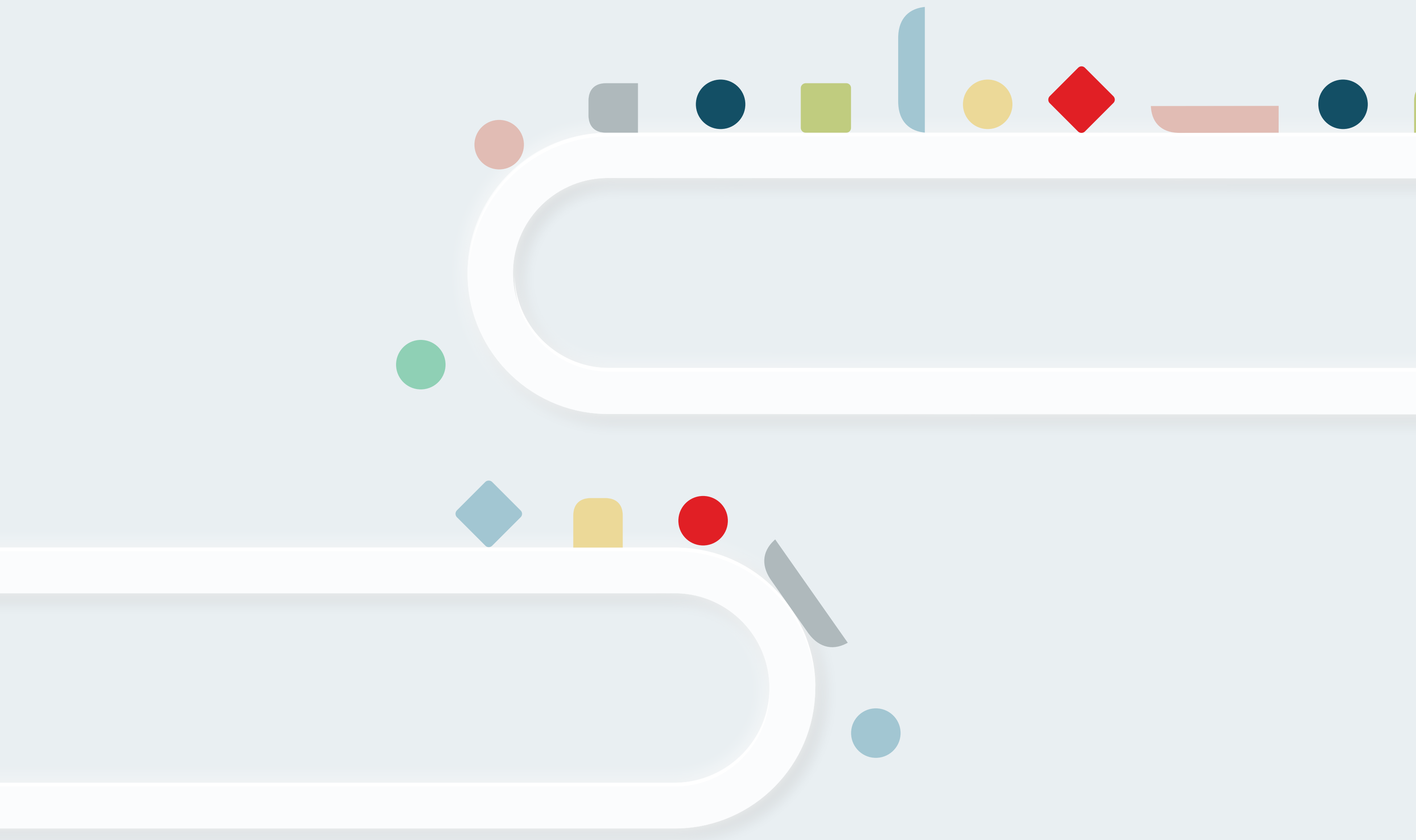
Seven Costly Consequences of Inventory Mismanagement

(Plus Seven Tips for What to Do About It)



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Introduction

In the fast-paced world of distribution, maintaining an efficient inventory management system is essential for long-term success. However, amidst the relentless demands of operations and growth, many distributors unwittingly mismanage their inventory. From overstocking to inadequate tracking methods, this can wreak havoc on a company's ability to deliver a stellar experience for customers as well as to the company's bottom line.

