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Inventory management best practices pdf

An accurate inventory is crucial to your business. The sales department depends on its accuracy as does the purchasing department to make decisions on purchases, delivery dates, and budgeting decisions. With many companies using a just-in-time inventory replenishment system, the old annual inventory method no longer provides the timely information needed to accommodate these demands. To maintain a inventory system with real-time accuracy, other methods must be implemented. Implement a cycle-count process in which a set percentage of inventory is counted each month. This percentage will be based on the number of times you wish to have your inventory counted annually. By counting 25 percent of inventory each month you will effectively complete three complete inventories each year. If planned and coordinated properly these cycle counts can be completed without interruption of your normal business activities. Enhance the effectiveness of your inventory counts by integrating the ABC inventory method. The fastest moving inventory items will be classified as "A" items. The next group of inventory items, those which are active but slightly below the fast-moving items will be classified as "B" items. Slow moving items, including obsolete inventory will be classified as "C" items. Count all "A" classification items monthly, each "B" classification every two months, and "C" classification can be counted each quarter. This will insure the inventory items with the most turns and thus the highest probability of error will be counted most often. By counting these items more frequently errors can be identified, researched, and corrected in a timely manner, thus preventing interruption of service to your customer or production line. Develop a reporting method to record all inventory counts, their frequencies, and any variances found. Research all variances to discover the root cause of the discrepancy. These records can then be used to identify patterns or deficiencies in your system/process. Once a pattern is discovered, corrective measures can be taken to eliminate the problem/errors and increase inventory accuracy. Tips Make certain you always have a clean cut-off before making counts. All receivers and orders must be processed and taken into account before any counts can be conducted. Warnings Maintain discipline in your counts. Once you set a standard for number of items/locations to be counted monthly, make certain those standards are achieved. Almost all businesses have some sort of inventory. Whether it is a product they are selling or supplies for the bathroom, all inventory needs to be recorded and tracked to be replenished. This portion of the business is called Inventory Control Management. Inventory control is that portion of the business that manages how much to invest in the inventory. If you don't invest enough, you won't have product to sell to your customers. If you invest too much, you may run out of money as stock sits idly in the warehouse. The inventory control department manages raw materials, unfinished goods, finished goods and consumables. All inventory items can fall into one of these categories. There are a number of methods for managing inventory. Inventory can be managed by simply re-ordering when a minimum level is reached, or it could be reviewed at predetermined intervals to return inventory to a given amount. Managers can determine which method, or combination of methods would best suit their business. For small inventories, a spreadsheet and clipboard may be all you need to keep track of everything. For larger inventories a computer program may be needed to help keep track of everything. More massive inventories might require RFID, or radio frequency identification, chips that allow scanners to track large amounts of information about the inventory. Inventory control is about more than just inventory, there are financial matters dealing with purchase orders, delivery notes, returns and requisitions. In larger companies there may be a person, or an entire department, dealing with just this paperwork. This article is part of a larger series on POS Systems. Inventory management software helps businesses track items or parts throughout the supply chain—from the manufacturer or wholesaler through assembly, storage, and sale—reducing costs, which also helps keep finances in check. Before deciding on a system to use, familiarize yourself with your business's inventory tracking needs. For example, small businesses like retail stores typically use a simpler inventory system, often one paired with point-of-sale (POS) software, while B2B businesses need a system with more assembly or accounting tools. Large businesses need something more robust like an enterprise resource planning (ERP) system. Based on our evaluations, the best inventory management software for small businesses are: Zoho Inventory: Best overall inventory management software for small businesses Agiliron: Best inventory management for B2B retail inFlow Cloud: Best barcode-based inventory software QuickBooks Online: Best for businesses with sophisticated accounting needs Ordoro: Best for volume sellers and dropshippers Looking for something more specific? See our top picks for restaurant inventory management and POS systems with built-in inventory capabilities: MarketMan: Best overall restaurant inventory software Upserve: Best POS for restaurants that want automated inventory management Lightspeed Retail: Best for storefronts and specialty shops Shopify: Best for ecommerce and multichannel retailers Square: Best free POS with product tracking If you