KORONA POS
BY COMBASE

HOW TO MANAGE INVENTORY IN RETAIL

A Complete Guide to Modern Inventory Management

INDEX

HOW TO MANAGE INVENTORY IN RETAIL:

A Complete Guide to Modern Inventory Management

Retail inventory management has transformed into much more than a necessary accounting task at tax time. The right system for your business will be integrated into your daily operations. You will find your data to be much more accurate, with a customized list that updates in real-time to reflect sales throughout the year.

1 Modern Inventory Management Tools Available Today

Modern inventory management systems makes monitoring retail activity a breeze, saving you valuable time. The right retail POS system records every item and tracks its progress from supplier to customer. With easily accessible reports, it provides an overview of sales. It can also give a detailed account of which items sell well and which are not moving, even making suggestions for action with certain products.

Your POS solution frees up admin time with notifications about when to restock your best sellers or perhaps clear out an item that is not moving. It tracks the variation of sales by many different metrics, making your business and profits more predictable. The right POS will take the guesswork (or hours of painstaking analysis) out of your business operation.

Notifications

- Set up notifications for restocking best sellers or taking action on slow moving products.

ABC Retail Analysis

- Break down products into three categories to determine your most profitable and least profitable products with recommendations for action.

Multiple Product Codes for Tracking

- Scan products into your inventory via barcodes. Assign container quantities and special pricing to each code without having to duplicate your items or recount anything.

Automatic Reordering

- Set up your system to place orders automatically at certain par levels. Optimize reorder levels based on trends, history, and seasons.

Consolidated Product Database

- Make transferring items, changing prices, and opening new locations easy by only having to manage one product catalog.

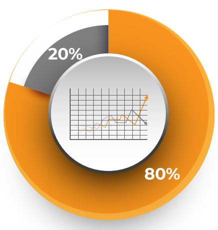
2 ORGANIZE PRODUCTS THROUGH YOUR RETAIL POS SYSTEM

When inventory is received it is important to get it on the shelves as quickly as possible. Inventory kept in boxes simply doesn't sell. But it's equally important to add new products into the inventory system before receiving. Too often, owners or managers classify new products into existing, but inadequate, product categories.

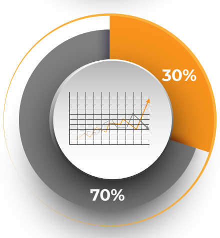
For instance, a liquor store might receive a new craft beer. They have existing products from the brewery but not for this particular beer. Rather than create a new product in their system, they might just categorize the new beer into one of the current categories. This only leads to confusion and poor inventory down the road. When you place orders of new products, add them to your inventory database prior to receiving the items. This speeds up receiving and prevents mistakes.

You've probably heard of the 80/20 rule, or Pareto Principle, at some point. At its simplest, the principle states that a small percentage of a given group will account for a majority of total production. For instance, the wealthiest 20% of a population might control 80% of the total wealth.

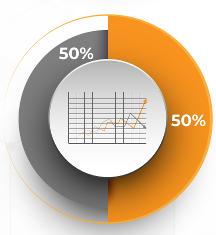
The retail world is no exception to this rule. In general, a vast majority of sales come from a much smaller group of customers. Additionally, this majority of profit typically comes from just a small percentage of total profits. Retail analysts have divided a hypothetical business's products into three categories: A, B, and C.



A items consist of 70-80% of total sales but only 10-20% of total inventory



B account for 15-25% of sales and 30% of inventory



C products only provide 5% of total sales but control 50% of inventory

The strategy has been aptly coined ABC retail analysis.

Category A products are your money makers. They bring in the most profit while costing you fewer resources

Category B products are right in the middle – they don't bring in the majority of sales but they don't cost your small business too much either

Category C accounts for little of your total sales, but takes up a much larger percentage of resources.

