How to Have the Right Amount of Inventory

The holy grail when it comes to inventory is when you can realize maximum profit by holding the least amount of inventory necessary, while still fulfilling consumer demands and achieving fill rate goals. By doing this, you will reduce the cost of carrying inventory and increase cash flow and profitability.

Sound challenging? Yes, it is. As you know, if sourcing from overseas, in-transit lead times can be long. Merchants may carry more inventory than necessary to avoid stockouts. A product may not sell as anticipated.

But there are steps you can take now to get closer to this sweet spot:

- First, rank your products by revenue and profitability. Then, separate the rankings into ABC categories according to their priority (A products being the highest priority). Sales usually follow the 80/20 rule, where the top 20% of products produce 80% of the sales. By categorizing your products this way, you may realize that you are over-assorted and may move to liquidate excess inventory immediately, saving yourself the carrying costs associated with that inventory.
- Next, determine what level of service you can afford. Because products have been categorized by priority, you can determine which items you will want to continuously have in-stock.
- Use the selling history for a category of merchandise to determine that category's sales curve (this is the percent of sales for each time period of the year, usually a week or month).
- Determine future inventory needs by forecasting demand. To do this, you must have visibility to your sales and inventory levels for each item. By factoring an item's recent sales (perhaps the past 4 or 8 weeks) against the sales curve for its category, you can project future demand. Compare the demand to the current inventory levels to determine when you will run out of inventory. Factor in your vendor lead times to determine when you need to place an order.
- It is imperative to take action to liquidate slow selling or unprofitable items in a timely manner. These items have carrying costs and slow your cash flow. The faster slow-selling, unprofitable products are removed from inventory, the faster they can be replaced by more profitable, better-selling items.

By optimizing your inventory, you can achieve greater profitability and better cash flow. Despite the challenges to achieving Inventory Optimization, it can be done, especially with the right tools in place.

The Sales Analysis and Forecasting App from **[basic-code] ™** can help you achieve the right amount of inventory for your business. Contact us today to find out how we can help!

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