Retail inventory management

Retail inventory management is the process of ensuring you carry merchandise that shoppers want, with neither too little nor too much on hand. By managing inventory, retailers meet customer demand without running out of stock or carrying excess supply.

In practice, effective retail inventory management results in lower costs and a better understanding of sales patterns. Retail inventory management tools and methods give retailers more information with which to run their businesses, including:

- Product locations
- Quantities of each product type
- Which stock sells well and which doesn't, by location and sales channel.
- Profit margin by style, model, product line or item
- Ideal amount of inventory to have in back stock and storage
- How many products to reorder and how often
- When to discontinue a product
- How changing seasons affect sales

What Is the Importance of Inventory Management in Retail?

Inventory management is vital for retailers because the practice helps them increase profits. They are more likely to have enough inventory to capture every possible sale while avoiding overstock and minimizing expenses.

From a strategic point of view, retail inventory management increases efficiency. The practice:

- **Decreases Inventory Costs:**
  When you know how much stock you have and how much you need, you can pinpoint inventory levels more accurately, thereby reducing storage and carrying costs for excess merchandise. Other savings include shipping, logistics, depreciation and the opportunity cost that comes from not having an alternative product that might sell better.

- **Minimizes Out-of-Stocks:**
  To avoid disappointing customers and missing sales, retailers want to

avoid running out of inventory. Retailers can use inventory management tools to determine how much stock is "just right" to have on hand, neither too much nor too little. This amount will be larger for bestsellers than for unpopular products. Also, with real-time information on sales and stock, retailers can react quickly by reordering, transferring stock from another location or drop shipping to the customer.

- **Improves Profit Margins:**
  With lower inventory costs and enough supply to fill every order, retailers improve profitability.

- **Prevents Spoilage and Obsolescence:**
  Inventory management helps retailers address another costly inefficiency that happens when products expire or become obsolete. This phenomenon can apply to perishables that have a limited shelf life, such as milk and meat, or a non-perishable that becomes obsolete because consumer tastes and technology change. For example, season collections or holiday-specific packaging. Or when a piece of consumer technology adds a popular new feature, the old models may face plummeting demand: Consider how the rise of smart televisions sunk demand for models that weren't capable of streaming content.

- **Improves Multi-Channel and Omnichannel Performance and Order Fulfillment:**
  If you are selling via physical stores, your website and third-party merchants, it can be difficult to keep correct inventory counts across all channels. Having accurate inventory data across selling channels lets you use your inventory more efficiently, ultimately getting the product to consumers faster.

- **Simplifies Processes and Facilitates Growth:**
  Strong inventory management also reduces friction in your systems as sales grow. Shipping, receiving and order fulfillment run more smoothly, and you minimize errors, customer complaints and staff stress.

- **Reduces Shrinkage:**
  Shrinkage is inventory loss due to shoplifting, product damage, vendor mistakes or fraud, employee theft and administrative errors. According to a survey by the FMI food industry association, the average supermarket loses up to 3% of sales through shrinkage. A National Retail Federation survey puts average shrinkage for its members at 1.4% of sales in 2019. This data suggests that most losses stem from incorrectly recording inventory on intake, miscounting it or misplacing it. Stronger retail inventory management could reduce shrinkage by at least half.

- **Eases Supply Chain Management:**
  Having a firm grip on inventory and sales trends helps you manage your supply chain better. You can use the replenishment system that works best for you, whether that's just-in-time ordering or fewer, bigger orders. Retail inventory management helps you determine your economic order quantity (EOQ), which is the ideal order size to minimize inventory costs including holding, shortage and ordering expenses. The EOQ formula, which factors in demand in units, ordering costs such as shipping charges and holding costs, works best when these variables remain consistent over time. Learn more about the EOQ formula.

- **Improves Customers Satisfaction:**
  When customers get the products they want faster with fewer mistakes or out-of-stocks, it increases customer loyalty.

- **Improves Forecasting:**
  You can use data such as historical sales results and available inventory to project future sales, growth and capital needs. These forecasts are vital to your budgeting and guide spending for marketing, product development and staffing.

How Does Retail Inventory Management Work?

Retail inventory management works by creating systems to log products, receive them into inventory, track changes when sales occur, manage the flow of goods from purchasing to final sale and check stock counts.

The information from these systems helps you achieve the benefits of retail inventory management, such as lower costs and higher profit margins.

10 Basic Steps in Retail Inventory Management

The 10 basic steps in retail inventory management verify the goods you have, their quantity, location and other specifics such as expiration date. This stock data is useful for maximizing profits by understanding demand, costs and other variables.

You can integrate these procedures into a retail inventory management system, which can be as simple as a paper ledger or a spreadsheet but typically involves an electronic solution.