

Smarter Inventory Management

By Kelly M. Salwei, CPA, CMA

Inventory eats up more than warehouse space. It costs staff time to track, and ties up cash that could be invested in marketing or new equipment.

You know that. But you may not know that the transition to on-time delivery for your customers has created a serious disconnect with inventory management. The more raw materials you keep on hand for next-day delivery, the greater chance for longer sales cycles and obsolete inventory.

Following are four ways to improve your inventory management this year:

Tighter Controls — Discuss policies with your procurement department to reduce inventory. A one-time discount for a year's worth of raw materials will increase costs in the long run. Train staff on industry trends to ensure that materials are used before they become obsolete.

Alternative Sources — When a trade embargo, transportation strike or epidemic threatens your supply chain, make sure you have a back-up supplier that offers the same quality at a similar price to keep operations running smoothly.

Increased Sales — Agree a year in advance on units produced and a retail price for your biggest and most loyal customers. Agree to subsidize mark-downs to give them an incentive to purchase more units.

Vendor-Managed Inventory — If you can't reduce your inventory any further, increase your revenue by handling the inventory management of your customers. This value-added service allows your customers to be leaner while you receive a better price for your goods and greater customer loyalty.

For example, Dell Computer's suppliers manage the warehousing and shipping of components for Dell. The revenue for the management of the supply chain increases the suppliers' return and cash flow while streamlining Dell's customer service. Can you think of a customer right now who would appreciate this enhanced service?

Vendor-Managed Inventory still requires strong practices in the first two categories above to succeed. And while production will always cycle faster than accounts receivable, especially for start-ups, keeping a tight rein on inventory for yourself and your customers means that you can focus on making the products you sell rather than selling the products you make.

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