3 USE RETAIL KEY PERFORMANCE INDICATORS

The retail industry is one of the most competitive in the world. A successful business must constantly analyze what might make them grow. By keeping up with trends around your niche market, and also considering your business specifically, one must take a holistic approach to improve a company's performance. Each factor is often described as a key performance indicator, or, KPI.

GROSS MARGIN INDICATOR

This KPI measures gross profit as a percent of gross sales. In other words, it takes the cost of goods sold (COGS) into account.

How it's useful: It helps determine reasonable markup prices. Adding additional factors into the equation – locations, categories, times – can provide even more insight into a business's ideal strategy.

RETAIL SELL-THROUGH RATE

Divide the total number of a certain item sold by the stock number you had on-hand at the beginning of a given period. Just multiply by 100 to turn the result into a percentage. For instance, if you have 500 items and sell 300, your sell-through rate is 60%. It's important for you to decide a useful time frame to use when measuring this – this will vary between different business types.

How it's useful: Such a metric is key for seasonal ordering and marketing. It's important to order accurately throughout the year, and fluctuating sales by period make this difficult. So, like most KPIs, it's helpful to have a substantial history for purposes of comparison.

INVENTORY TURNOVER RATE

Total sales / average inventory on hand = inventory turnover rate

Ideal inventory turnover rate is between 2 and 4

A ratio below this level means that items are staying on your shelves too long.

A ratio above this level may mean you are purchasing products in lower quantities than optimal, leading to higher shipping costs and perhaps out-of-stock products.

How it's useful: This metric is most useful for identifying ideal par levels on your inventory. Being short-stocked and over-stocked are equally damaging to most businesses, so getting it right is critical.

GROSS MARGIN RETURN ON INVESTMENT

GMROI, for short, tells you how much your profit was based on the amount spent on inventory. So if you sold $100,000 in product and your inventory cost was $50,000, your GMROI would be 2 (you earn $2 for every $1 invested in inventory). This indicator gathers information on both individual products and inventory as a whole. Careful investigation of the GMROI makes it easy to determine which products to push and where to place them in your retail space.

How it's useful: There are industry standards for GMROI, so this is a simple and tangible way of hitting benchmarks. Look up what an optimal GMROI is for your retail niche and let it optimize your inventory and ordering.

Understanding which KPIs are most important for your business to track is the first step. But you also need the right software to break down your sales and data. Even many small businesses have thousands of transactions and vast inventory counts, making it, at best, unrealistically time-consuming to analyze all of this by hand.

Your retail point of sale software must be capable of presenting this data to you automatically in understandable and digestible ways. Considering each of the retail KPIs listed here, imagine how much easier business operations would be with a POS analytics and reporting that can compute each of these with a click of a button.

4 TOOLS AND TECHNIQUES TO AVOID OVERSTOCKS, OUT OF STOCKS AND IRREGULARITIES

SCAN YOUR STORE'S INVENTORY

In addition to categorizing accurately, scanning inventory as it's delivered is also helpful. It more easily allows you to compare your received inventory to your ordered inventory. This will minimize incorrect product drops from distributors, another common cause of poor inventory management and product stockouts. Scanning in-stock receipts can also prevent the common issue of receiving items under a different inventory name. Ultimately you will be using the same SKU number to prevent duplicates from messing up your counts.

SAFETY STOCK ORDERING

This technique involves carrying a bit more stock than you might anticipate selling through. This is commonly used to protect against stockouts, and is a great strategy for retailers who have a bit of extra space and cash on hand.

It's also wise if you have issues with an unreliable vendor, uncertainty of future availability of a certain product, or an unpredictable season approaching. Ideally, you don't want to ever over-order, and your point of sale inventory management is meant to protect you against this, but there are times when it makes sense.

MINIMUM ORDER QUANTITY

Many suppliers and vendors set minimum order standards for each item that they carry. This helps them keep the costs down when merchants order products wholesale, but means that business owners must order a certain amount each time.

