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Master Inventory: A Winning Strategy to Optimize Stock & Boost Profits

Six ways to reduce carrying costs, material degradation, obsolescence, and more — all while driving maximum operational efficiency

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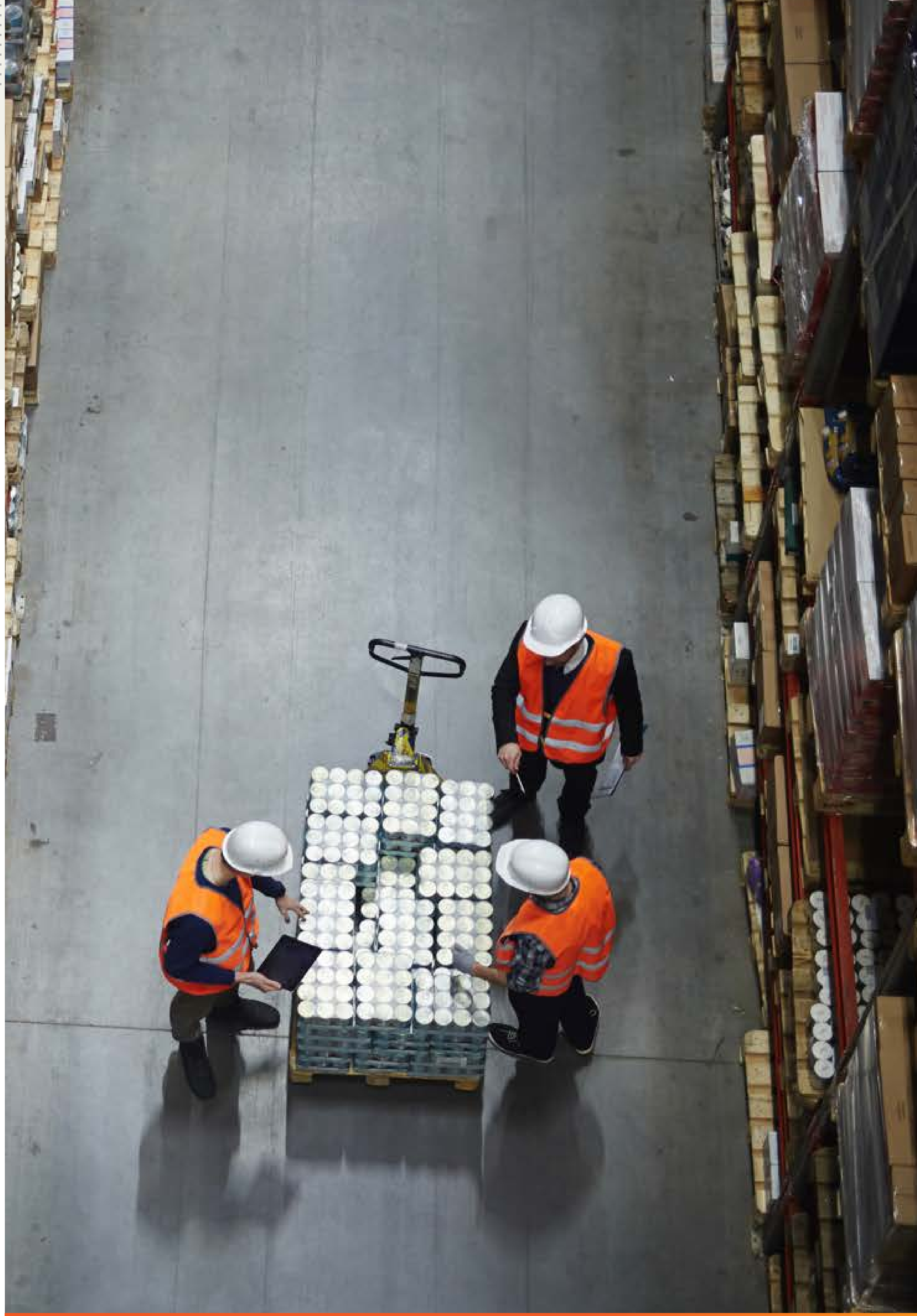
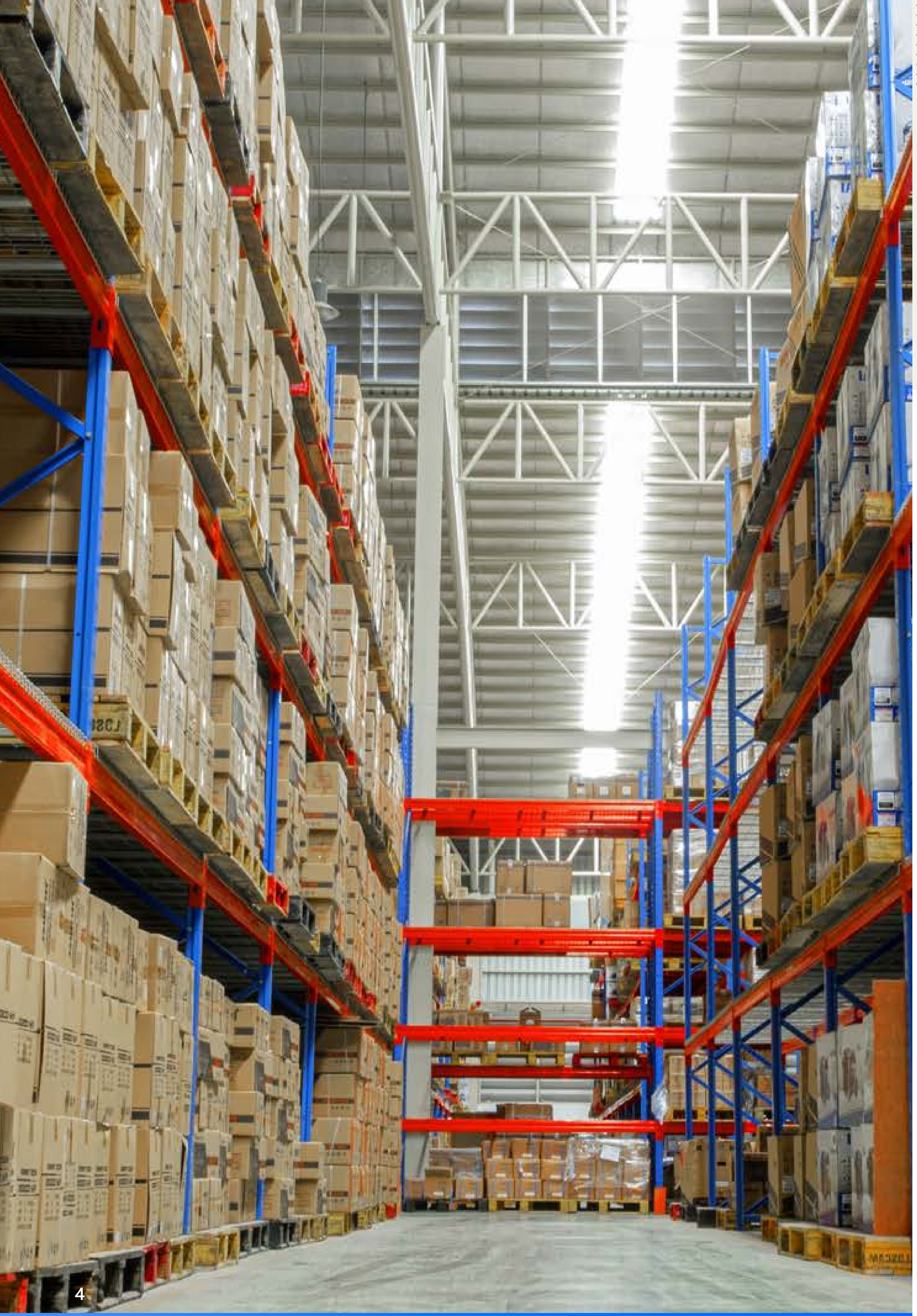
The stakes are rising for inventory management

