

# True Cost of Poor Inventory Management

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Inventory management is often touted as the single most challenging aspect of any business. Due to its high cost and endless amount of attention needed to get it right, many companies do just what they need to get by and no more. While this approach may seem the most effective in the moment, failure to invest your time and money into proper inventory management can actually be costing your company more in the long run and adding unnecessary pressure to your daily tasks.

Every year, the average business spends between 25 to 35 percent of their operational budget on inventory costs alone. With such a large chunk of the budget dedicated to inventory control, it would be wise to get it right. In fact, research has proven that businesses with poor inventory management strategies spend higher than the average business on inventory costs, leading to smaller profits and greater chances for going bankrupt in the near future. However, according to Microsoft's Midsize Business Center, by simply being more diligent with inventory handling, most businesses could potentially decrease their inventory costs by as much as 35 percent.

In today's day and age, it's getting harder to keep a business afloat. A recent study performed by the SCORE Association, an organization partnered with U.S. Small Business Administration, revealed that an estimated 44 percent of new businesses survive at least four years. After seven years, the numbers drops drastically to 31 percent. While there are a variety of factors that can contribute to this reality, studies have revealed that poor inventory control is one of the top eight reasons new businesses fail every year.

How's that for a dose of reality?

## **Identifying the Symptoms of Poor Inventory Management**

The signs of poor inventory management are hard to miss. In addition to high inventory costs, companies with poor inventory management often experience:

- Pricing errors
- Congested warehouse floors
- Large year-end write-offs
- Production shortages
- Shipment delays (resulting in having to spend more money to overnight items)
- A significant amount of slow-moving items in stock

- Poor customer satisfaction rates (often due to shipping errors or delays)

These shortcomings are often blamed on the company's software system (or lack thereof). Because most companies do not have a person directly responsible for managing inventory or inventory-related issues, employees don't know who to blame for the problems they are experiencing. This results in low employee morale, frustration with the broken inventory system, and a potential loss of customers to competitors who know what they are doing when it comes to inventory management.

### **Uncovering the Underlying Problem**

So what causes poor inventory control? Is it just a lack of responsibility in management, or is there more to the story? Mismanaged inventory is typically a direct result of poor technology systems and misinformed staff. When your staff is not informed about the high-selling and slow-moving products, they will continue to make mistakes ordering, resulting in costly understock and overstock situations. While inventory control software can certainly provide your staff with the correct numbers and give them a nudge when it's time to reorder certain items, if it's not working correctly it's not doing your company any good. Many businesses who are operating on old or outdated inventory management software know this to be true.

### **The Cure for Poor Inventory Management**

Solving inventory troubles is not hard; it just requires a little bit of work on your part. First, you need to identify company strategies affecting your inventory situation and review your forecasting strategies, modifying where you see fit. Next, you need to take an honest look at your ordering situation and review the items you have on hand. Review the scheduling and order change process, and identify areas that could use improvement. Finally, you should review and measure the accuracy of your inventory data to ensure you are operating on the right numbers and facts.

Once you've reviewed all of the aspects of your current inventory management situation, it's time to take an honest look at the tools and technology you use to monitor inventory levels and exercise inventory control. Pairing barcoding technology with an innovative inventory management solution is critical, as both can provide you with real-time data and analytics to make the right inventory decisions. From there, you can develop new inventory policies and procedures that clearly define inventory management roles and responsibilities within your organization.