Inventory Management Checklist

Effective inventory management is essential for having the optimum amount of stock on-hand, whether you sell to other businesses or to consumers. Having more stock than needed can negatively impact cash flow and increase storage costs. At the same time, a lack of stock can result in lost opportunities when you can't meet customer demand and they look for alternatives.

Here are a few tips that can help you get the balance right when managing your inventory.

☐ Categorise your inventory by cost and sales volume

Most businesses will be able to categorise their inventory by cost and sales volume. For example, higher-priced items will tend to move slower than lower-priced items. You can categorise your inventory into groups.

Product Category	Price	Product Turnover
A	High	Slow
B	Moderate	Moderate
C	Low	High

For example, A, B and C. High-cost, low-volume products go into the A category, moderately-priced products go into the B category, and low-priced, fast-moving products go into the C category. Categorising your inventory this way will help you understand which items you need to order more frequently and which items have a larger financial impact but move more slowly.

☐ Track sales volumes of your products

Keep track of weekly and monthly sales of each product. When you analyse long-term sales data, you can spot trends that will help you manage your inventory. With this analysis, you can determine if there are weekly, monthly or seasonal fluctuations. For example, a retail gift shop will want extra inventory for the busy Christmas season or a school supply wholesaler will want extra stock to get ready for back-to-school sales. Checking historical sales data is an effective way to prepare for these seasonal fluctuations.

☐ Set par levels for your products

When you have completed the previous two steps, you will have a clearer picture of what you should have on-hand. Par levels are the minimum amount of products you consistently need to have in order to meet customer demand. When you reach a par level, it's time to order more of the item. The amount you order should be enough to get you above the par level and meet demand.

☐ Follow the 80/20 rule

It's often the case that 80 per cent of your profits will result from 20 per cent of your products. Look more closely at these products. How many do you sell in a week, month or year? Are there times of the year when you sell more items? Once you have a good understanding of these products, ensure that your inventory control for them is effective.

☐ Conduct regular inventory audits

Although many businesses use software and warehouse reports to keep track of inventory, it should be confirmed with audits. These include conducting a complete inventory audit at the end of the financial year to compare it with your records. Spot checks throughout the year can also be an option when it's too challenging to check all inventory at the end of the year. These aren't scheduled and can focus on inventory that's fast-moving and contributes more to the bottom line.

☐ Implement an inventory management system

In addition to software, an inventory management system includes staff processes and procedures to monitor and maintain inventory. While accounting programs such as Xero and MYOB have inventory management features, they require processes, procedures and hardware, such as scanners, to implement a complete inventory management system. With cloud-based software, employees can use the system at different locations and with any device.

☐ Be consistent in how you receive and send stock

This follows from the previous point of setting up processes and procedures for inventory management. If each employee has their own way of doing things, the small inaccuracies will add up over time. To avoid this, make sure employees follow standard procedures for sending and receiving stock. For example, when receiving stock, have procedures for receiving boxes and pallets, verifying and counting quantities, and checking the accuracy of paperwork.

☐ Look at the performance of your suppliers

Unreliable suppliers can wreak havoc on your inventory management. If a supplier is often late or short on the quantities ordered, it's time to have a discussion with a supplier about the issues and find a solution. If a supplier doesn't improve, it's time to look for alternatives if you don't want to run short of inventory and disappoint your customers.

☐ Get finance to purchase inventory

There are times when a business will need inventory but doesn't have the funds to make a purchase. For example, a gift basket business will need to purchase a large amount of stock to create gift baskets before the busy Christmas season. Although the business will receive a large influx of cash after the baskets are ordered and delivered, there will be a gap of several months between when gift basket items are purchased and payments are received from customers. A business loan is a quick and easy option for financing inventory purchases. Use our Inventory ROI Calculator to estimate your return on investment from purchasing inventory.