need a free solution, read our roundup of the best free inventory management software. Or, if you're not ready to sign up for software or prefer working from a spreadsheet, download our free inventory management workbook. Use it to calculate inventory turnover, set up low stock alerts, and track on-hand stock, sales, purchase orders. Download Free Inventory Workbook How We Evaluated Inventory Management Software We prioritized inventory systems that are cloud-based and easy to use and have pricing plans suited for SMBs. We also looked at important features such as real-time and multi-location tracking, the ability to do mobile inventory counts and granular inventory, and the types of reports it can deliver such as COGS and costing reports. We also considered how well it works in industries other than retail, whether it handles multiple warehouses or sales channels, what integrations it allows, and how easy it is to get help. We did not consider ERPs and other enterprise-level systems. Based on these benchmarks, Zoho Inventory is the best inventory management software for small businesses. It received the highest overall score (4.58 out of 5) among seven inventory platforms we have reviewed. Click through the tabs below for our full evaluation criteria: We prioritized software that includes a free plan or free trial and offer a plan option under \$100. We also awarded points to systems that provide an unlimited number of users and inventory items in its base plan. We gave heavier weight on inventory features, such as real-time tracking (includes barcoding, batch, serial, and RFID tracking), low-stock and reorder alerts (using EOQ), multi-location and warehouse tracking, mobile inventory counts, and granular inventory management (kitting and assembly, variants, etc.) We also considered whether they provide purchase ordering, vendor, and centralized multichannel management. Finally, we examined whether each system has CRM functionality or integrates with popular CRM software. We gave full points to platforms that are cloud-based, offer 24/7 customer support, and provide online training, forum, or help documentation. We also considered its integrations to popular accounting, ecommerce, marketplace, and POS software. We reviewed the overall quality of each system's features and if there are any stand-out qualities, and whether or not it offers a good value for its price point. Finally, we accounted for our personal experience using each system and interacting with its customer service representatives, its reviews, and the personal experience of other small business owners. *Percentages of overall score Zoho Inventory: Best Inventory Management Software for Small Businesses Zoho Inventory earned the highest score (4.58 out of 5) out of any inventory management software we considered. It received perfect scores on inventory features and scored well on ease of use, too. We chose Zoho Inventory as the best inventory management tool for small businesses because it provides great value for the price. Depending on the plan, you can handle multiple warehouses, ecommerce, and purchase orders. The system has advanced bundling and kitting features for combining multiple SKUs, is customizable to different types of businesses and use cases, and can integrate with other Zoho products or operate as a standalone system. Plus, Zoho Inventory has an intuitive interface. Zoho Inventory Features Agiliron: Best Inventory Management Software for B2B Retail Agiliron is a multichannel retail management system with ecommerce, retail, and wholesale functions. Comprehensive B2B and B2C inventory features to create custom orders, kits, assemblies, matrixed products, and product substitutions set this system apart. Though a little pricier and complex, it's great for B2B, wholesale, or B2C businesses with complex kitting or assembly needs. Agiliron earned an overall of 4.31 out of 5 on our inventory management software assessment criteria. It scored well on advanced inventory functions, earning the same perfect score as Zoho Inventory. The system could have gotten higher marks if it offers a free plan and includes more users. Some of its integrations to ecommerce and marketplace platforms are paid features as well. Agiliron Features inFlow Cloud: Best Barcode-Based Inventory Management Software inFlow Cloud is one of the most competitively-priced platforms among those we reviewed, with its locally-hosted solution offering a free plan limited to 100 products and customers in total, making it useful for small businesses and offices. Its strongest feature is the built-in barcode software that works with price scanners and mobile devices and can be incorporated into every step of one's inventory and order management processes. inFlow Cloud earned an overall rating of 4.13 out of 5 on our inventory management software rating system. This software scored well for pricing and both general and advanced inventory management capabilities. The inclusion of more users per plan and a basic CRM would have helped inFlow Cloud gain higher marks. inFlow has two versions: cloud-based software and locally-installed software. An end-to-end POS system like Square for Retail helps small retailers do all of this seamlessly, plus get real-time insight into every aspect of their business — from sales and inventory counts to product performance and profits. Small retailers benefit from real-time performance reports when they use a Bottom Line Inventory is the lifeblood of your business. Unless you have a very simple inventory that you can track with a spreadsheet, then inventory management software can save you time, headaches, and money. The right inventory management software