

Inventory management guide for retailers.

How to set up, manage, and optimise a winning inventory system for your retail store.



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Inventory management keeps many retailers up at night, and for good reason: staying on top of your store's stock levels is a balancing act that can make or break your sales and customer satisfaction.

Too much stock on hand ties up your capital and can end up killing your margins if you decide to mark down unsold products. But not having enough merchandise is just as bad and can lead to lost sales as well as lower customer satisfaction and loyalty.

So how can you get stock levels *just right* in your store? Well, each retailer has different inventory needs, so there aren't any silver bullet for this. There are, however, steps and best practices that you can implement to figure out the right product mix for your shop. And that's exactly what this guide is for.

Below you'll find tips, how-tos, and examples to help you win at inventory management. From picking the right solution and entering your products, to tracking stock levels and automating parts of the process, this guide has you covered.

Whether you're choosing your inventory software for the first time or you already have a system but are looking to improve and further optimize it, you're bound to pick up something useful from this handy guide.

Let's get started!

Setup

Setting up your inventory program can be a challenge. Between researching providers, picking the right solution, and entering all your products into the system, the task can get overwhelming or confusing, real fast.

That's where this chapter comes in. The following paragraphs will walk you through the process of finding and vetting solutions. It'll talk about what to look for, what questions to ask, and how to make sure that a system is a good fit for your store.

It'll also offers stories from real-life merchants so you can get a glimpse of how other retailers were able to zero in on the right solution.

Finally, this section will discuss how to efficiently import products into your inventory system so you can start tracking and selling in no time.

1

Choosing the right solution.

Do some internal info-gathering before you go out to look for the right inventory system. Think about your needs and your day-to-day activities. If you're always on the move, for instance, then you may need an inventory system that runs great on a tablet. Do you have an online store? Then set your sights on solutions that play nice with your ecommerce platform.

It's also important that you think beyond your current needs and reflect on your plans for the future. For instance, if you're growing rapidly or are considering opening up multiple stores going forward, see to it that the system you choose can scale with you.

That's what Andrey Pronin, owner of a charming gift shop called Podarok did. [He chose Vend as his inventory and POS software](#) because it enabled him to stay on top of various parts of his business, including stock levels, accounting, and ecommerce, for a fraction of the cost that he would've spent with a traditional system. Doing so, according to Andrey, enabled them to "reduce costs and most importantly, scale"



“Within less than a year of starting we were able to open another shop in Oxford (our first is in Cambridge). The start-up costs of a new shop were tiny compared to other similar businesses because we didn't need to buy bulky equipment or pay huge fees. In we went, and started selling straight away!”

[ANDREY PRONIN - PODAROK](#)

It's important that you think about your requirements before evaluating solutions. There are a lot of options out there, so knowing your needs right from the get-go will enable you to narrow down your choices and make your search less confusing or overwhelming.

Think of this step as creating an inventory wish list. A modern retail store, for example can write down their inventory management needs in this format:

- Must have the capabilities to run on tablets
- Must be able to generate inventory reports on margins and top-sellers
- Must be able to connect with accounting software
- Must integrate with online shopping cart

Once you have all your inventory requirements on paper, then you can start to seriously consider and compare products.

Going through the usual research channels (such as Google) is always a good idea, but you may also want to get the opinions of fellow entrepreneurs. Check out the inventory system that your retail friends are using. Head to [retail groups and forums](#) and ask members about their inventory software. You may also want to consult with business solutions experts and ask what inventory systems they recommend.

Whatever you decide, though, we highly advise that you go with [cloud-based inventory software](#). Unlike old school systems such as spreadsheets that live in your computer or (gulp!) on paper, cloud-based inventory systems can work from anywhere that has a web connection, making them safer, faster, and easier to manage.

For one thing, cloud solutions enable you to access your data from multiple devices or locations as long as you have a web connection. You're never tied down to a single device, so whether you're in your store manning the register, at home in front of your computer, or on the go on your mobile device, you can still view your inventory and know what's going on in your business.

