

Prepare to Manage Inventory Differently

By Robert H. Spencer, PhD

Have you gone shopping recently? I don't care where - your local clothing store, department store, supermarket, or hardware store - the story is the same. There is an obvious reduction in inventory across all retail outlets. The selection variety and size options are not like what we had eighteen months ago. While early on this may have led to frustrations, we have become accustomed to limitations now - we don't seem to expect as much. As the shortages continue, buyers will continue to accept fewer options and lower inventory quantities. Over time, this will most likely actually result in higher prices and price stabilization for the inventory that is available because of the demand for a limited supply.

The recent economic crisis has created this game change that many are intuitively unaware of, unprepared for and have not planned for. This game change that has affected how businesses should handle and manage inventory has changed radically, and many do not believe that neither retail nor manufacturing businesses will return to the excess inventory practices of the past. There are several principals driving this:

In the past, buyers were given very large incentives by manufacturers or producers to buy excess inventory at greatly reduced rates in order to justify and maintain high production. You can't have employees idle, so you keep them producing. This leads to unsold inventory, which leads to fire sales! It almost happened without anyone noticing. Outlet stores and Internet bargain sites sprang up over the past decade to handle the excesses that no one wanted to buy at retail. This, of course, drove prices down overall and created the ultimate dilemma of the market. You see, it did not matter if we were discussing groceries, a new car, or a house. The inventory issues were all the same, just to different degrees.

With the collapse of the economy, people were laid off. Understand, employers may not have liked laying off workers, but when the flow of money slowed and then almost stopped, there were no options left. The sad truth is that we are at the point where those displaced workers are in flux as they find new vocations. Recent reports that employment was due to rise soon because of increased temporary employee hiring have proven false. Employers seem satisfied with a core trained and knowledgeable employee base, and then ramping up with temps when demand justifies it. When demand tapers off, so does the temporary work force. This trend leaves analysts to believe that manufacturers will watch demand for product very closely, as well as production runs, and will avoid excess overruns and stocking of uncommitted inventory. "Just in time" is about to be redefined, again.

Buyers - consumers in this discussion- are also changing habits and not buying out of impulse as they did eighteen months ago. There is talk of an actual 79% credit card interest rate for some consumers and high bank interest rates, if a loan can even be obtained, will continue to be with us for some time to come. And eighteen months has been enough to change people's habits.

So, if the premises above are true, and a lot of people think they are, what do you need to adjust and plan for? For large businesses, it will be a matter of utilizing Supply Chain Management principles more fully. Supply Chain Management, or SCM, is an integral part of Enterprise and ERP solutions, but are often overlooked or not implemented properly.

The Small to Medium Business, SMB, wants to utilize SCM as well, but most likely will not have the resources to fully exploit SCM as a larger company would. So SMB owners should focus on Inventory and Purchasing processes to keep inventories lean and avoid unnecessary finance costs.

If you are a small business running an entry level solution, such as QuickBooks, you have a simple business solution without a lot of advanced SCM capability. So how would you use this small business solution to manage your inventory cost of ownership and purchases at a very high level? First, start with how you manage your inventory. We suggest you backup your company file and put it away on a CD or DVD for future reference. Then going back to your company file, begin by removing all Inventory and Non-Inventory items you no longer carry or use that have a zero balance. Assuming your AR is up-to-date, you should not have any issues. If you receive an error that an Item cannot be removed, make a note to come back to it later and continue. Next, make a second pass and review inventory items that have a balance in inventory, but you don't use this item anymore, or it has been on hand for some time. We suggest you weed these out. See if you can sell these to someone else who could use this inventory. Cleaning up inventory items is a good way to stay fresh and make sure you are not carrying inappropriate quantities or maintaining inventory on the books you don't use and which may depreciating or may actually be costing you money to store.

Next step, once you have cleaned up your inventory and eliminated items you do not stock or use, review each product as to its preferred vendor and pricing. If you have not done so, group inventory items by seller (from whom you buy); then continue by exporting the Inventory parts list to Excel, sorting by vendor and item and then determine a vendor of choice with a secondary source. Arrange this spreadsheet so you can send it to vendors you wish to deal with and request pricing for the year to come, based on anticipated usage. Sellers will appreciate the opportunity to lock in a valued customer for a year, and based on your needs, will schedule their own buying habits according to you and other customers they serve as well. Just as you are creating a big picture of your needs for the year, so are they.

One other item you want to know from your seller is availability. We suggest that you lock your seller into not only pricing based on quantities, but also some anticipated delivery expectations. With small business, we do not expect these to be in concrete, because you simply do not buy enough products, most likely, to establish guarantees like larger purchasing agents can demand at Enterprise level companies. But that does not mean you cannot establish a relationship and let your seller know what you are expecting in order to continue to do business with them.

Your purchase decisions will be based on preferred sellers you want to do business with. You have established prices and service levels that you expect. You can track your success by using reports out of your accounting system. Typical reports you should use include Purchases by Vendor Detail, Budget vs. Actual and Inventory Stock Status by Vendor. Review the list of reports available to you from your system under Purchasing and Inventory Management. If you can find the data you want, or you want to create quick custom reports that will help quickly spot trends, remember you can export your reports directly to Excel, and then sort and edit these reports to reveal more informative data. Learn a little bit about the Excel Record Macro function, as this will allow you to quickly create custom reports each month from data taken out of your accounting system.

As you are reading this and considering how you can fine tune your purchasing and inventory methods, remember that your customers may be reading this or similar articles and thinking the same thing. Be prepared to respond to buyers' demands for pricing, quantity and delivery requirements.

We are not coming out of lean times; we may be just headed into them, and not in a bad way. Paying attention to what you use, what you buy, and what your customers want is not only good business, it is the New Normal.

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