makes the job easier. Many are tied to point-of-sale systems, but there are some that work alone or with accounting software. You'll find scores of inventory programs that meet a wide variety of needs. We found Zoho Inventory the best suited for most small businesses because of its price point and ease of use. It offers the most important features needed to run a smooth store and ecommerce program. Visit Zoho and try it for free. Visit Zoho Inventory You May Also Like ... Retail inventory management is stocking products that buyers want, using pricing and promotions to sell profitably, and maintaining inventory at levels that meet demand without over-purchasing. An overall inventory management plan guides how this all gets done, from intelligent purchasing and pricing to procedures covering receiving, inventory counts, and location tracking. In today's data-driven economy, retail point-of-sale (POS) systems like Square for Retail help small retailers manage inventory tasks faster and far more effectively than manual methods. Inventory counts are automatically adjusted with each sale, profits are tracked in real time, and accurate, up-to-date data is always at your fingertips. The best part: these tools are included at no additional cost. Visit Square for Retail to manage your inventory for free. Visit Square for Retail How Retail Inventory Management Works Retail inventory management best practices are made up of people, processes, and technology. Ideally, every retail business should have a clear set of procedures that cover how inventory-related tasks are handled. Activities like receiving, cycle counts, and restock orders should be outlined and assigned to specific employees or staff groups. Likewise, small retailers should have a data management system capable of supporting, tracking, and automating primary inventory management processes store-wide. An end-to-end POS system like Square for Retail helps small retailers do all of this seamlessly, plus get real-time insight into every aspect of their business — from sales and inventory counts to product performance and profits. Small retailers benefit from real-time performance reports when they use a POS system like Square for Retail. Informative overviews deliver data in a snapshot screen with one-click drilldown for more details. The benefit of using a POS system with inventory management is it ties every activity — from sales and returns to stock ordering, receiving, and unit tracking — within a centralized system. Having stock counts adjust per-sale, automated reorder alerts, product-specific profitability reports, and barcode tracking, helps stores run at maximum efficiency. Plus it lets owners make data-backed inventory decisions for everything from stock reorder to sales promotions for slow-moving items. With the right inventory management tools and techniques in place, a plan is surprisingly easy to maintain. But getting to that point is the challenge that many small business owners face. It takes time to understand which retail inventory management best practices fit your operation, then define procedures and adopt the right technology. So, this project often gets pushed to the bottom of the list. But interim shortcuts invariably lead to stock shortages or overstocks, bad buys, and low-profit sales can ultimately impact the bottom line. Clearly, making the effort to put an inventory management plan in place is time well-spent. If you don't have a sound inventory management plan in place yet or are looking to improve your current tools and tactics, we'll show you how to get it all done in seven simple steps. Retail Inventory Management in 7 Easy Steps Our seven-step plan covers retail inventory management best practices and procedures that any retail store needs to have to move products in and out the door profitably. We'll explore the tasks related to each procedure and cover ways to accomplish them using a variety of tools — paper records, computer spreadsheets, or a POS system with fully integrated inventory, like Square for Retail. If you don't have a POS system or other inventory tracking tools in place, download our free workbook and follow the seven steps below to get started. Download Free Inventory Management Workbook Here are the seven steps to creating an inventory management plan: 1. Track Existing Inventory: Before you can create an inventory management plan, you need to know what you currently have in stock. This involves conducting a physical count of all inventory items. 2. Organize Inventory Data: Once you have counted your inventory, you need to organize the data into a system that makes sense. This could be a spreadsheet, a database, or a POS system. 3. Set Inventory Levels: Determine the minimum and maximum inventory levels for each item. This will help you know when to reorder. 4. Create Reorder Procedures: Develop a system for reordering inventory. This could be a manual process or an automated one. 5. Monitor Inventory Levels: Regularly check your inventory levels to ensure you are staying within your set limits. 