Most cloud-based software also allows integrations that let you connect the program to other apps. So if, say, you want to link your inventory with your accounting software to make reconciliations easier and reduce data entry, you totally can. (More on this in a bit.)

Finally, your inventory information is much safer in the cloud. With web-based software, your data doesn't live in your computer, so even if (knock on wood) something happens to your devices (e.g., they get stolen or damaged), you can rest assured, knowing that your data is intact.

Setup

Michelle and George Wales, founders of Conscious Vibes and CV Café in Bermuda, learned this lesson the hard way when a computer problem wiped out all of their data.



“All our inventory was on one computer! It had taken us many, many hours to upload all our inventory info, so when we lost it all in one go, it felt like a big setback,”

[MICHELLE WALES - CONCIOUS VIBES](#)

The incident prodded them to switch to an online POS and inventory system (Vend), which helped them keep their information secure and run their business more efficiently.

2

Setting up your products in your inventory system.

The next step is adding products into your inventory system. This process may vary depending on what program you have, but you'll typically have the option of either importing products from a CSV file or entering item information manually.

✓	_____	14
✓	_____	834
✗	_____	30
✓	_____	108
✗	_____	306

Regardless of which route you choose, though, you should prepare product details in advance and have them all in one place, so you can go about the process as efficiently as possible.

Set aside some time to compile the product information to be entered into the system. This process can take anywhere from a few hours to several days, and you may need to enlist the help of some of your employees. It all depends on how many products you have, how organized the information is, and of course, how busy you are.

If you already have all your product info in a neat CSV file or if you're using existing barcodes, then the process will take significantly less time, compared to you having to manually enter the data.

In any case, below are some of the item details you'll want to have handy when adding products into the system:

Product Name - This is the name or title you give to each item. Keep it descriptive, but brief and accurate, so it's easy to find or remember (e.g., [Brand name] Maxi Skirt).

Product Description - Write a statement or two to describe the item. Will your customers see these product descriptions (i.e., will they be displayed on your ecommerce site)? If so, inject some personality into them.

Product Image - If you can, also upload product images into your inventory system. Doing so will make it easier for you to find items when you're ringing up sales. This will also be helpful if you have an ecommerce integration, as the images you have in your inventory or POS system will be displayed on your site.

SKU - The stock keeping unit, aka SKU, is a unique identifier for each of your products. If you have existing barcodes or supplier-barcoded products, you can simply scan or enter them into the system. You also have the option of creating your own barcodes, using your inventory software.

Cost - Enter the amount you spent creating or sourcing the item.

Price - Enter the amount that you're selling the item for.

Taxes - The amount of tax you need to charge will depend on where your store is located, so check the taxation laws in your area if you're not sure how much to put here.

Supplier Information - Enter the individuals or business from whom you obtain your inventory from.

Quantity - Put in the amount of stock you have for each item. If you're using a modern inventory system, this field should automatically update as you sell products.

The list above isn't comprehensive, and depending on your inventory software, you'll likely find additional fields to fill out. Try to complete as many as you can. The more information you have in your system, the richer data you'll get and the easier it will be to track what's going on in your store.

Also, be sure to keep your formatting consistent. For instance, if you enter a product name using the format "product type + brand + color," then make sure all your item names appear the same way. This will keep your system organized and make it easier for you to find and sort items.

That wraps up the first part of our inventory management guide. Hopefully, the information above will enable you to effectively find and set up your inventory system. In the next section, we'll teach you how to develop the right processes, so you can track and manage stock with ease.

Establish an inventory management system

Inventory management relies on three things: people, processes, and technology. We've already covered the tech part in the previous section, now it's time to talk about getting the right people and processes in place so you can stay on top of everything.

While software can give you the tools to store product information and track stock levels, it's how you use these tools that will ultimately determine your inventory management success.