Typically, more inexpensive items will have higher minimum order quantities. Again, this allows wholesale merchants to sell items at a cheaper rate. This, of course, is to the retailer's advantage, but it's important to be careful not to over order and leave your store with a stock surplus.

ECONOMIC ORDER QUANTITIES

Also commonly shortened, EOQs try to find the perfect balance between going out of stock and being overstocked. The formula for implementing EOQ control is hard to devise and based on a number of factors, including cost of production, rate of demand, annual sales, ordering cost, carrying/storage cost, and order quantity.

VENDOR RELATIONS AND AUTOMATED ORDERING

It's important to maintain a healthy relationship with all vendors. Late orders, missed payments, or other frustrating behavior can strain your vendor relations and hurt your business.

Having your vendor relations built into your POS software makes this much easier and pain free. You can set stock notifications to alert you to place an order or just have your POS do it for you with automated ordering.

JUST IN TIME INVENTORY CONTROL METHOD

This method, often shortened to JIT, lessens the amount of inventory that a business has on hand at any given time. Instead, it tries to order products as needed, waiting until the last minute to receive new inventory. This keeps storage space and cash flow at healthy levels.

This method won't work for all retailers, especially if your delivery times are lengthy or you have large swings in in-store traffic, but it's a popular option for businesses that manufacture some or all of their products.

DROPSHIPPING INVENTORY

Dropshipping cuts you out of the inventory and delivery equation entirely. You simply serve as the facilitator of the transaction, while the product is shipped from a manufacturer or wholesaler directly to the customer.

Arguably, since you don't even have to deal with the inventory, this is the most efficient system of them all!

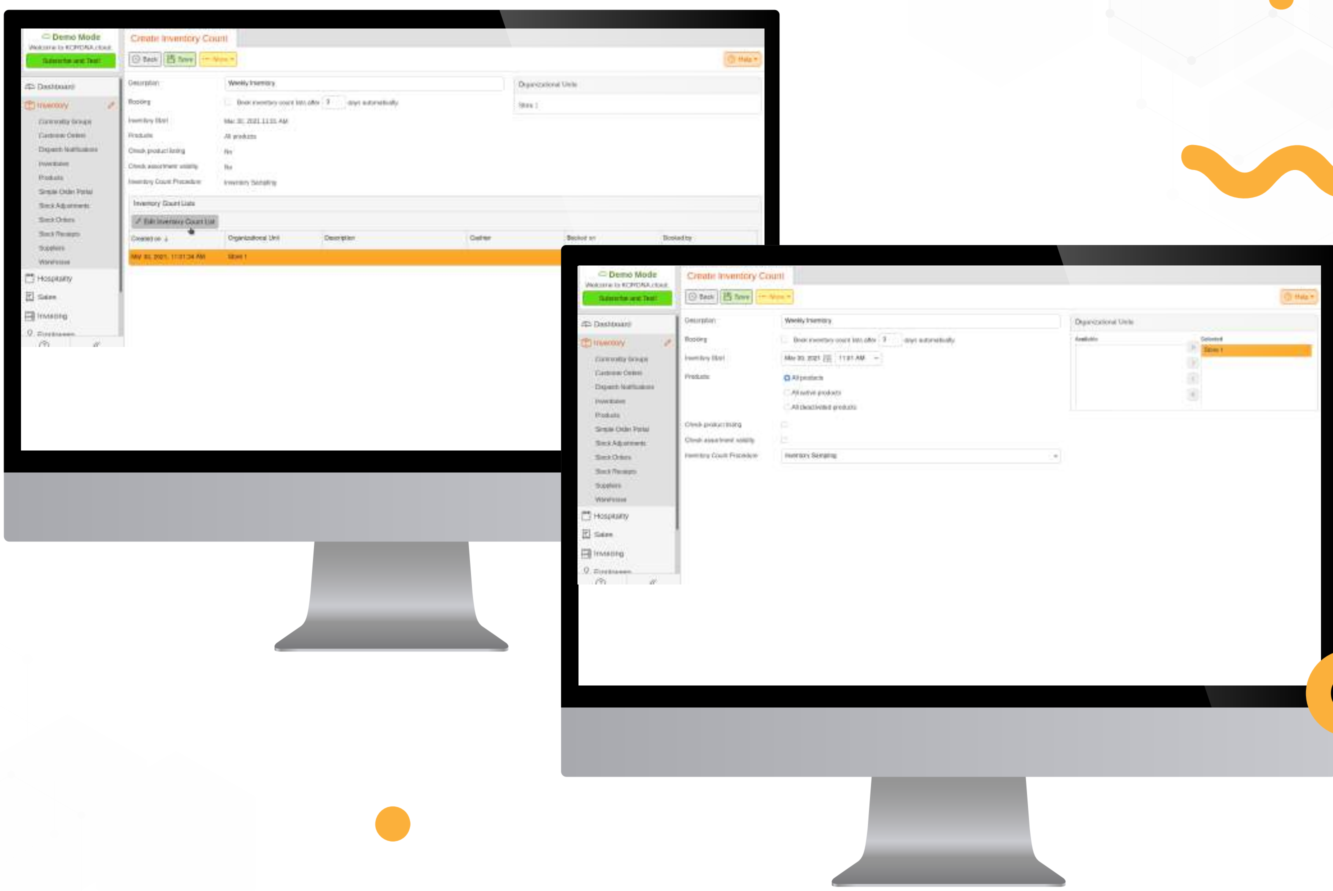
Most estimate average overstocks to cost about **a quarter** of the original value of the item.

