MYOB Exo

PARTNER

How do you maximise profitability from your inventory?

Distributors often simultaneously suffer from conflicting complaints concerning their inventory. They have too much of the wrong products and not enough of the products necessary to provide a high level of customer service.

How do these inventory challenges affect corporate profitability?

With improved visibility into supply and demand, businesses can make critical decisions about where to reduce inventory and still maintain the highest level of customer service. Integrated inventory planning tools provide the forward-looking data and intelligence that allow businesses to be proactive about the future instead of being reactive based on the past.

- Dead stock does not provide a return on investment
- Money invested in excess inventory is not available for other opportunities to earn profits
- Stock outs result in lost profits since customers' requests for products cannot be filled
- Inefficient warehouse operations require excessive labour and equipment.

How do these inventory challenges affect corporate profitability?

When investors buy shares of stock in a company, they do not earn a profit on their investment. It is only when they sell the stock for more than they paid that a return on their outlay is realized. In the same way a distributor does not earn profits until purchased material is resold to a customer at a price that is higher than its cost.

Dead inventory is comprised of stocked inventory items that have had no sales within a "reasonable" amount of time. The impact of dead stock on a company's return on investment can be devastating and it is certainly worthwhile for companies to focus on reducing dead stock.

What is the value of your inventory that has had no sales for 12 or more months? How much would your return on investment increase if this "stuff" was not in your warehouse?

It is common to deal with dead inventory "after the fact"- that is, to try to liquidate non-moving inventory for as high a "salvage" value as possible. But it is far more effective to prevent "dead inventory" from arriving in your warehouse. Some people are surprised to learn that a lot of dead inventory is "dead on arrival."

It is comprised of leftover quantities of the initial shipment of a new stock item. This phenomenon is commonly caused by several factors:

Leftover quantities of special order items

If you have to order more of a non-stock product than your customer is willing to buy or pay for, you end up with leftover inventory that will significantly reduce your profitability on the non-stock sale or even cause you to lose money.

Ignored customer specific inventory

Many distributors stock a product specifically for a single customer. Often distributors don't realize that a customer has stopped buying one of these items until physical inventory time when someone asks, "When was the last time XY bought some of this stuff? We have a lot of it on the shelf."

It is expensive to maintain inventory for the exclusive use of one customer. The product must be purchased on a regular basis in amounts the customer agreed to buy. It is critical for distributors to review the stock status of all customer-specific inventory at least once a month to avoid the possibility of this material silently dying on the shelf.

Leftover quantities of obsolete products

Introducing new products is exciting. Often the remaining inventory of items made obsolete by the new product is overlooked. When this old inventory is finally discovered, the only way to liquidate this stock is to sell it for scrap value.

As part of your policy for introducing new products, be sure to insist on a plan for liquidating the remaining inventory of any obsolete stock. The longer obsolete inventory remains in your warehouse, the less likely it is that you will find a buyer that has a practical use for the material.

Don't over emphasise on gross margin

"We have to buy a larger quantity to get the lower unit cost; we need the higher gross margin." Have you ever heard this statement in your organization? Many companies focus on maximizing their gross margins.

Sales management probably knows their current gross margins and gross margin goals better than they know their spouses' birthdays. But is it proper to place this much emphasis on gross margin? Is it a true measure of corporate profitability?

Many distributors are surprised to learn that inventory turnover is as important to overall corporate profitability as gross margins.

An integrated inventory management solution can help you to get the insights to be able to make informed decisions, so you can streamline processes and optimise your inventory management to not only stay competitive and efficient but to make sure that you free up working capital where possible.

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