To accomplish this, Vend's Inventory Product Manager recommends you take the following steps:



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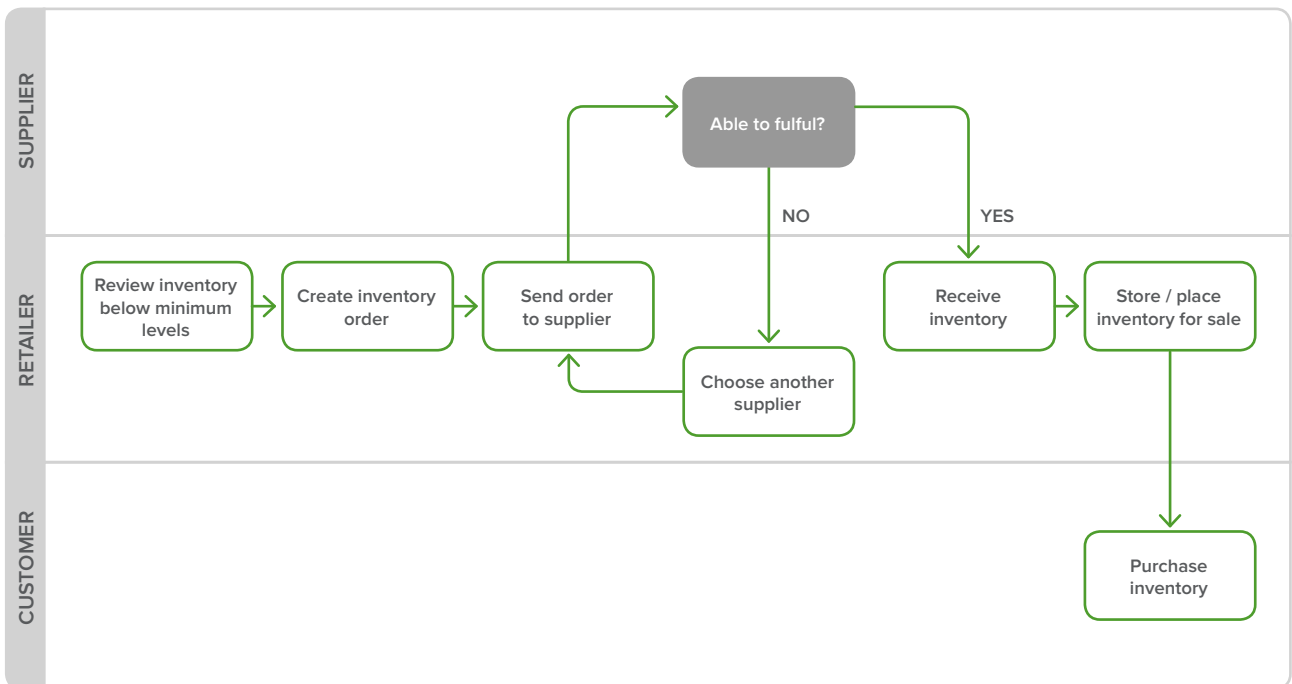
1

Create a flow chart

Start by putting your inventory management process on paper. This sounds basic, but don't skip it. Documenting your procedures enables you get a better handle on how inventory flows in your store. It keeps you organized and makes it easier to spot inefficiencies or areas for improvement.

Lay out your procedures—from placing stock orders and receiving merchandise to replenishing shelves and completing stock takes—then create a flowchart detailing how everything takes place.

Below is a sample inventory management flowchart to draw inspiration from:



Once you've completed this step, go through every element on the flow chart and determine who's in charge of each item and how the tasks should be carried out. Who's going to receive merchandise? Who enters data into the system? When or how often should they do it?

For example, let's say your diagram has a section on ordering stock from suppliers. For this step, you'll need to determine:

- The person in charge of completing the task
- How it's carried out (i.e. manually, online, with the use of software)
- When and how often should they complete the task

2

Save time and reduce errors by finding ways to automate parts of the process.

Go through your inventory process and find tasks to automate. Are there any manual parts of the procedure that can be handled by your inventory software? Or, can you delegate particular steps to an app instead of a person?

For instance, if your process requires copying purchase orders from your inventory program to your accounting software, you may want to consider integrating the two solutions so they can “talk” to each other and automatically sync data and make reconciliations easier.

