

How Important is Inventory Management for SMEs?

Written by B. Sai Shrita
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Inventory management involves keeping a check on materials or stock and related costs while ordering, shipping and handling. There are some reasons for keeping stock and managing the total inventory for every business. The three basic reasons for keeping an inventory can include:

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- Time - The time lags present in the supply chain, from supplier to user at every stage, need you to maintain certain amounts of inventory to use in this lead time.
- Uncertainty - Uncertainties in demand, supply and movements of goods cannot be avoided at times and inventories are to be maintained as buffers to meet them.
- Economies of scale - A business strives for economies of scale, meaning one unit at a time at a place where a user needs it and when he needs it. This involves a lot of planning and some storage of inventory to meet the timely needs of the customer.

A retailer, wholesaler, distributor, or a restaurant owner; inventory forms a critical part of your business. There is no point stacking up things without having a strategy to manage it effectively. CEO of Apple, Tim Cook, started off as an inventory master where he saved his company millions of dollars with his “Inventory is fundamentally evil” approach.

SMEs and Inventory Management

Amazon launched its same-day delivery service in 2015 and immediately boosted up its services, giving a tough edge to its competitors. A question arose then: Will this bring customer loyalty? And, the answer was a bold “**Yes**”. To be honest, small businesses and enterprises usually do not have the luxury or resources to same-day or next-day delivery but it’s not *unachievable*

. As a small business, you do a major investment in inventory. A proper inventory management system if used correctly can greatly affect your sales and revenue.

Forbes lists a survey by Dotcom Distribution that finds customers to be more concerned about quick-delivery of products and services than attaining the exact product, even when the need isn't urgent. The online market and e-commerce from check-in to check-out is itself an experience for a customer. All said and done, it doesn't disregard the need for quality and exact delivery in any manner. Proper supply chain management and efficient packaging can ensure quality as well as quick delivery and customer satisfaction, but what is most important here? It's maintaining right inventory levels.

How Companies Manage Inventory?

1. ***1. Improving Small Business Plan:*** Do you have a dedicated process that tells you

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when to buy or bring in resources? One of the essentials is incorporating inventory management in the business planning stage. Small businesses can learn from the latest market trends and effectively formulate a business strategy. Bring in discipline and implement quality control to manage it efficiently every day!

2. 2. Understanding Customer Needs Through Effective Communication: Giving ample time to understand a customer's need, often, does not go waste. Even when an item is out of stock or you are unable to meet your deliverable, timely notification is always helpful. Businesses use their time in evaluating potential customers, but valuing the existing ones helps in the long run. If they are still interested in your product or service, they will get back or else they will remember you for making them feel valuable.

3. 3. Being Prepared: Update your stock level calculations periodically. Re-calculate and plan; major organisations do it every 3-6 months, however, it is advisable to update the calculations every month for a better track record. Look for a higher inventory turnover every fortnight to the extent possible. Lean inventory management can be helpful for such operations where small batch sizes increase efficiency and help in avoiding excess inventory as well.

4. 4. Thinking Two Steps Ahead: Keeping too much inventory is often wasteful while too little can bring in a difficult situation in the ability to meet orders. Speedy delivery helps in retaining customers; how will you adapt to be capable of providing same-day delivery, a feat that Amazon has already achieved. Think ahead and plan and there will be a way for it. In various ways such as 3PL and 4PL, small business owners and entrepreneurs can compete with larger organisations and plan an inventory that meets your needs.

5. 5. Examining Your Re-order Days: Mark your re-order points and keep safety stocks at a reliable level. A business cannot run successfully with no inventory levels and needs to keep re-stocking. It is a matter for an SME to plan how to make a high turnover keeping the safety stocks at a level of convenience. Once the level of inventory planned replenishes, business runs smoothly again. This will involve setting your re-order point and planning when reaching your set number.

6. 6. Incorporating the Latest Standards: What kind of inventory management software or hardware do you use? What are the accounting standards being used for inventory tracking? Are you following the latest standards and technology that can help your small business soar? Most of the larger organisations have inventory tracking on daily basis adhering to the latest accounting standards as well. Small businesses need to update themselves with the tracking from the initial stages for better inventory management.

7. 7. Using Technology and Innovation: Location technology, Internet of Things (IoT), Artificial Intelligence (AI), Lean Management and Six Sigma Technology are some things hugely

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impacting the way businesses work. IoT, for example, has streamlined the asset managing process, vendor relations, inventory forecasting and has brought in smart sensors to reduce the downtime. Right technology, matching the type of business you run, can be greatly successful in bringing growth and success.

Concluding Remarks

Knowing the importance of inventory management in a company's success, about a half of small businesses still do not have a strategy for tracking records. Many organisations still manage inventory on pen and paper or excel sheets. There is inventory management software with Enterprise resource planning (ERP) and hardware systems which can reduce the time consumed in planning. Following the latest inventory management practices can boost your efficiency as well as meet the growing customer demands. Or else, in the current world, customers will not stop sharing their bad experience or switch to another option with a single click!