sales, especially during peak or high-volume seasons. But having too much inventory can tie up cash flow and other resources.

It's all about striking a balance between risk and reward; you want to understand what inventory you have on hand at any given time and use data to make decisions about whether or not to reorder or mark down what you have.

Improving your inventory management process can also help you:

Avoid aged or dead stock

Maximize sell-through

Save on storage costs

Improve cash flow

Save money

Make more accurate forecasts every season

OK, we've established what inventory management is and what it can do for your business. **Now let's talk about how to master this process.**

Inventory Management Techniques and Strategies

Effective inventory management requires the help of technology that can automate crucial but tedious management processes.

This is where many retailers get their strategy wrong: Approximately 43 percent of small businesses do not track inventory at all or use a manual process to do so.[1]

Relying on manual inventory tracking with spreadsheets puts you at risk of data entry errors, shipping mistakes, and a lack of knowledge about the health of your business. For that reason, you should consider putting software in place to track inventory movement in and out of your business. In many cases, the point of sale handles this and serves as the hub of your inventory management efforts.

Once this software is in place, you can implement inventory management best practices to accurately judge your business performance and improve your bottom line.

Approximately 43 percent of small businesses do not track inventory at all or use a manual process to do so.

Best Practices for Effective Inventory Management

To implement successful inventory management processes, you'll need to do the following:

Create items in your master system before they arrive. Cost of goods sold (COGS) is the top expense for most retailers. Be diligent about entering new items as soon as possible after you order from your vendors and be sure to include costs. This ensures that average costs and profit margins are accurately assigned to your transactions. Without accurate COGS from the beginning, it will be impossible to properly judge the profitability of each item.

Document every inventory movement with a transaction. Always use purchase orders for vendor purchases, transfer orders to move inventory between warehouses and stores, and inventory counts to track variance, damage, and loss. Your master system should also track sales, returns, and exchanges, so you know where every unit is.

Perform regular inventory counts. Too many retailers only count inventory once, at the end of the year. Unseen forces are at work on your inventory all the time: shoplifting, damage, employee theft, and just plain misplacement. Performing inventory counts or cycle counts regularly will help you identify potential loss areas and build confidence in your inventory master system, lowering the chance of oversales and customer service issues.
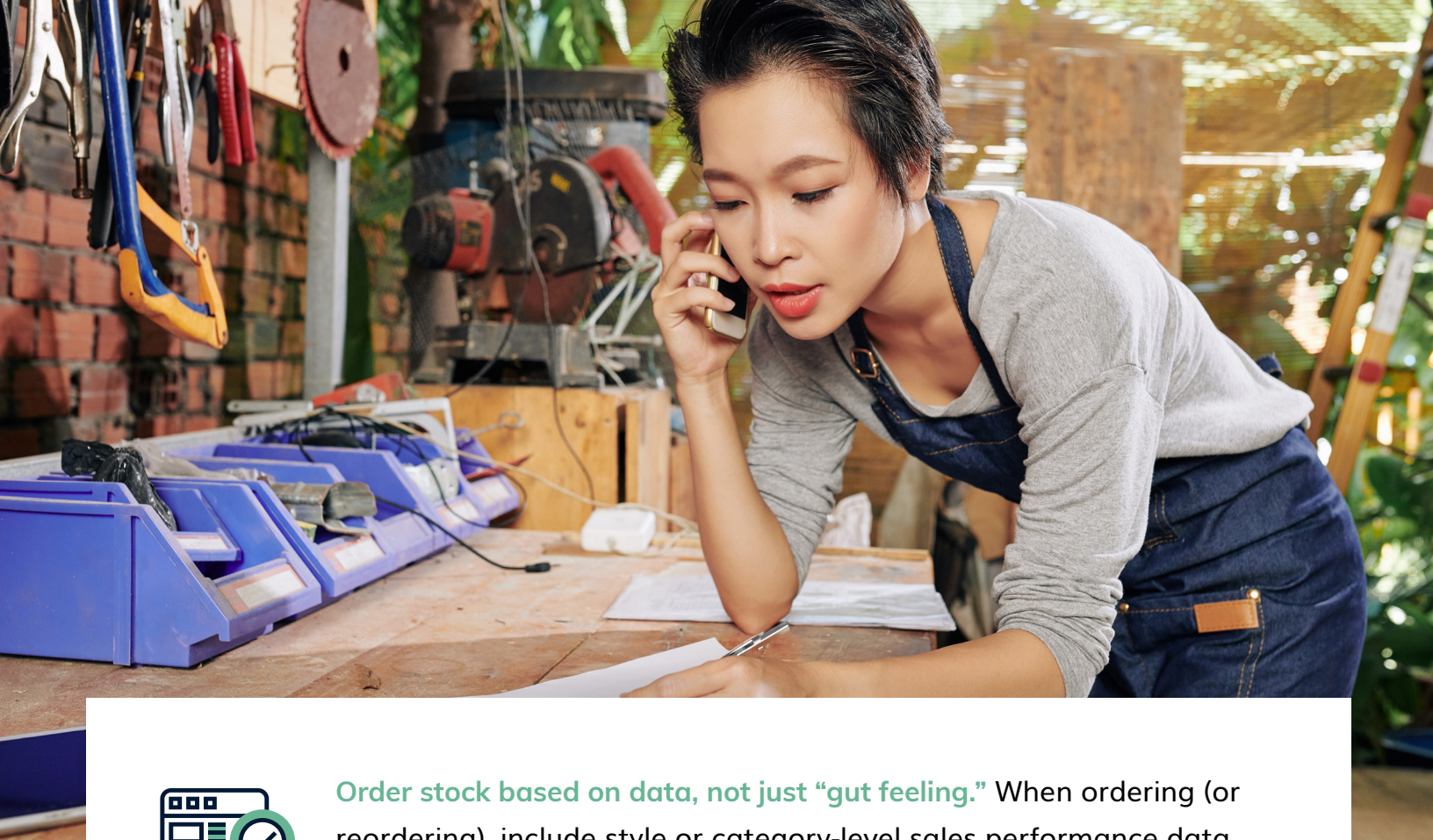
Order stock based on data, not just "gut feeling." When ordering (or reordering), include style or category-level sales performance data in your decision-making process. This will help you avoid emotional buying decisions that can have costly consequences.