Or, if you’re running both a physical store and an ecommerce site and you’re spending time manually updating stock levels whenever a shoppers purchases something from one storefront, you should consider integrating the two channels so the data is automatically transferred.

Consider the case of RAYGUN, a retailer that sells humorous graphic T-shirts. The business has two brick and mortar locations and it also has an E-Commerce store at Raygunsite.com.

RAYGUN initially used software that was very finicky could not communicate well with their Shopify online store. According to RAYGUN staffer Blake Crabb, this created several issues, such as inaccurate sales and inventory data.

To resolve this, RAYGUN signed up for Vend, and used its integration with Shopify to link their online store with their brick-and-mortar locations. This enabled them to share products, pricing, stock and orders in real-time and it gave RAYGUN a better handle of their inventory across multiple storefronts.

Vend’s cloud-based software also gave RAYGUN the capability to address issues from anywhere.



“I love the fact that I can access Vend from any of our brick and mortar stores or from my home computer and fix any inventory or sales issues myself.”

BLAKE CRABB - RAYGUN

3

Maintain inventory accuracy

Inventory isn't something that you can simply "set and forget". While having the right tools and automations will certainly make your job easier, you still need to do regular checks to make sure that the amount of merchandise you have on paper (or on your tablet / computer screen) is consistent with what you actually have in your store.

The best way to accomplish this is by physically counting products on a regular basis.

Below is a step-by-step guide on how to do this:

Step 1 - Schedule it

You can't conduct a physical inventory count during normal business hours, as stock levels will be in flux. Not to mention, you won't be able to serve your customers when you're busy counting items in the back.

It's best to set aside some time outside your usual store hours to complete this task. If this isn't possible, you may have close up early on the day that you're going to conduct your inventory count. (Just be sure to give your customers a heads up well in advance!)

Step 2 - Prepare stock-taking materials and procedures

The first thing you'll need is a physical inventory count sheet. This is where you'll enter the items that you've counted along with their quantities and prices. Check to see whether your inventory software has a template or tool that you can use for this.

Perform Inventory Count					
Newmarket Store Count		Outlet Newmarket Store	Start Date 20 Jan 2015, 4:27 PM		
Search...		X	1	Count	
All (80)		Counted (14)	Uncounted (46)		
Product	SKU	Expected	Counted	Count Feed	Undo Last Count
3 Layers Shizuka Necklace / Gold	10186888	-1	2	1 3 Layers Shizuka Necklace / Gold	
Dune Necklace / Silver	11107	2	10	6 Dune Necklace / Silver	
Cape Town Necklace / Gold	11172	0	3	1 Cape Town Necklace / Gold	
3 Layers Shizuka Necklace / Silver	10197	-1	2	1 3 Layers Shizuka Necklace / Silver	
Eva / Ifigree & Pearl Necklace / Silver	11185	3	3		

Vend, for example, has a built-in feature that lets you input data right into the software. That way, you can simply take your iPad to your shop or stockroom and either type in item counts or use a barcode scanner to enter them directly into Vend.

Establish an inventory management system

If your inventory solution doesn't offer this capability, simply print out a count sheet like the one below:

Physical Inventory Count Sheet				
Sheet No.		Date		
Performed By		Department		
Item	Item Description	Price	Quantity	Location
Red shirt	[brand name], size	\$10.00	- - = 15	Store #1

In addition, we recommend that you create a map of your store / stock room that details where products are located. This will help you plan out how you're going to conduct the process and will let you get clear on things like where to assign your staff, whether you should move clockwise or counter-clockwise around the store, etc.

Step 3 - Enlist additional help if necessary

Will you be needing help with the task? If so, plan out the details early on. Who will assist you with counting? How will they get paid? What would their job description be?

Give your staff an orientation well before inventory counting day (or night). Show them your count sheet and make sure they know how to properly fill it out. Give them a copy of the map and see to it that they know where they are assigned.

Step 4 - Start counting

Proceed to doing a physical count of your merchandise. The finer details of this process will depend on your store, the materials that you're using, and the procedure that you and your staff talked about.