It’s been an inventory rollercoaster ride for manufacturers these past few years, from pandemic-era shortages to record-level new orders to a pullback from buyers. In addition to global instability, fragile supply chains, and an uncertain economic future, among many other factors, inventory management has become a strategic imperative. That’s especially true as inventory levels continue to grow. The issue with maintaining a higher than necessary inventory level is that it ties up capital, increases carrying costs, and leads to material degradation and obsolescence. Manufacturers are universally focused on keeping inventory levels optimized to avoid pressures on the bottom line. Now, experts are pointing to an “inventory glut” and “soaring inventory levels” as today’s biggest manufacturing dilemma.

Growing manufacturers must consider inventory management as strategic to enhancing operational efficiency and improving competitiveness as costs and challenges continue to skyrocket. But this requires 360-degree visibility to know where inventory opportunities lie, and then the granular controls necessary to refine inventory management efforts.





Cash strains of inventory

JPMorgan's recent Global Manufacturing PMI shows that manufacturers are "rebuilding inventory levels again in increasing numbers." On the one hand, that's a sign of global economic growth and increasing demand. On the other hand, it's putting increased strain on supply chains, workforces, and prices.

One sure metric showing the outsized economic impact of increasing inventories is inventories/sales ratio, which has increased steadily since early 2021. That shows that inventories are growing faster than sales.

As prices and the cost of capital remain elevated, every bit of inventory is unavailable cash. Manufacturers need to then buy more. If they use a credit line to do so, they face high interest rates against a backdrop of higher-than-normal inflation—all costs that are difficult to recover.

How excess inventory impacts the bottom line across supply chains

Excess inventory doesn't just tie up cash, it costs businesses in increased carrying costs, materials and product degradation, and obsolescence. These all take cash away from growth opportunities like added production capacity, additional facilities, and even acquisitions.

Carrying costs, or inventory holding costs, are obvious and avoidable. But it adds up quickly when considering the incremental and rising costs of storage, labor, insurance, capital, shrinkage, and more. And, even worse, a lack of visibility into excess inventory can turn into carrying costs on unusable inventory that consumes cash for a long time.

Most manufactured supplies, components, and products have a shelf life—electronics, technology, food, pharmaceuticals, trendy consumer items. The inputs to manufacturing processes have a limited life due to degradation, just as the finished products can fall behind the pace of innovation, become stale, or miss shifting market demands. And, with the rapid pace of technological innovation, obsolescence becomes increasingly an issue where manufacturers can get stuck with outdated components they cannot sell—perfectly good inventory written off as scrap.

Nearly every inventoried item is perishable. When it becomes unusable, it wastes cash and adds more costs to manage the recycling, resale, rework, or disposal. Leading manufacturers are recognizing the perils of excess inventories. In fact, the desire for free cash flow among manufacturers is pushing many to whittle down inventories to increase working capital, **according to Bloomberg**.

Optimizing inventory management for maximum cost efficiency

Improving inventory management processes is a crucial first step in freeing cash. Using automation, collaboration, and dashboarding technology can accelerate processes, enhance visibility, and improve accuracy, ultimately leading to optimal inventory levels, reduced overstocks, identification of expired products, and more efficient use of warehouse space, all of which reduce costs.

Comprehensive and up-to-the-moment inventory management insights also contribute to overall business operations improvements, inform workforce scheduling, provide valuable product usage insights for engineering, and streamline the entire quote-to-cash process.

Outcomes of better inventory control across the business

For finance and accounting teams, more accurate inventory management provides the flexibility to use standard cost, actual cost, or FIFO costing, increasing their ability to manage costs at any level effectively. Accurate inventory information empowers operations leaders and workers to make informed material choices that reduce waste due to obsolescence, increase inventory turnover, and drive higher profitability. It also gives real-time inventory insights to sales reps, who can provide customers with more exact timing and volume quotes to increase revenues and customer satisfaction.

For manufacturers requiring detailed lot and serial number track-and-trace as products move from production through delivery to customers, the same solutions provide invaluable information. Quality control efforts can easily access audit trails to meet regulatory compliance requirements. If a recall occurs, teams can access inventory data instantly to find the location of suspect products, the value of those products, and the customers potentially affected.

Inventory management acumen is also critical for overall competitiveness. Manufacturers that lack a strategic approach to inventory management are quickly falling behind. A McKinsey survey found that 79% of supply chain leaders already have access to "dashboards for end-to-end visibility," with one-quarter of those using that visibility to pursue "aggressive inventory reduction goals."