6. Adjust Inventory Levels: If you find that your inventory levels are not meeting demand, you may need to adjust them. 7. Review and Refine: Regularly review your inventory management plan and make adjustments as needed. Inventory management tasks — from reordering costs and department locations to sales tracking. Whatever technology you use — paper logbooks and files, computer spreadsheets, or a POS system — you need to create a Product Data Management Procedure that outlines the process and instructions that guide how you: Record Product Data: Outline where and how product data is recorded for each item you carry — paper logs, spreadsheets, or a POS system like Square for Retail — and the process used to record and track this data. Track Product Information: Key product data recorded should include: Product name Your internal SKU Variants like colors or sizes Your regular and sale pricing Your sales category, department, or class Brand, line, or collection details Attached to store promotions - if any All suppliers for the item Supplier SKUs and/or UPC code Product cost Case pack amounts for stock orders Lead times for reorders Inventory on-hand (or adjust following new product receipt or a stock count) Enter New Product Data: Note when new products are entered into your system — before or after delivery to your store. Handle Product Data Updates: Vendor prices and other purchasing information changes over time, have a plan to make these updates as-needed. If you use a POS system, you can also add a product description and images to your product data entries. This helps clerks answer customer questions, speed up store checkout, and connect product data to online sales channels. Square for Retail's product entry screens guide staff through a simple product data entry process. The important thing to remember as you set up this procedure is that smart inventory management requires a full record of product data details — not just an item name, SKU, and stock amount. The more information you track — pricing, product costs, vendor lead times, store categories and departments, etc. — the easier it will be to handle other inventory management tasks and gather meaningful data. 2. Track Where You Store & Display Stock You have to know where your stock is located in your product data system so stored stock isn't forgotten. Note Stock Moves or Special Displays: Also when necessary, note any stock moved to different areas, such as store windows or displays, in your product data system. Make it Public: Train staff on the new stock tracking system and post a printout of the sales floor department map in the backroom and by registers for quick reference. Once in place, with a quick glance at a product tag or SKU lookup, you'll know where the item is located on your sales floor. This speeds up restocking and reshelving tasks, and more importantly, lets you provide better customer service and sell more goods. 3. Maintain Accurate Stock Counts Stock counts are an integral part of any successful inventory management plan and retail store operation. If you don't know what products you have in stock and how many of each, it's impossible to place accurate restock orders. This leads to sell-outs and overstock situations — all of which impacts profits. Plus without accurate counts, you won't know when you need to reorder or when you're sitting on excess stock that needs to be marked down to move out. Maintaining accurate stock counts prevents all of these costly headaches. Along with keeping inventory levels on-track, counts help you spot inventory problems. Issues like incorrectly shelved or displayed goods and inventory shrink from theft, unrecorded damage, or receiving errors all come to light through inventory counts. Inventory Count Procedures guide how you handle the two different types of stock counts that retailers use — cycle counts and annual counts. Cycle Count Inventory Counting Procedure Periodic counts, called Cycle Counts, are partial counts of a line, department, or other groupings of goods. A Cycle Count Procedure includes: Select Items to be Counted: Filter items in your POS system or spreadsheet, or make a list of items to count if using paper logs. Get free templates in our inventory count guide. If you track inventory using a POS system like Square for Retail, it's easy to filter the goods to be cycle counted by specific line, category, or custom selection. Print an Inventory Count Sheet: Count sheets show the expected current amount on-hand and have a place to write the actual number of products counted. Assign Counts to Staff or Teams: For small counts, one person can handle counting and recording numbers. But larger counts are faster and more accurate in teams of two. Spot-check Major Discrepancies: If you find unexpected shortages or overages, double check to ensure all stock was found and counted, including overstock, and that the correct items were counted. Adjust Inventory Numbers As-needed: Make adjustments to counts in your inventory management system and note the reasons for each adjustment for accounting purposes. How often you perform cycle counts depends on your business and the inventory management technology system you use: Paper Logs or Spreadsheets: If you don't adjust inventory daily or weekly to reflect sales, you'll need to perform cycle counts to get accurate stock numbers each time you reorder. A POS System: When using a POS system like Square for Retail, stock numbers automatically update with each sale, so cycle counts will mainly help spot-check stock numbers on fast-moving goods and guard against inventory shrink through receiving errors and theft. Annual Inventory Count Procedure Annual counts are done for year-end accounting and tax purposes and are a full count of every item in-stock. Since these are store-wide tasks, annual counts are generally done after hours or on a day the store is closed. Depending on the size of your operation, it can be handled with just staff, or you might have helpers come in to speed up the process. Here's an example of an Annual Inventory Count Procedure: Prepare Sales Floor and Storage Areas: Organize and tidy all stock areas and locate any overstock that's not on the sales floor so counters don't waste time looking for products on their lists. Have a System Cut-off Time: If