How to manage your inventory?

To find the proper inventory levels you have to consider many factors. Having too much inventory leads to unnecessary costs, but having too little risks stockouts and difficulty in meeting customer demands.

To make a proper assessment how you should deal with stock management, the following four elements should be considered. These examples relate to packaging inventory, but the same logic applies to raw materials and finished goods.

Expected Demand

Overall, how much of a package is needed in a year? Past history may be a guide, but it would be better to depend on well-planned marketing or sales initiatives and look at the latest demand indicators. And since this must be carried out at product-line or SKU level, it is a difficult but critical process.

Order Frequency

The more frequent you can order, the less inventory you need as you can replenish more regularly. But multiple orders can lead to higher piece-prices (as one large buy is broken up to many smaller buys) and more freight costs (as one FTL load is turned into multiple LTL shipments) and may violate vendor minimums. On the other hand, the less often you can order or replenish, the greater your stock levels must be in order to meet a specific demand.

Lead Times

If you can order a package on Tuesday and receive as much as you need on Wednesday, then lead times are simple and not an issue. But often lead times can be long and variable. They may vary for many reasons: type of product (commodity vs. unique part), number of potential suppliers (few vs. many), locations of the suppliers (e.g., domestic vs. international), and buying power of the purchasing company (market mover vs. tiny player). Longer lead times require more precise planning, causing many companies to opt for higher inventory levels.

Safety Stock

The more uncertainty there is in the supply chain, the greater the cost of failure and – therefore – the more likely a company will want to carry more inventory or safety stock. Uncertainty can come from many factors, including variability in supplier lead times as well as quality concerns. Inability to manufacture due to input stock-outs leads to a "cost of failure" such as customer dissatisfaction, customer loss of loyalty, supply chain disturbance and overall brand impairment. Safety stock is an insurance policy against risks in the supply chain or miscalculations in inventory planning.

Smarter and leaner inventory strategy

Not all suppliers are adept at managing inventory; you need a supplier you can trust who also has operational expertise and the same goals as you. If your suppliers are mainly manufacturers, they are equipped for 'make to order', not 'make to stock'. You have to activate them while we – as your partner in packaging management - are always pro-active. One important step ahead.

The right partner can manage your inventory and with tried and trusted just-in-time deliveries significantly reduce (or take over) your stocks and subsequent carrying costs. With lower assets (less inventory), lower costs and higher profit (lower carrying costs), your overall return can improve significantly.