Six ways to improve inventory management

Enable up-to-the-minute inventory accuracy

Raw materials, components, and finished goods inventories constantly change as products go from production to customers. Keeping track of locations, incoming items, and outgoing products is a nonstop challenge.

Real-time access to inventory movements, volumes, and changes across the business increases efficiency.

Complete visibility into all item, kit, and stock volumes across all locations helps to better manage inventories and adapt to market, competitive, customer, and internal changes.

Avoid excess inventory and minimize “buffer stock”

Tighter control over inventories helps create more accurate and optimal production plans and schedules. Manufacturers only want to produce what’s expected otherwise extra inventory ties up cash that could have been invested elsewhere.

Better inventory management enables operations to produce exactly what’s needed instead of overproducing. With accurate, up-to-date forecasts and inventory data, safety stock levels can be reduced.

Optimize inventory logistics across the supply and demand chains

Every product move between locations and facilities and to customers consumes time and resources. Optimizing inventory location by source, location, usage, need, shelf life, cost per square foot, and other attributes provides more flexibility to manage inventory in ways that drive the most value. It also enables strategic management of warehouses, distributors, and on-site space at customer facilities as options to stage products closer to demand. Having comprehensive cost and location insights then enables reduced order lead times, increased customer satisfaction, accelerated invoicing, and improved cash flow.

Get deeper insights into inventory planning

More visibility is always a good thing, especially for costly inventories. Usage trends, cost data, and shrinkage insights give planners more confidence when deciding inventory purchases and strategies. Visibility highlights where stock is too high or too low so teams can act with greater agility.

Inventory data, especially when accessible from a single source of truth, can also be used upstream to help sales, logistics, engineering, procurement, and other teams better understand usage, seasonality, customer preferences, and more. As inventory information becomes more accurate and trusted across the manufacturing organization, order fill rates and lead times are reduced, better and more desirable products are manufactured, and customer satisfaction increases.

Increase financial agility to invest in innovation

Technology is constantly advancing. Inventory management must keep this in mind so that finished goods can be sold first to make room for new and updated products. Upstream product and engineering teams can also use inventory insights to understand better how product innovations can contribute to inventory optimization efforts.

Accurate information on product updates, reused components, component revision effectivity, and more gives inventory managers and upstream product teams the insights to make smart changes when new and updated parts or products enter the pipeline.

Increase business agility to recognize and capture fast-changing opportunities

Manual, paper-based, and spreadsheet-based inventory management methods can’t provide the accuracy and timeliness required in today’s competitive global economy.

Manufacturers that can see and understand fleeting market opportunities will have an advantage over competitors—but only if they can act quickly and confidently. When coupled seamlessly with customer and sales data, inventory insights provide valuable data to create a complete view of markets and shifting customer preferences. A 360-degree view of data integrated from across the business empowers manufacturers to recognize openings, understand capabilities and gaps, and build a plan to capture new markets effectively.

Transform inventory management with Rootstock

The strain of economic uncertainty, global unrest, fast-moving innovations, and constantly changing customer demands impacts every manufacturer. And, while most of these external forces are uncontrollable, manufacturers can take a proactive approach to inventory management. Those that make it a true business differentiator can use inventory insights to quicken the pace of growth, enhance business and operational performance, and increase customer satisfaction.

Most manufacturers view inventory management as key to reducing costs, increasing efficiency, and removing friction from operations. Continuing to rely on slow, manual processes, disconnected data and systems, and gut feel is no longer adequate.

Rootstock Cloud ERP is built to give manufacturers **complete control of inventory**, production, manufacturing, financial, quality, and other critical functions.

With Rootstock you get:

A cloud-based ERP inventory management system that's fast and easy to deploy, can integrate with existing tools and systems, and is built on the Salesforce platform for optimal security and scalability.

Easy access to operational data, from any laptop, tablet, or mobile device, and for teams in the office, on the road, at a facility, or anywhere else.

Enhanced security to ensure data is accessed only by those who need it, so different users see different data based on their role, location, or other attribute.

Advanced, industry-specific capabilities for low-code/no-code workflow automations, controlled processes and compliance, and a singular view of customers.

To learn more, request your personalized demo of Rootstock Cloud ERP.

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