At the end of the day, ineffective inventory management can lead to a wide range of internal challenges, poor practices, and hidden costs. If you don't understand the issues, you may face expensive problems. For example, if you can't calculate inventory value and turn rates, forecasting and fulfillment become difficult. You're either over- or under-stocked, which impacts your turn times and ultimately your cash flow.

Read on as we explore the impact of poor inventory management, what you can do to improve your processes, and how the right technology can assist you in overcoming these challenges.

Can You Locate Your Inventory When You Need It?

Your single biggest investment – the inventory in your warehouse – is at the heart of your company. Effectively managing your inventory plays a critical role in the success of your company.

Why do so many distributors find it hard to manage inventory? A survey conducted by Modern Distribution Management (MDM) found that 71% of respondents recognized that their inventory practices required attention. This statistic underscores the ongoing challenges faced by distributors to make accurate forecasts, determine the right amount of inventory to keep, and avoid situations where inventory and demand are out of balance.

71% of distributors surveyed

reported that their inventory management practices needed work

Source: MDM Inventory Benchmark Survey, 2022.

The Seven Costly Consequences of Mismanaged Inventory

When you hear the term "mismanaged inventory," you may think of having too much inventory on hand or not enough. But there are other hidden costs that you should be aware of—and have a plan to mitigate these costs.

1 Low Customer Satisfaction

When inventory is mismanaged, it can lead to delays in fulfilling customer orders, which leads to dissatisfied customers, damage to your brand reputation, and potential loss of future business.

2 Revenue Loss

Poor inventory management can result in missed sales opportunities due to stockouts or insufficient stock levels. This negatively impacts revenue and hampers your business growth.

3 Limited or Erratic Cash Flow

Inefficient inventory management often leads to excessive capital tied up in stock. This restricts your cash flow, hindering the ability to invest in other areas of the business or take advantage of new opportunities.

4 Overstock and Deadstock

Overstocking ties up valuable resources and increases carrying costs—including storage, insurance, and potential obsolescence. Deadstock, on the other hand, represents inventory that becomes obsolete or unsellable, resulting in significant financial losses.

5 Inaccurate Demand Planning

Failure to accurately plan for demand can lead to inventory imbalances. You may struggle to meet sudden spikes in demand or be left with excess stock during periods of low demand. Both scenarios negatively impact your profitability.

6 Slow Turns

Slow inventory turnover rates indicate poor inventory management, increasing your carrying costs and reducing cash flow.

7 Limited Visibility Across the Supply Chain

Without a comprehensive view of inventory across different locations and suppliers, you may struggle to find ways to make informed decisions, identify inefficiencies, and optimize your supply chain.

"We had a tremendous amount of inventory control problems with our old system. At the time, we were probably 25 percent accurate in our warehouse, so we were taking inventory on average three to four times a year.

Today, using Prophet 21, we conduct just one physical inventory a year. It takes approximately four hours, and we're achieving 99% accuracy."

Howard Edelman, Vice President of Marketing at American Packaging and an Epicor customer

Seven Best Practices for Optimizing Inventory Management

Many distributors handle tens or even hundreds of thousands of SKUs, each with unique properties, lead times, and characteristics. The proactive management of complex inventories becomes challenging without a systematic approach or the right tools in place to support the effort. Here are seven things you should be doing to optimize your inventory efficiently:

1 Develop Greater Forecasting Accuracy

Advanced inventory management systems can leverage historical data, market trends, and demand patterns to help provide you with more accurate demand forecasting to optimize stock levels and align them with anticipated demand.

2 Increase Inventory Visibility

Implementing inventory management software that provides real-time visibility into stock levels, order status, inventory turns, and demand patterns allows you to make data-driven decisions and proactively address inventory-related issues.

3 Build a Direct Connection to Your Suppliers

Effective inventory management requires seamless communication and collaboration with suppliers. You can improve inventory control and enhance supplier relationships by deploying systems integrated with your supplier's inventory, streamlining order management processes.

4 Remove Silos

Siloed information and disconnected systems are a common hindrance to effective inventory management. Integrated solutions that consolidate data from various departments and offer a centralized platform enable you to gain a holistic view of your inventory and to make informed decisions.