5 MONITOR YOUR INVENTORY CONSISTENTLY AND USE PERPETUAL COUNTING

Most sources advise that retailers count their entire inventory at least once a year. But if you have a large number of products, this can be a monumental task. In fact, many retailers even close down their store to perform this.

However, you can count your entire inventory multiple times per year without doing it all in one shot. Modern inventory management offers a perpetual inventory count software.

You simply select certain days of the week you want to count your inventory and the software will calculate how many items you need to count on that particular day in order to count every single item in your store at least once a year. This allows you to perform manageable counts throughout the slow hours of the day or week and make accurate inventory tracking part of a manageable routine rather than a nightmare once a year.


Demo Mode
Create Inventory Count
Dashboard
Inventory
Hospitality
Sales
Invoicing
Weekly Inventory
Inventory Sampling

8 BENEFITS
OF PERPETUAL INVENTORY COUNTING

01
It allows for proaction - You'll have a better understanding of your inventory and make decisions beforehand rather than be reactive.

02
Great for multi-location retailers

03
It's centralized - A single system for all locations, brick and mortar stores, and eCommerce.

04
More informative - Offers more actionable advice to help forecast trends.

05
Reduces storage space - Better inventory management means better storage management

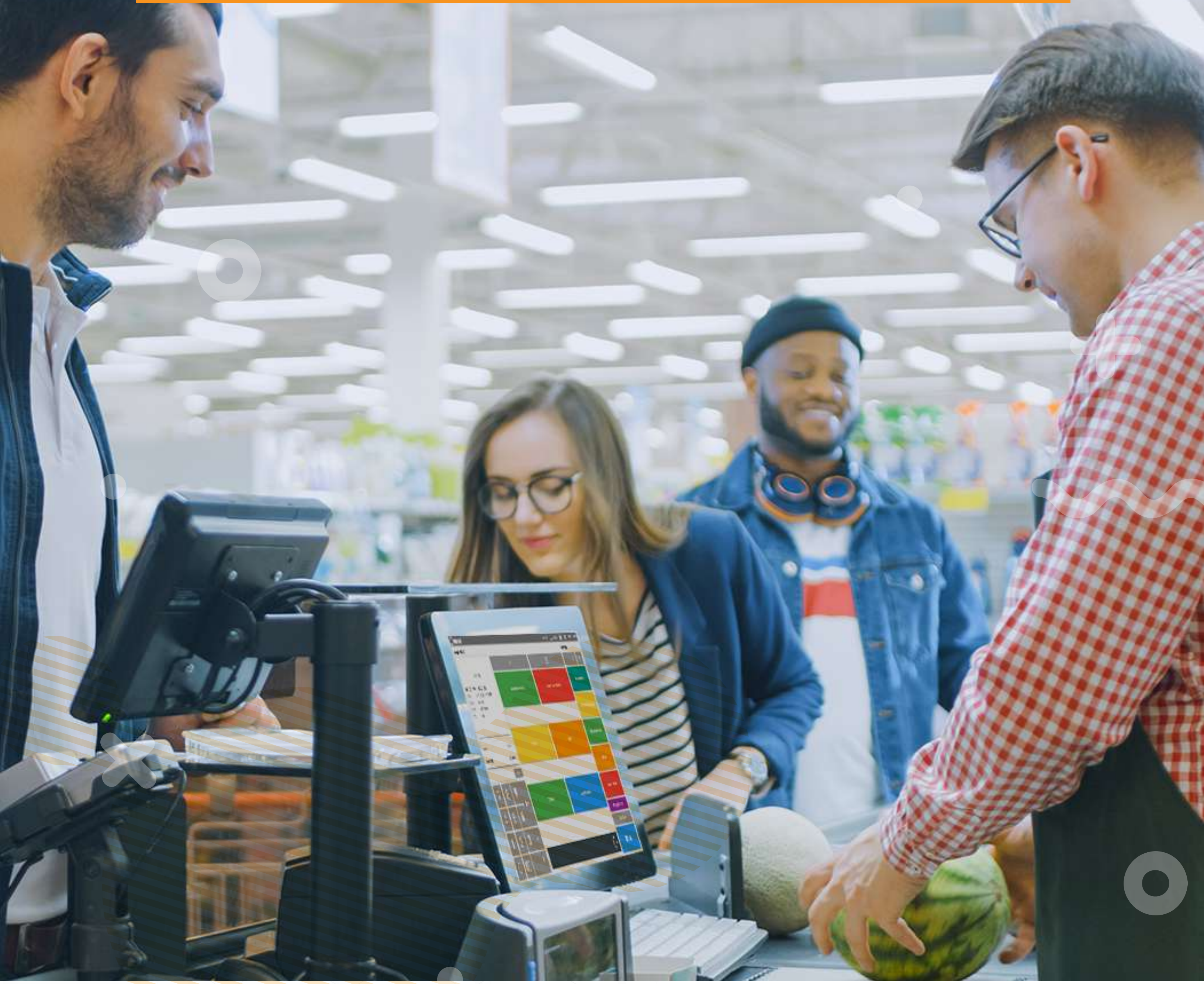
06
Helps identify theft or other shrinkage - Real-time inventory reports and tracking catches theft and loss

07
Increases cash flow - Smarter ordering means better cash management

08
Offers immediate feedback - Optimize products and pricing quickly to maximize revenue

CONCLUSION

Retail Inventory Management has quickly revolutionized as inventory and sales are too vast to allow you to strategize by hand. Invest in an advanced inventory management software for long-term sustainability and profitability.



IMPROVE YOUR INVENTORY MANAGEMENT AND NCREASE PROFITS.

KORONA POS offers a robust **inventory management software.**

Our software has been designed with inventory in mind, making it intuitive and thorough and offering a range of additional reports and analytics for your business. It’s one of the most challenging aspects of running a business, but also one of the most critical.

Business owners can try out KORONA POS for free with no commitments. A dedicated account manager will transfer your product information into your account and walk you through each of the many features available. **Start your free trial today!**