you use a POS system, make sure all pending sales and returns are completed, then have a system cutoff so no sales or other inventory-affecting transactions are logged between your pulling count lists and updating the counts. Print Inventory Count Lists: Print or prepare your count lists and sort them by line, category, or department; whichever works best for your counting teams. Assign Two-person Counting Teams: Assign two-person teams to count specific areas, lines, or categories. Ideally, one person is counting (or scanning) and the other is recording (if using paper sheets) and spot-checking counts. The two-person team is widely used and a proven way to get the job done quickly with very few — if any — errors. Spot-check Major Differences: Like cycle counts, if you find unexpected shortages or overages, double check to ensure all stock was found and counted, including overstock, and note the reasons for each adjustment (damage, shrink) for accounting and tax purposes. Print a Year-end Inventory Report: If using a POS system or spreadsheets, it's a good idea to create a complete printout of your annual count for your records. This should include your final adjusted on-hand numbers, plus your year-end inventory valuation for accounting and taxes. Resume Operations: After your adjustments are complete and you print your year-end report, you can resume sales operations. If you perform regular cycle counts, your annual count should reveal few surprises. If you do end up with big shortages or overstock issues, address adjustments and valuations with your accountant to be sure they're recorded correctly for tax purposes. Then, see if you can identify the problem — poor receiving practices, theft, inaccurate purchases due to bad stock counts — and put the procedures covered here in place to prevent these in the future. 4. Make Data-Backed Purchasing & Promotional Decisions Once you've set up a data management system, stock tracking, and inventory count procedure, you're set to make profitable purchasing and pricing decisions. Now you can combine your sales data with your inventory numbers and make smart purchasing and pricing decisions. How you do this depends on how you track your sales and inventory — using a POS system, or manually using paper logs or spreadsheets — but it all can be outlined with procedures. Purchasing procedures tell you what you need to purchase, how much, and how often. Pricing and promotional procedures spot slow-selling items and apply promotions to move them out quickly and profitably. Here are sample procedures for each task. Create a Purchasing Procedure The goal of purchasing is to order enough stock to cover sales over a period of time, but without over-ordering excess stock that you'll eventually have to mark down. This is one of the biggest ongoing tasks for any retail store owner. The procedure you'll use depends on how you track your sales and inventory — by hand in spreadsheets, or using a POS system with automated purchasing features. Here are the steps in a typical Retail Purchasing Procedure: Set Aside Time for Purchasing: Rushed purchases can be problematic, so set aside time to run your numbers and make smart restock orders. Review Low Inventory Numbers: A POS will alert you when the number hits the low threshold, and you can plan pull reports to see other low levels. If you use a spreadsheet, you can sort your numbers low to high. For paper records, pull your low counts or tallies. Run Your Sales Numbers: Pull your sales reports and see which hot sellers and evergreen products are sold out, below, or nearing reorder levels. This is the start of your reorder list. A POS system does this for you, but you'll need to manually compare spreadsheet or paper logs. Plan Your purchases: To record, profitable goods that aren't hitting the end of the season should be first on your reorder list. After those, plan low-level reorderers based on stock levels, how fast these items are selling (sales velocity), and how long it takes items to arrive once ordered (lead time). This is called forecasting and it's a science. Manual methods require keeping your sales and inventory records updated and accurate, and closely reviewing them each time you create a purchase order. But there are POS systems that also let you quickly and easily create purchase orders based on the reorder points you set. Use Markdown and Promotions Procedures Along with purchasing to maintain stock levels on hot sellers and evergreen products, you'll want to regularly review sales velocity and levels on slow-moving items, too. Slow movers should be marked down and moved out as quickly as possible to free up cash and floor space for more profitable items. Slow movers include: Products Related to Slowing Trends: Trends hit hard and these items can be some of your best sellers, for a short while. If you stocked up, put these on sale the minute you see the trend dip because they rarely make a quick comeback. Seasonal Products Nearing the End of the Season: Swimsuits, holiday-themed goods, outdoor dining, and winter sports gear, the list of seasonal goods goes on and on. Put these items on sale mid-season to ensure you don't have them on clearance at loss pricing months later. Or, put return agreements in place with suppliers for unsold seasonal goods — many do this. Bad Buys: Are tea cozies not the comeback hit you thought they'd be? Or are the must-haves see-through jeans not flying off the shelves? Cut your losses fast on bad buys by slashing prices. Or, if you're taking a chance on specialty market goods, have a return agreement with your supplier in case the product is a dog. Don't hesitate to clear out your slow movers regularly