

Accounting talk

12 tips to effectively manage your inventory

As a business owner, managing inventory is like walking on a tightrope. Not having enough inventory means you run the risk of losing sales, while having too much inventory is costly.

Without an effective and efficient inventory management system, you don't know whether or not the next order your customers place, will result in excess stock or a stock out.

So improving your inventory management leads to increased revenue, lower handling and holding costs, and improved cash flows.

You need to manage and control your inventory to reduce your financial risk. If you don't, this could impact your bottom line significantly and reduce your gross profit.

The whole point of your business is to make a profit. This means you must ensure your selling price covers all of your production costs.

If it doesn't, your business is in danger. This is where valuating your inventory by working out the costs comes in.

You may be tempted to just take a rough guess at your inventory costs. This is a big mistake! If you incorrectly cost your inventory, it could lead to financial disaster.

Tips how you can effectively manage your inventory

Inventory management is a combination of time keeping, inventory record keeping and cost calculation.

Here are 12 inventory management tips:

- 1) Too much stock is a high risk for theft, loss or damage;
- 2) Make sure you update your spreadsheet regularly;
- 3) Make sure staff has clear defined rolls and responsibilities in terms of stock management procedures;
- 4) Take regular stock takes and compare this to your inventory on hand;
- 5) You should always investigate inventory differences;
- 6) If there' s regular differences between the inventory on hand and the inventory stock take, then do an in-depth investigation;
- 7) Compare your approach to what other companies in the industry are doing;
- 8) Understand stock costs. This is the most important calculation you will ever do;
- 9) Use budgets;
- 10) Overstocking inventory can also cause cash flow problems;
- 11) Keeping too much stock can mean you run the risk of obsolete or damaged stock; and
- 12) Categorise your inventory in what stock sells the quickest and what stock makes the most profit.

Inventory management is a very important process in your business. Invest time and energy to make sure the process is as smooth and effective as possible.