5 Know Your Metrics

Mastering the art of inventory metrics is complex but crucial for distributors looking to reduce costs. But there are so many metrics—operational, sales, and receiving—how do you know which ones are true indicators of a healthy inventory? Experts recommend that you identify and regularly track the following key performance indicators (KPIs):

Days on hand = the rate of inventory turns by day

Fill rate = a measure of all portions of the supply chain, including the order fill, line fill, and unit fill

Inventory shrinkage = the amount of inventory a company should have on hand but cannot account for

Inventory turnover = the number of times a company sells and replaces its stock in a period

Order cycle time = the average time it takes for a company to fulfill a customer order

Sell-through rate = a comparison of the inventory amount sold and the amount of inventory received from a manufacturer

6 Set Goals, Track, and Pivot

Once you've developed a process for tracking KPIs, you'll want to create measurable performance goals, track your company progress over time, and adjust strategies as needed in order to reach the goals. Technology can play a big role in making the measurement of KPIs easy to do, real-time, and relevant.

7 Understand Your ROI

In addition to KPIs, the overall return on investment (ROI) is a strong indicator of the health of your organization. Monitoring your company's ROI will allow you to allocate resources wisely, optimize performance, and assess which initiatives yield the highest returns.

Calculate this…

Do you know what the return on your inventory investment is?

Use this simple ROI calculator – created by our partners at Smart Software – to get a snapshot of your potential ROI. The calculator analyzes the operational data you enter and generates a rough cut assessment of potential cost savings.*

**Disclaimer: ROI calculator courtesy of Smart Software, an Epicor partner. The ROI figures are intended to communicate the potential financial impact associated with better stock management and forecasting. Actual customer results vary.*

Best Practices Start With an Epicor ERP

If you're one of the 71% of distributors to realize your inventory practices require attention, we can help. The seven best practices may seem overwhelming, but with the right technology in place, it's achievable and simple. At Epicor, our solutions are designed specifically for distributors just like you, and we've mastered inventory management, so you don't have to.

IDC, a global provider of market intelligence and advisory services, conducted a survey of distributors using Epicor software to evaluate how the ERP impacted their inventory operations. Distributors reported that Epicor has helped them view and understand their inventory status, empowering them to order and move materials and supplies more readily and efficiently throughout the supply chain. The results are impressive.[1]

35%

More inventory turns

39%

Lower dead inventory ratio

$183,300

Direct inventory cost savings per year

35%

Higher productivity for the inventory management team, valued at *$218,700* per year

[1] Source: The Business Value of Epicor for Distribution | Epicor U.S.

Here's what customers had to say about the positive impact an Epicor ERP solution had on their inventory:

More efficient and successful business operations,

Field Fastener Supply:

"Epicor has helped us drive efficiency through every element of our business... The fact that we have more accurate inventory means that customers are happier. Without Epicor, we would need to hire 25% more people on top of other efficiencies."

Visibility enabling timely and accurate delivery,

Grove Medical:

"Epicor definitely helps us meet business demand because, in our industry, customers expect same-day delivery. With Epicor, if they order by our cutoff time, then it will ship the same day and they will get it the next day. And because we have such good access to inventory information now with Epicor, we truly know if something is on back order, whereas previously, we might not have known until the next day."

Better able to respond to supply chain challenges,

DeeTag:

"Epicor helped us identify a situation when a suppliers lead time changed greatly. It provided warnings so that we could adjust our numbers so its helped us better respond to the supply chain crisis."

The Return on Investment (ROI)

IDC's analysis for distribution companies' use of Epicor solutions projects that the companies will achieve significant results through improved business capacity, more productive operational teams, and better business, inventory, and finance operations.[1]

Three-year discounted benefits worth an average of

$4.8 million

per organization[1]

1 Source: IDC The Business Value of Epicor Software for Wholesale Distribution Companies

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We're here for the hard-working businesses that keep the world turning. You're the companies that make, move, and sell the things we all need. Trust Epicor to help you do business better. Your industry is our industry, and we understand you better than anyone. By working hand-in-hand, we get to know your business almost as well as you do. Our innovative industry solution sets are carefully built to fit your needs and respond flexibly to your fast-changing reality. We accelerate ambitions, whether you want to grow and transform, or simply become more productive and effective. That's what makes us the essential partner to the world's most essential businesses.

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