Sell-through and weeks of supply reporting can be particularly informative. In fact, many inventory planners come up with their own calculations to drive buying decisions.

Stop adjusting inventory. The ability to adjust inventory can easily be abused as a quick solution to common problems, even by your best employees. When this happens, money could be disappearing from your business. Make sure inventory can only be adjusted by a manager through an inventory adjustment transaction with a reason code assigned to it.

Use discount codes for discounting. Tracking discounts is critical to understanding your sales drivers and item margins. Make sure you use discount codes to track discount attribution and that any manual discount requires manager approval.

Update your item costs on reorders. Many vendors offer special discounts on reorders or bulk buys. Make sure you keep your cost of goods up to date on new purchase orders to keep your margins accurate.

The ability to adjust inventory can easily be abused as a quick solution to common problems, even by your best employees.

Advanced Strategies for Optimized Inventory

Once the basic pillars of inventory management are in place, your business can focus on advanced methods to maximize your inventory. Here are a few customer-facing suggestions to achieve a new level of operational efficiency:

Publish every item you carry across channels. By publishing complete product and pricing info across channels (e.g., in-store, online, and social), you deliver a more consistent shopping experience for your customers, giving them more opportunities to buy. You also eliminate double, triple, and quadruple entry for your employees.

Make in-store inventory available for sale online. Instead of cautiously overstocking a single warehouse or store to fulfill online sales at the risk of selling out of in-store stock too early, consider stocking more evenly across locations. You can include inventory from multiple store locations when listing items as in stock online.

> By intelligently using your stores as fulfillment centers, you increase the stock available for purchase both in-store and online, boosting sales in both channels without purchasing more inventory.

Offer in-store pickup and local delivery. Every sales opportunity makes your inventory more efficient. By offering in-store pickup and local delivery, you increase sales opportunities with coveted omnichannel customers who spend more, more often.

> Apps such as Zapiet can make this customer convenience easy to implement and seamless for the customer.