But a good rule of thumb is to stay organized. It's best to arrange merchandise and to make sure that things are in their proper places before you begin the process. And once you start counting, avoid jumping from one category or store section to the other, and make sure you've finished counting a particular SKU or item type before moving on to the next.

Step 5 - Tally up the numbers and compare them with what you have in your inventory system

Moment of truth. Once you're done counting, pull up the inventory data you have in your system, and see how the numbers stack up against what you have on paper. If all goes well, your item counts should match up.

4

Reduce inventory inaccuracies

If you find a lot of discrepancies in your inventory counts, you'll need to do a bit investigating to figure out the reasons behind the inaccuracies (aka: shrinkage). Common causes of shrinkage include administrative errors, employee theft, shoplifting, and supplier fraud.

Find out which of these issues are causing shrink in your business and take the steps to prevent them. Here are a few ideas:

For administrative errors

If you're dealing with administrative issues, figure out ways to reduce human error. You can do this by assigning someone to audit or double-check your records. Or better, yet see if you can automate data entry completely. For example, instead of entering SKUs into your inventory system manually, why not use a barcode scanner instead?

For theft and fraud

There are a number of ways to handle security issues such as theft and fraud. Perhaps the most important one is to hire the right employees. A [2014 study of U.S. Retail Fraud](#) identifies employee theft as "the biggest area of store loss," accounting for 38%.

That's why it's essential that you invest in the right hiring practices. Conduct thorough interviews, and if you can, have applicants go through a background check.

Once you hire employees, see to it that they're well trained and taken care of. Happy and knowledgeable team members are not only less likely to commit theft or fraud, they will also work harder and be more vigilant with staying on top of security (ex: they'll do a better a job keeping an eye out for shoplifters and vendor fraud.)

And if you have the budget for it, invest in security equipment such as cameras or even in-store tracking and analytics tools. Consider the case of American Apparel, which used foot traffic analytics solution RetailNext to help beef up their security.

According to [RetailNext](#), "American Apparel was able to interpret streams of digital video and recognize human beings moving through the stores, opening up broad capabilities for measuring shopper behavior inside its environment." This enabled the retailer to improve on their loss prevention efforts and enabled American Apparel to reduce theft by 16%.

Optimizing inventory

Trends, seasons, and consumer demands are always changing, and retailers must stay on their toes to keep up. One way of doing this is by proactively optimizing your inventory and making sure that you're stocking the right products, at the right time.

To accomplish this, retailers should identify and track certain metrics that would give them a better understanding of how inventory is moving in the business.

The next few paragraphs will talk about how to do this:



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1

Identify and monitor important metrics

a. Inventory turnover [cost of goods sold / average inventory]

Also known as stock turn, this metric refers to the number of times that merchandise has sold out for a particular time period.

Example: A clothing store's average inventory costs \$10,000 and it sold \$50,000 worth of goods within a 12-month period. In this case, the retailer's stock turnover rate is 5.0, which means that it sold out its inventory 5 times that year.

Monitoring stock turn is a must, since it lets you see how fast merchandise is moving in your business. Generally speaking, a high stock turn rate is good, because it means you're not tying up too much capital in your inventory.

You can also compute for stock turn at a per item basis so you can figure out how fast different products are selling out. So if item A has a turnover rate of 1.0, and item B's turnover rate is 7.0, then you know that the latter is selling much more quickly, and you could take this a sign that you'll need to order more of item B, and less of item A.

b. Gross margin ROI [gross margin / average inventory cost]

The GMROI measures your return on the amount you invested in stock. It basically answers questions like, "How many gross margin dollars did I make from my inventory investment?" or "For every dollar invested in inventory, how many dollars did I get back?"

Example: A sporting goods store's average inventory cost is \$25,000 and has gross margin of \$60,000. The GMROI would be 2.4. In other words, the retailer earns \$2.40 for each dollar spent on inventory.

When computed at a store-wide level, GMROI can give you insights on the overall health of your business. This metric can also be calculated at a per-item basis so you can determine whether it's worth it to carry certain products.