using Markdown and Promotion Procedures. Identify Slow movers: Purchasing reviews are a good time to scan for your slow-movers Create Markdown Schedules: Have a markdown plan over a prescribed time period, 10 percent off for week one; 15 percent off for week two, and so on. This bumps up sales at more profitable price-points rather than instant deep discounts. Use Sales and Savings Displays: Don't hide your sale items in a sad clearance corner. Instead, use them for attention-grabbing displays to draw customers throughout your store. Send Out Promotions: Market deals through social media, ads, email, and loyalty program promotions, like buy-one-get-one (BOGO) deals or invitation-only clearance events. Discounts and markdowns are part of healthy inventory management, so don't shirk this task. Use this procedure to keep inventory moving out so you can bring in fresh stock. Done right, sales promotions customers in for the deal, plus give you the chance to cross-sell more profitable goods, too. 5. Record Stock Receipts Correctly A receiving procedure is an inventory management technique that retailers should put in place from day one. Suppliers make mistakes, plain and simple. They ship orders short, have unreported backorders, ship the wrong goods, plus damage occurs en route. Without a tight receiving procedure to accurately check and record received goods, and catch errors and damage, you'll wind up with problems. Inaccurate stock receipts directly affect your counts and that trickles down to all related inventory management tasks. Ultimately, receiving errors lead to surprise stock outages or unrecorded overstock, incorrect reorders, and paying for items you didn't order — all of which eats into your profits. The fix is putting Receiving Procedures in place following them to the letter. If you do, you'll sidestep huge inventory management headaches and costly mistakes down the line. Here are the steps to include in your Receiving Procedure. Count All Units in the Shipment: Before opening boxes or unpacking pallets, make sure you received all of the packed units expected. If your shipping labels or freight bill-of-lading state "1 of 4, 2 of 4," etc., make sure you have all four units. If not, track those to see if they're still en route and arriving separately. Organize Your Unpacking: Unpack the entire shipment and organize products for a receiving count Count Products Against Your Purchase Order: This is the most important step! Don't rely on your supplier's packing slip for accurate receiving — any mistakes they made can be reflected there and you won't catch them. Instead, check-in received goods against your purchase order to make sure what you received is what you ordered. Note Errors, Shortages, and any Damage: If the received goods don't match your purchase order, note problems on the paperwork and follow up with your supplier. Adjust Inventory Counts for Received Goods: Update the stock counts in your inventory management system. If you use a POS system like Square for Retail, you simply receive the purchase order and it automatically adjusts your stock counts. If using paper logs or spreadsheets, you'll need to make count adjustments manually. A POS system can also make tagging goods part of your receiving process. When you receive your purchase order, you can set your POS to automatically print your price tag labels — including barcodes if you use them. This lets you get any tagging done during receiving and get goods out on the floor quickly. 6. Handle Damage, Defects & Supplier Returns Quickly It's important to get unsellable inventory off your floor — and your books — as quickly as possible. This includes unsellable returns, incorrect or damaged stock shipments, in-store damages, and unsold stock like seasonal goods can be returned to the supplier. This inventory — often referred to as "dead stock" — has a bad habit of stacking up and affecting inventory counts and valuation reports. So, you need to regularly deal with these goods by adjusting counts and values, recording reasons, and disposing of as-needed. Square for Retail asks you for a reason when inventory gets adjusted so that you always know where your dead stock has gone. Here are the steps you can use to create your own Deadstock Procedure that keeps your shop tidy and stock counts and books up-to-date. Log All Damages and Unsellable Returns: Keep a running log of damaged goods and unsellable customer returns and plan to deal with these regularly, like weekly, bi-weekly, or monthly. Removed Goods from Stock Counts: If you use a POS system, unsellable customer returns can be removed from counts when returns are processed, and in-store damages can be adjusted when found or in a weekly batch. For paper logs or spreadsheets, regularly review your tracking logs and make adjustments as needed. Specify Holding Areas: Designate a space to hold damaged, unsellable, and misshipped goods off the sales floor. Dispose of Unsellable Goods Regularly: Don't let your holding area stack up. Keep this tidy by regularly donating unsellable, but otherwise usable, goods to local charities and returning misshipped or defective goods back to suppliers — preferably using their prepaid return shipping labels. If needed, photograph damaged or defective items as a record for supplier credits. Deal with these items as instructed by the supplier. Deal With Pullbacks Promptly: Pullbacks are items removed from the sales floor and shipped back to suppliers for credit, like seasonal goods or other unsold items with return agreements. Pull, document, and return pullbacks per supplier instructions in a timely manner to receive credit and clear your sales floor for profitable goods. Purchasing and markdown/promotion procedures can be occasional projects for a solo operation, or daily for a busy retail store. The key factor is taking the time to deal with these important inventory management techniques to maintain stock levels for hot and evergreen goods, and clear out inventory on slow movers so you can focus on filling those spaces with profitable goods. 