Operations

Stock & Inventory

MANYRIVERS

Business Foundations

Topics covered:

- Inventory & Cashflow
- Working with Suppliers
- Stocktaking
- Tools for Managing Your Inventory

If your business involves producing or supplying products, managing your stock and inventory is a key part of keeping the business happily humming along. But there are other ways that managing your stock and inventory can help your business, including improving your cashflow, reducing your costs and understanding what products your customers want and when they want them.

Inventory & Cashflow

Holding an inventory can tie up a lot of cash, so you've got to be careful not to waste money by holding too much stock, or lose money by not being able to fill orders for your customers. That's why it's really important to factor inventory into your cashflow management. How much stock you have affects income because you have to have it to sell it and it also affects expenses because you have to buy it in the first place.

To put it simply, better inventory management leads to better cashflow management - you don't want to risk losing sales which would mean losing income, and you can plan for how much extra you need to buy in the future by setting aside the cash you'll need.

Working with Suppliers

Good inventory management also means being able to adapt quickly, so it's absolutely crucial to have a good relationship with your suppliers. You might need to restock a fast seller, return a slow-moving product to make room for a new item, troubleshoot manufacturing issues, buy new ingredients or negotiate lower minimum quantities.

It's not just about being friendly - it's about clear, proactive communication. Let them know if you've got a busy time coming up so they can adjust production, and ask them to keep you posted if an item is running behind schedule. Make sure you honour their payment terms. If you're a good payer, a supplier is likely to go out of their way to help if you need it.

Watch the full video:
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Doing a Stocktake

Good inventory management also means you need to do a regular and accurate stocktake. Most businesses do it annually. Although it can be disruptive to the business, a physical count of each item is a must.

Here are some basic rules to follow:

- Create a list of your inventory with a description of each item and the current quantities of each.
- Organise each product or range and work through each one before moving on to the next.
- Count each item in your inventory list twice to make sure it matches the number you expect to have.
- Go through any damaged or returned items and record the reason they were damaged or returned.
- Do a recount if you need to.
- Update your inventory list with the new amounts.

It is also helpful to do regular spot checks during the year on fast moving items or ones where your supplier has stocking issues. Make sure you file your stocktake documents in your recordkeeping system.

Tools for Managing Your Inventory

Tracking Sales

Once you know how much of each item is in stock, make sure you track your sales and update your inventory totals daily. This gives you useful data you can analyse:

- Is there a particular time when some items sell quickly or drop off?
- Is it seasonal?
- Do some products regularly sell together?
- Is there a certain day of the week you sell more of one particular item?
- Do new menu items need new ingredients?

ABC Inventory Analysis

Another way to analyse your inventory is through an ABC report. ABC inventory analysis is a method used to classify a business's stock items into three categories – A, B and C - based on their value to your business.

"A" classification items are very important and sometimes business critical. These typically have a high value or are used/sold in large volumes.

"B" classification items are important, but less important than 'A' items and more important than "C" items. These are typically mid-range in inventory value and demand.

"C" classification items are the least important. Typically, they have a low inventory value.

You'll want to make sure that you always have "A" items on hand so you don't miss out on sales. Your "C" stock tends to be slower moving, so you might want to discount it from time to time to free up cash from your inventory. As a general rule 80% of your revenue comes from 20% of your stock lines, so make inventory management a priority - get to know their complete sales lifecycle and closely manage them. Remember, these are the products that make you the most money.

F I F O – First In, First Out

Another rule of good inventory management is F I F O (First In, First Out). Stock should be sold in the same chronological order that it was purchased. This is important if you're selling perishable items, like food or flowers, but it's also good for non-perishable items which could be damaged while sitting around or could go past their use by date. The best way to practice F I F O is to stock new items at the back of the shelf, so the older items are up front and ready to go.

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Par Level

Par Level is the minimum amount of each stock that must be on hand at all times. When your inventory dips below that par level, you know it's time to order more. Ideally, you'll order the minimum amount to get you back above par. Make sure you take into account how fast a product sells, and how long it takes for the supplier to restock.

If your business has grown or is growing, it's worth looking into inventory management systems. When you're small, you can get by with spreadsheets and notebooks, but the bigger you get, the greater the risk of your stock getting out of control. There are a few different systems out there, so make sure you do your research and work out what system might be right for you.

Many Rivers has a team of business coaches that can help answer your stock and inventory questions.

The team can help you establish strong stock and inventory management processes that are right for your business, so get in touch with us and ask for help.