Say you recently started selling a new widget in your store. You run the GMROI on it (by taking its gross profit then dividing it by your average inventory at cost) and find that the result isn't as great as you'd like. You can then use this data to decide on what to do with the product (i.e. take it off the floor, put it on sale, etc).

c. Sell-through percentage $[\text{units sold} / (\text{units on hand} + \text{units sold}) \times 100]$

The sell-through percentage pertains to the number of units sold versus the number of units you had at the beginning. It's a metric used to assess product performance. It tells you how fast merchandise is moving and how much more units you have to sell to unload your inventory.

Example: A vitamins store received 200 bottles of a new brand of supplements, and proceeds to sell 145 after a month. That item's sell-through percentage is 73%.

Sell-through can give you an idea of which products are selling and will allow you to make better decisions when it comes to what to stock up on, what to put on sale, etc.

Tip: See if your POS or inventory system provides these metrics for you

Before pulling out your calculator to compute for these metrics, see if you can find the insights you need using your inventory or POS software. Some systems can generate reports on popular products as well as your margins, so you won't have to do math yourself.



CHRISTOPHER COCCAGNA - T-WE TEA

Check out the story of T-We Tea, a San Francisco-based tea retailer, which sells both blended teas and tea accessories. They used [Vend](#) to analyze their inventory, and figured out what their top-sellers are as well as which products are generating the highest profits.

Upon viewing their reports, T-We Tea realized that while sales were increasing, their customers were purchasing more of their low-margin items (like accessories) instead of their house-made teas.

To address this, T-We Tea bundled up their top-sellers with their high-margin merchandise and sold those bundles at a discounted rate. This move, along with other tweaks, enabled the business to increase revenues by 300%.

Alternatively, you can download [Retail Calculators](#), an app that has several preset calculators in one program, allowing you to compute for common business metrics without having to memorize any of the formulas. Just enter the necessary numbers, and the app will do the rest.

2

Forecast demand

Think of demand forecasting as a way to supercharge your inventory system. It's a strategy that forward-thinking retailers use so they're not just reacting to trends, but they're actually anticipating them.

Effective demand forecasting can help retailers fulfill the needs of customers and stay ahead of the competition. Retailers can do this by factoring in historical data, customer sentiment, current trends, seasons, and maybe a little bit of intuition.

There are several ways to approach demand forecasting. There are qualitative methods, which include conducting market research and surveying customers, experts, and key people in the company. There are also quantitative methods, which include causal models (i.e. projecting outcomes based on a set of variables) and time-series models (i.e. attempting to predict the future based on past data).

Some retailers use a combination of these methods to forecast demand, while others use applications that can run for the numbers for them.

Case in point: BevMo! The alcoholic beverage retailer used a solution by [JustEnough](#) to predict demand and localize product mixes in its stores.

