J.L.SEARS
CONSULTING INC

Inventory Management—10 Guidelines to Insure that "Cash is King"

Too much or not enough, that's the balancing act required to effectively manage inventory. If you end up with too much it can necessitate discounting. This not only hurts your margins for the season, it can also hurt your brand image for seasons to come. If you don't have enough you will lose sales and possibly goodwill with customers for future purchases. The art and science of good inventory management balances the two. Cash really is king, especially lately. Strong sales produce cash, and tight inventory management preserves cash. The following guidelines help with both:

1. **Inventory levels are dependent on forecast accuracy.** Forecasts will never be 100 percent correct. So work to improve forecast accuracy. But, at the same time work to manage the inaccuracies or the too much or not enough caused by over forecasting or under forecasting. A wholesale client of mine was so intensely sales driven that they focused solely on not losing a sale despite inventory management or margin implications. I worked with them to better understand and balance all aspects of inventory management.

> Forecasts will never be 100 percent correct. So work to improve forecast accuracy. But, at the same time work to manage the inaccuracies or too much or not enough caused by over forecasting or unforecasting.

2. **Good inventory management cannot be done in a silo.** Assortment planning and channels of distribution plans—store floorsets, catalog lay-outs, e-commerce promotions, and wholesale customers—are all part of the equation and must be key input. I worked with a catalog client who had the inventory management function off by itself in a procurement department. They had tremendous excess inventory. The first thing I did was set up cross-functional processes and responsibilities. This helped to reduce inventory immediately.
3. **When buying inventory or forecasting it's good to remember that sales people and product people are optimistic.** Clients and products are their babies. Each time I work on reorganization with a client I always build in a system of checks and balances to address this.
4. **Strong cross-functional processes are crucial to solid inventory management.** Skilled people are even better. A new system rarely solves your problems but is often required. A straightforward calendar driven by lead times, with key milestones, owners, and dates has helped many of my retail and wholesale clients. An Open to Buy (MRP -wholesale/MGF equivalent) must be put in place and/or actively managed. Twice I have seen clients severely over inventory themselves by mixing up their cost basis inventory with retail basis sales. Don't let that happen to you.
5. **"Tops down and bottoms up"—stores, catalogs, or customers—is the way to go.** This is especially true for brick and mortar retail stores at the SKU level. Stores must have the proper SKUS to sell and they must have some sort of minimum presentation. One retail client of mine bought at the "total level". When the goods came in they did not have enough SKUS to allocate to all stores. I worked with them on doing "bottoms up" buying and forecasting along with "tops down" methods to give stores better coverage for better sales.
6. **Always have contingencies.** Things will never turn out the way you plan so have contingencies and "trigger dates". These contingencies need to include the upside —dual sourcing and raw materials etc—as well as the downside—sales events, cancellations etc.
7. **Inventory does not get better with time.** If a product or certain category is not performing deal with it now. Only wine gets better with time. A retail client of mine in the fashion business had kept so many styles around without discounting that their website had way too many

SKUS. Customers never found the old product. I worked with them to clear out these styles and put a process in place to keep the assortment current.

8. **Inventory aging is alright in fashionable, seasonal, or perishable categories.** My all-time favorite example of mis-used aging is automatic markdowns taken on men's basic white shirts simply because of an aging code. That makes no sense. As long as you have the cash to carry excess in basics—do it—you won't miss a sale.

9. **Inventory metrics must be included in performance plans.** Annual inventory turn is the primary measure at a category or company level. Sell through, sales stock (or stock to sales), weeks of supply (or days) all work well to insure good management at the SKU level. These metrics need to be included in product and sales people's performance plans as well as the inventory management group.

10. **The shorter the lead time the better.** But don't misunderstand this; it does not solve inventory management issues. It just helps with reaction time. Many of my clients have implemented initiatives to shorten lead times—which is a good thing—but I also work with them to improve inventory management 1–9 above.

I'd suggest enrolling your entire team in the guidelines above to insure success. Good luck. I can be contacted at Janice@jlsearsconsulting.com or 206.369.3726. I'd love to hear about your inventory management successes and needs.

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More about us

ABOUT THE AUTHOR | Janice Sears has served as **Principal** of JL Sears Consulting, Inc. based in Seattle, since 2004. She is also a Principal of Tag Team Business Solutions.

Janice brings more than 20 years of **broad multichannel retail and wholesale experience** in merchandising, planning, marketing, finance, and operations to her clients. She is a Certified Management Consultant (CMC), and received her **MBA in Finance** from the University of Colorado.

As a former **Vice President at Eddie Bauer**, she was accountable for $1.6 billion in annual sales, which included 400+ stores in the US and Canada, catalog and internet sales, along with margin and profit. Janice directed strategic business planning, merchandise planning, inventory and margin management, and led the cross-functional business teams by channel to manage the P&L. She also drove system and business process improvement projects and was integral to marketing, assortment planning and organizational development initiatives.

She served on the **Board of Directors for Big Brothers Big Sisters of Puget Sound** for more than 10 years while being a Big Sister herself. Janice continues to serve on a variety of professional and non-profit boards and is currently a University of Washington Business School Mentor.

Janice is an avid skier and cyclist who writes a travel blog about her quest to visit all 58 National Parks. She enjoys northwest urban living and time with family and friends from her Seattle home.

ABOUT J.L.SEARS | **JL Sears Consulting, Inc helps organizations and business teams boost profitability and productivity through strategic business planning, development of merchandise strategy and implementation of key execution tools.**

We specialize in working with multi-channel retail and wholesale clients to craft a roadmap to success in an ever-changing business environment.

Clients include: Belkin, Branders, Charlotte Russe, Crosstown Traders, evo, Griot's Garage, Lucy, Nasty Gal, Outdoor Research, and Sur La Table.

JL Sears Consulting, Inc. is a former member of 1% for the Planet and continues to focus its one percent donation on saving Puget Sound and supporting our National Parks.

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