Promote buy online, return in store service. In-store returns promote engagement with local shoppers, giving your team a chance to convert any return into an exchange at a higher ticket price. Large retailers have trained shoppers to expect this level of convenience. Your staff should be ready to assist by finding something that is a "must-have" for the customer.

By implementing these strategic moves, you can use your inventory management abilities to increase sales, lower costs, and improve the customer experience.

Once the basic pillars of inventory management are in place, your business can focus on advanced methods to maximize your inventory.

Addressing Inventory Management During Peak Sales Periods

During periods of high-volume sales, the need for effective inventory management becomes more urgent.

But the challenges of execution are greater, too. Traffic and volume are higher, and as demand increases, it can also become more unpredictable.

Yet this is also the time when retailers and brands make the bulk of their revenue. Sacrificing performance during peak sales periods isn't an option. You need to have an inventory strategy in place that can handle the added volume and stress that comes with these make-or-break sales windows.

Strategies for High-Volume Times of Year

1 **Make planning a core part of your team's internal meetings** well in advance of high-volume times.

2 **Determine how much stock is needed.**

- Inventory forecasting is essential in preparing for high-volume seasons. Use historic sales reports and other in-house data to figure out purchasing trends, which will result in more informed purchasing decisions.

- Research anticipated consumer spending (i.e., National Retail Federation) and purchasing trends to help ensure you're on track.

- Use an allocation and replenishment tool that considers the days of supply (DoS) available and helps rebalance your inventory, if needed.

- Work with an inventory planning consultant who can utilize strategies such as open-to-buy to recommend markdowns and budget allocations. Management One has a network of consultants who provide this as a service.

3 **Place orders early enough to ensure you have them in time for peak seasons.**

- Consumers are often proactive and start shopping well in advance.
- Don't forget: Your competitors may be ordering similar stock that is in high demand during the same peak sales period.

4 **Have a plan for if/when you run out of certain items.**

- How will you replenish items that become sold out? Possible strategies include:
  ° Reordering stock
  ° Providing alternate suggestions ("You may also like ...")
  ° Transferring stock between locations to maximize product availability across locations

5 **Make returns as seamless as possible.**

- Returns are an inevitable part of high-volume periods, but they offer an opportunity to build and strengthen your relationships with customers.
  ° Make sure you have a clearly communicated return policy.
  ° Make returns easy and quick to create a better experience for customers. During the 2019 holiday season alone, 77 percent of customers planned to return at least some of their gifts.[3] Fast, painless returns minimize the stress of this process for your shoppers, and they minimize the amount of time your store associates have to spend on this process.
  ° Make sure your team understands the returns process and how to manage returned items.

6 **Measure inventory management to evaluate success.**

- Pay attention to key performance metrics, including sell-through rates, inventory aging, and discount rates (how much discounting gets applied to a given product/style during its lifecycle).
- Ultimately, margins will tell the tale of your success.

Peak sales periods, such as holiday shopping and back-to-school shopping, often reveal the strengths and weaknesses of retail operations. No matter the result of your seasonal sales efforts, evaluate your performance to identify ways you can improve your inventory management ahead of the next seasonal rush.

Conclusion

An organized, data-driven inventory is the backbone of any great customer experience. Inventory connects with every aspect of the customer journey, from brand and product discovery to purchasing and returns/exchanges.

Friction-free inventory management helps customers find the products they want, and it helps your business ensure that its stores are able to fulfill customers' desires. At its best, inventory management can lift a burden off of your employees, improve customer satisfaction, and widen profit margins all at the same time. Who doesn't want that?

About **accumu/a**

Today's customer expectations can't be met by yesterday's inventory management processes.

Contact us today to find out how Accumula can make your backoffice more profitable.

CONTACT US TODAY

About Accumula

Accumula unites in-store, online, and backoffice operations so that retailers can focus on their Customers, not their software. By seamlessly integrating point of sale, Ecommerce, digital marketing, ERP, and custom applications, SME and DTC retailers can get closer to their Customers and create brand-defining experiences across every channel.

Sources

1. https://www.repricerexpress.com/infographic-4-top-ecommerce-inventory-management-stats/

2. https://www.bigcommerce.com/blog/inventory-management/#what-is-inventory-management

3. https://www.cnbc.com/2019/12/03/most-consumers-expect-to-return-gifts-this-holiday-season.html