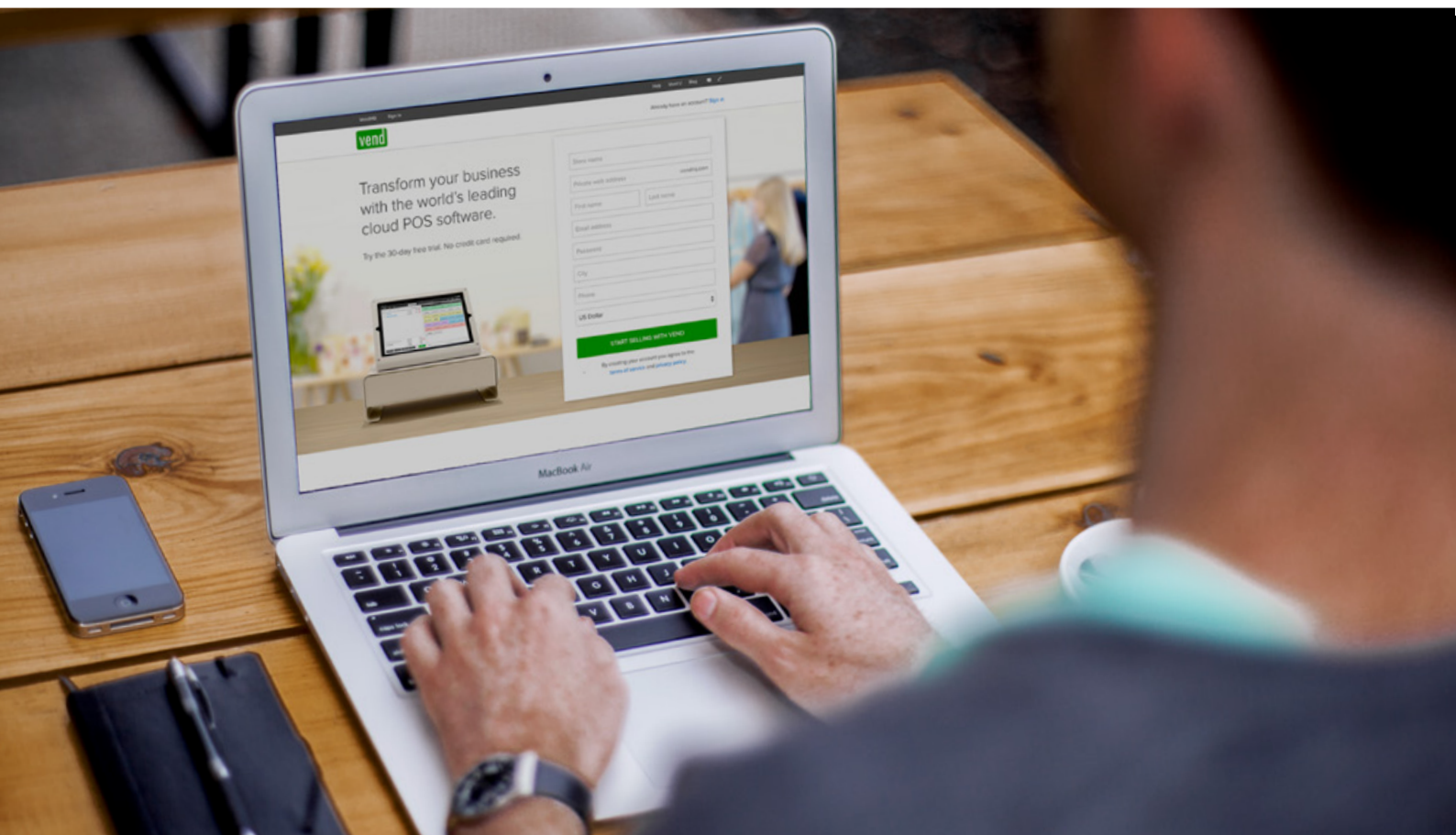
JustEnough factored in BevMo!'s current inventory plan and demand forecast then came up with an "ordering pattern to achieve BevMo!'s targeted service levels." They also forecasted demand for products that don't have sales history "by linking new products to the sales history for similar existing products." This enabled them to figure which items to stock up on and the BevMo! used the data localize orders and merchandise.

Final words.

This concludes Vend's inventory management guide for retailers. The next course of action depends on the state of your existing inventory management system. If you're already using a cloud-based app, for example, then your next steps would probably include finding the right integrations so you can do more with the software. On the other hand, if you're still tracking stock levels with a pen of paper, then you'll have more work ahead of you and you'll want to start at the "Set Up" section at the beginning of this guide.

Wherever you're at though, we hope this resource gives you some insights and ideas that'll help you get a better handle of inventory at your store.

Good luck!



About Vend.

Vend is a cloud-based retail software platform that enables retailers to accept payments, manage their inventories, reward customer loyalty and garner insights into their business in real time. Vend is simple to set up, works with a wide range of point-of-sale devices and operates on any web-capable device with a browser.

Whether it's simplifying the inventory process, cutting 30 minutes from their end-of-day bookkeeping or making it simpler for them to sell their products on multiple channels, Vend's mission is to make retailers' lives easier.

With Vend, retailers are able to focus less on transaction and inventory concerns and more on creating that relationship with their customers. Vend aims to empower merchants by putting the right data and tools into retailers' hands and enabling them to do things themselves — and succeed.



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