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OPTIMIZE YOUR INVENTORY. TRACK IT REGULARLY!

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There is only one thing worse than having too much inventory and that's not having enough.

When you run out of inventory sales go down, customer perspective of your business suffers significantly, your customers go somewhere else to satisfy their needs, you may be affecting a production line or disrupting a scheduled maintenance. **Running out of inventory is always expensive.**

The other side of the coin, having too much inventory, also brings a few issues that impact the wellbeing of any company. When you have too much inventory you are tying up financial resources in inventory surely missing on other opportunities (opportunity cost), chances to increase slow moving or dead inventory levels go up, you may be mismanaging available storage space which in turn causes improper inventory management practices, the risk of obsolescence increases, pilferage is hard to detect, and just the cost of holding inventory is hitting your bottom line very hard. **Having too much inventory is also very expensive.**

It is important for any modern business to figure out how much inventory it really needs.

So, how do I track my inventory and determine the ideal level? In defining the best way to track your inventory I always recommend cycle counts.

I find cycle counting to track inventory very straightforward, simple, and efficient assuming you did your pre-cycle counting homework properly.

In cycle counting you count your inventory periodically, usually several times a year depending on how you classify your inventory. To enjoy the full benefits of a cycle count first you must:

1. Classify (ABC) your products based on movement frequency. For instance
 - a. Products classified as **A** have a high turnover and move once or more every month or every two months.
 - b. Products **B** move once or twice every 4 months
 - c. Products **C** move once a year.

The criteria used to an ABC classification depends pretty much on each company's needs, type of products, etc.

2. Determine the number of counts per classification. You may want to count products **A** every month or every other month, products **B** every quarter or semester, products **C** once a year. How many counts you want to perform depends on several factors:
 - a. Number of SKUs per classification.
 - b. Number of resources available to execute the counting.
 - c. Demand planning and S&OP requirements
 - d. Etc.
3. Make sure all your products have a reorder point and quantity.
4. Ensure that all product movement is registered immediately in whatever inventory system you are using. Same day registry is recommended.

5. Determine your desired customer service level. The higher this service level is, the more inventory your company will require. For instance, a 95% service level means that your company wants to have in storage and readily available what 95% of its customers look for. Increasing this level will undoubtedly increase inventory levels.
6. Know your warehouse location system. You need to know always where in your warehouse the products are stored, or cycle counting becomes a true nightmare.

Tracking inventory on a regular basis does more than help you determine the ideal number of goods to maintain, it also:

- Constitutes the blood of any sound demand planning program
- Exposes bad practices
- Helps identify potential obsolescence
- Points out inventory theft
- Indicates slow and dead inventory on the early stages of the process
- Uncovers theft and fraud issues
- Helps determine the health of the material reception / dispatch system registration process
- Gives you inventory turnover (of all the inventory in general and of each product in particular)
- Allows you to form efficient S&OP teams
- Facilitates forecast on storage space, equipment, personnel requirements for inventory management
- And much more

Managing inventory effectively is a critical part of keeping costs down while still meeting your customers' needs and when you optimize cycle stock and stock levels, you can have a big impact on the profitability and the performance of your entire supply chain.

SCM Consulting Services can provide the expertise, guidance, and solutions to perform diagnostics activities and implement adequate processes to help your organization produce major profits and savings.

Find out how we can help you by contacting us today!

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