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Inventory Management Best Practices

Getting rid of outdated practices to improve inventory management

RAFAEL VELA | Best Practices Series

Definition of *best practice*

a procedure that has been shown by research and experience to produce optimal results and that is established or proposed as a standard suitable for widespread adoption



INVENTORY MANAGEMENT BEST PRACTICES

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Supply chain leaders are continuously looking for ways to improve inventory management and are rapidly getting rid of outdated practices.

The following best practices apply to most organizations, produce great results and enable full visibility of all phases of the material flow process and its relationship with sales and customer demands. These practices help to avoid unnecessary purchases, prevents the formation of surplus, slow moving, dead, and / or obsolete inventory, and opens the door to new efficiencies and better controls.

Best practices:

1. **Ensure that material movements (receptions, dispatches, or relocation within the warehouse) are registered properly and timely in the inventory system.** Inventory cannot be controlled with outdated system information. Always use real-time data.
2. **Do an ABC analysis.** Assign a category to every single SKU in your inventory and set up control parameters for each category.
3. **Do not manage your inventory under the assumption that all products are equally important.** They are not!
4. **Categorize your inventory and establish control priorities.** Remember, not all products in your inventory deserve or need the same control effort. Product rotation, value, and impact on the organization due to not having it determine which products require more attention.
5. **Organize your inventory based on their rotation level.** Products with a high level of rotation should be close to the dispatch area as this reduces the time between pickup and dispatch making the operation more efficient.
6. **Determine the relationship between sales and inventory level.** Adopt S&OP methodology, this prevents high levels of inventory and the formation of slow moving and/or dead inventory due to exaggerated sales forecasts. S&OP is also an excellent tool to analyze material flows, customers' requirements, sales forecasts, and forecast of requirements to put in motion actions to adjust inventory levels.
7. **Leverage technology to understand inventory flows.** Advance analytics capabilities help to understand how inventory flows in and outside of your warehouses.
8. **Automate to reduce the burden on inventory management.** In an increasing business complexity environment due to globalization and other factors, supply chains are unable to manage the increasing flow of information, detect trends, effect risk analysis, and look for ways to avoid problems without automation.

9. **Tackle surplus inventory.** Maintaining inventory is expensive so get rid of what you do not need. Remember, once a product enters your inventory, even if it is free, your organization must invest resources (human and financial) to maintain and control the product until it is gone. Maintaining surplus inventory is a waste of money and a misuse of storage space. The same applies to slow moving inventory, obsolete inventory, etc.
10. **Manage your inventory across ALL physical locations including points of sales.** This will enable you to redeploy inventory if necessary.
11. **Always count your inventory in transit and consider your open and pending purchase orders for products not yet shipped but being manufactured / prepared by your suppliers.**
12. **Count regularly.** Establish a cycle count program. After completion of ABC analysis establish how many times a year you will count your **A** products, your **B** products, and your **C** products and stick to that program.
13. **Measure your operation.** Set a baseline of the inventory situation prior to any improvement action, this is an easy and fast process, then set the proper KPI kit that suits your organization and determine how efficient and productive your inventory management process is.
14. **Determine your cost of holding inventory.** Pinpoint the largest contributors to that cost and take proper action to minimize their impact and reduce your costs.
15. **Train all workers in inventory management best practices.** Do not limit yourself to warehouse personnel, go as far as procurement and sales team. Sometimes even including major customers (internal or external) in training sessions contributes significantly to improve communication, create empathy between teams, and obtain better results in inventory management.
16. **Ensure the inventory management strategy is aligned with other major organizational strategies.** Be sure you are not rowing against the current. Sometimes, more often than one may think, purchasing strategies to secure better prices through volumes or inadequate sales expectations may cause serious imbalances in your inventory and disrupt or impede the balance you are trying to achieve.

Inventory management is a major undertaking in the global, changing economy. Focus on these practices and, if necessary, upgrade your systems and take advantage of the exciting new technologies available today and you will see incredible improvement in your processes and bottom line.

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