



How to Get Inventory Under Control

Uncertainty regarding inflation, demand and foreign tariffs has made inventory management even harder for businesses than it was previously. Although there are many unknowns right now, one thing is generally certain: Carrying excess inventory is expensive. If you'd like to trim your buffer stock and maximize profitability, there are effective ways to do it without risking customer service.

Count and compare

Inventory management starts with a physical inventory count. Accuracy is essential for knowing your cost of goods sold and for identifying and resolving discrepancies between your physical count and perpetual inventory records. An external accountant can bring objectivity to the counting process and help minimize errors.

The next step is to compare your inventory costs to those of your peers. Trade associations often publish benchmarks for gross margin $[(\text{revenue} - \text{cost of sales}) / \text{revenue}]$, net profit margin $(\text{net income} / \text{revenue})$ and days in inventory $(\text{average inventory} / \text{annual cost of goods sold} \times 365 \text{ days})$.

Your company should strive to meet — or beat — industry standards. For a retailer or wholesaler, inventory is simply purchased from the manufacturer. But the inventory account is more complicated for manufacturers and construction firms where it's a function of raw materials, labor and overhead costs.

Guide to cutting

The composition of your company's cost of goods will guide you on where to cut. You may be able to reduce inventory expenses by renegotiating prices with your suppliers or seeking new vendors. And don't forget the carrying costs of inventory, such as storage, insurance, obsolescence and pilferage. Brainstorm ways to mitigate such threats and improve margins. For example, you might negotiate a net lease for your warehouse, install antitheft devices or opt for less expensive insurance coverage.



To lower your days-in-inventory ratio, compute product-by-product margins. You might stock more products with high margins and high demand — and less of everything else. Whenever possible, return excess supplies of slow-moving materials or products to your suppliers.

To help prevent lost sales due to lean inventory, make sure your product mix is sufficiently broad and in tune with consumer needs. Before cutting back on inventory, negotiate speedier delivery from suppliers or consider giving suppliers access to your perpetual inventory system.

Reality check

Right now, many businesses are sitting on strategic stockpiles they purchased to combat marketplace uncertainty. If this is true of your business and you haven't been able to move goods fast enough, you may want to consider new inventory management methods.

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