7. Understand Small Business Retail Inventory Metrics At the end of the day, profits are the reason you're in business. Yes, what you do can be rewarding and feed your soul — but you also have to feed yourself and pay your staff and your bills. For that, you need money. So, a major factor in retail inventory management is knowing where your cash is invested, and if you're selling your inventory profitably. For this, you need to understand basic business formulas and metrics, which we explore below. If you use a POS system like Square for Retail, it takes care of the math for you and delivers reports that tell the full story of your business. With paper logs or spreadsheets, you'll need to assemble numbers manually and pull out the calculator. Procedure-wise, you simply need to regularly set aside time in your schedule to review your POS sales and inventory reports — or do the math yourself. Product Profits You need to know which products bring in the most profits. Some may be highly profitable but sell slowly. Others can have a low-profit margin, but a high sales volume that makes them profitable. So, you need to know these details when you review your purchasing and promotion needs. Sometimes, slow movers are very profitable when they do sell, so there's no need to mark them down. Or, hot sellers can have impressive sales volume, but take up a lot of space and have high return rates, so in the end, they deliver few profits. If you have a POS system, it may provide a Sales and Cost of Goods Sold (COGS) report that shows per-product profitability so you can instantly get an accurate picture of the products to make you money, and those that don't. It also reports total COGS for all products sold over a period of time, like a week, month, or year. Without a POS system, you can determine Cost of Goods Sold (per item or overall) using the following formula applied to updated inventory numbers: COGS = Beginning Inventory + Purchases during the period - Ending Inventory Then, insert your per-item (or overall) sales figures for the period to determine your gross profit and profit margins. A POS system does this math for you, but you can learn more about these formulas in our retail pricing guide. Inventory Value It's handy to know how much cash you have sitting in inventory at any given time. This figure is important for accounting purposes, but it also gives you insight into how much profit potential you have sitting in unsold inventory. If you include product cost in your manual inventory tracking logs or spreadsheets, you can just use this formula to find per-item inventory values, then add up all of your totals: Stock Value = (Item Wholesale Cost + Averaged Inbound Shipping) x Quantity in Stock Inventory Turnover Rate Once you have average inventory values and COGS number, covered above, you can determine how often you sell-through your inventory. To figure this, you'll insert these numbers into the formula: Inventory Turnover = Cost of Goods Sold / Average Inventory Most stores figure the inventory turnover rate on an annual basis. For example, Store A ends the year with a COGS of \$250,000 and runs an average inventory value of \$35,000, has a 7.14 turnover rate. Once we plug the numbers in: \$250,000 / \$35,000 = 7.14% While Store B's numbers have a much lower turnover rate: \$250,000 / \$65,000 = 3.84% This means that, on average, store A sold out of its inventory about 7 times throughout the year, while Store B turned its stock half as fast, and had more cash tied up in unsold goods throughout the year. What These Numbers Mean to You Of course, the inventory turnover rate is an average figure that includes hot sellers, slow movers and everything in between. But, it's a metric that you can use to determine whether you're stocking enough, or too much, inventory over time. Using our example, you can see that Store A has a lower inventory investment and likely more cash-on-hand. Store B has a lot of money invested in unsold stock, which can make it vulnerable to sales slumps and less able to quickly free up cash profitably if needed. These are just a few of the many inventory-related metrics that a successful small business should monitor. However, these three metrics — Product Profits and COGS, Inventory Value, and Inventory Turnover Rates quickly tell the story of how well you're handling your retail inventory management. Retail inventory management is critical to efficient operations and effective cash management. It's helpful to turn inventory management techniques into a set of procedures to ensure that product data, stock counts, receiving, and location tracking is all handled quickly and accurately. Procedures can be developed around whatever inventory management tools you use — paper logs, spreadsheets, or a POS system that directly ties inventory to all sales activities. Using a POS system like Square for Retail simplifies every aspect of retail inventory management and makes it easy to create efficient procedures. It connects inventory data, sales activities, and more within one system and automates many tasks. See how Square for Retail can make a difference in your business by signing up for a free account—you pay nothing until it is used for sales. Visit Square for Retail

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