Work Flow

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.

The following is a breakdown of the steps in retail inventory management.

1. **Create a Centralized Record of All Products:**
   List all the products you carry in one place with these details:

   - Product name
   - Stock-keeping unit (SKU)
   - Brand
   - Variables such as size, retail price, product category, lot number, location and expiration date.
   - Vendor and vendor SKU
   - Wholesale cost
   - Minimum reorder amount

- Economic order quantity (EOQ)
- Case quantity amount
- Inventory on hand
- Reorder lead time

Add product images and descriptions to help staff identify products. This step is key if you sell by ecommerce. When you add new products, put them into your inventory record. Whenever information such as a vendor or wholesale cost changes, update it. Establish policies for entering inventory, including who is responsible and when to do it. Having rich data helps unlock the power of a retail inventory management system.

2. **Identify Stock Location:**
   If you are a small business with just one store, recording your inventory's location is straightforward. Items are probably either on display or in the stockroom. But retail chains with multiple sites and omnichannel sellers might have inventory in warehouses, distribution centers, transit, stockrooms and on store shelves. Within those destinations are more specific locations such as section, shelf and rack. Misplaced and overlooked products represent missed sales and lost revenue. Retail inventory management practices help prevent this. Use radio frequency identification (RFID) tags, bar codes and labels that contain category and department codes to fully or partially automate the mapping of your inventory.

3. **Do Regular and Accurate Stock Counts:**
   You need to count your inventory periodically to ensure it is accurate. Take into account shrinkage, damage, defects and returns to avoid errors. A retail inventory management system makes this process easier because you only need to double-check your data, rather than start from scratch. So, you can primarily focus on deviations. The frequency of counts depends to an extent on your business's complexity, scale and the type of inventory management system you use. Nonetheless, experts recommend counting inventory once a quarter or once a year at absolute minimum. Some businesses count individual parts of their stock daily. Several counting techniques exist, including physical counting and cycle counting.

4. **Combine Sales Data With Inventory Data to Simplify Reporting:** A retail inventory management system can integrate sales and inventory data. This picture shows you which goods are turning over fastest (a metric called sales velocity) and which are lagging. Use the product data to decide when and how much to reorder and when to offer promotions or discounts.

5. **Create a Purchasing Process:** Schedule times to review data and place orders, so you don't get caught behind seasonal trends or risk stock outages. With an electronic system, you can set stock levels for individual products that trigger alerts for reorder. These levels should include a buffer that allows sales to continue at normal levels. If you're using a manual system, review which items are sold out or at reorder points, and add them to your purchase list. Prioritize purchases based on an item's profitability, popularity and lead time. Then, create a purchase order.

6. **Establish a Process for Markdowns and Promotions:** Product sales can fail to live up to expectations for several reasons, such as a cooling trend, obsolescence or seasonal factors. If you offer markdowns, be disciplined about discounting and moving slow sellers, which can generate cash and make room for more profitable products. Additionally, create a strategy ahead of time for promotions to ensure that you have enough stock on hand to meet demand.

7. **Create a Stock Receiving Procedure:** During the receiving process, you'll verify incoming orders and enter goods accurately into an inventory system. Without an established procedure, any supplier error or damage in transit can result in problems like unexpected stock outages, overpayment to vendors and dead stock. Check each delivery against the purchase order to verify the contents match the order. Count cartons and pallets, confirming product type and numbers and noting mistakes, damage or shortfalls. Follow up with vendors on any issues. Then, enter the new products into inventory counts and store the goods. Depending on your needs, you might add price tags or bar codes to the stock. Perpetual inventory management, the simplest way of managing

inventory, involves counting goods as soon as they arrive. Read the article on perpetual inventory to learn more.

8. **Create a Procedure for Returns:**
   Without an inventory management process for handling customer returns, you face an increased risk of holding unsellable stock or missing an opportunity to put a sellable item back on display. When a customer makes a return, check to see if the item is damaged or defective, and route it for repair, write-off or return to the vendor as appropriate. If the product is sellable, add it to your inventory counts, and put it in its correct place (in a physical store, ecommerce inventory, etc.).

9. **Determine a Dead Stock Procedure:**
   Excess inventory ties up capital and weighs on profitability. Dead stock includes damaged items, incorrect deliveries and leftover seasonal products. First, record items that fall into this category and remove them from inventory. Designate a place to hold dead stock, and handle it regularly (weekly, monthly or in a timeframe that's right for your business). Ship merchandise that you can return to vendors for credit, called pullbacks, promptly. Note any deadlines for the return shipment. Return damaged and defective goods to suppliers, or document and notify suppliers, according to their policy. Depending on your product line, you can deal with the remainder by selling to outlets, donating, recycling or disposing of it.

10. **Pick Your Inventory KPIs:**
    To gauge the success of your process, pick and track some key performance indicators (KPIs). Profitability, inventory value, sell-through rate and turnover rate are essential metrics for retailers. Learn how to calculate these, and see examples in the in-depth guide to KPIs for inventory management.