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Control Shrink, Lower Inventory Costs

Shrink, workforce, store systems, and consumers are the most influential factors for reducing your inventory management costs.

by Erin Harris

Inventory can represent the largest asset on a retailer's balance sheet, accounting for 60% to 80% of retailers' total assets. Effective inventory management can have a significant impact on the company's overall financial success. Dave Haller, VP sales and marketing at WIS International, explains how retailers can lower costs associated with inventory and how to improve the inventory process.

What costs do retailers incur in carrying inventory, and how can they lower these costs?

Haller: One of the most significant expenses associated with inventory in retail locations is shrink. Shrink occurs in two primary areas — administrative error and theft. Theft results from both internal and external sources. The first step in controlling shrink is to understand where and how it is occurring. An accurate physical inventory provides a solid starting point to begin this analysis. With an item-level inventory, a retailer can compare actual inventory to system inventory and identify departments, product classes, and items that account for the highest levels of shrink. This information will allow more targeted analysis to assist in identifying and eliminating the root cause of the shrink. Products with high levels of shrink can be packaged, merchandised, and distributed differently to help reduce losses associated with shrink. Loss prevention efforts can also be focused on areas of the store with highest levels of loss associated with shrink.

Carrying cost of inventory is another significant expense for retailers. There is intense focus on balancing inventory productivity with customer satisfaction. Perpetual inventory systems with automated replenishment features can help reduce overall inventory carrying costs by balancing inventory levels with rate of sale while accounting for transactional cost of ordering. While there is tremendous cost efficiency associated with moving to an automated perpetual inventory system, human intervention can quickly create discrepancies between actual inventories and system inventories. Insuring that order management systems are populated with accurate inventory levels at the item level is critical to the functionality of the system. An accurate physical inventory count can assist in insuring that system item counts match actual quantities that are at retail.

List two or three problems retailers face with inventory management. Follow up those problems with reasonable, actionable solutions.

Haller: There are three main areas that heavily influence inventory management — systems, employees, and consumers.

Retailers have invested heavily in improving systems that support inventory productivity and accuracy of system inventory. Traditionally, shrink increases during difficult economic times. Many of our customers have experienced reduction in shrink levels despite a very challenging economy and attribute this to investments made to improve systems that manage and report on inventory. Staying up to date on new IT systems can produce a significant ROI.

Smarter loss prevention systems and initiatives have helped control external theft. Organized theft has become a more significant contributor to shrink over the years. Retailers are working to develop coordinated efforts to address organized crime through industry associations that are producing significant results. If a retailer is attempting to address organized theft alone, it is missing out on some significant benefits that industry groups can offer.

Many retailers often underestimate the impact that employees can have on inventory management. It is more important than ever to educate your workforce on how they contribute to successful inventory management and why it is so important. The cashier that scans the first box of pudding and enters a quantity of five for the remaining four boxes with the same price but different flavors does so in the interest of speeding their customer through the checkout process. What they may not realize is that the store systems will now order five of the first item scanned and none of the other flavors that were actually sold. This will create overstock of the product ordered and potential out-of-stock for the remaining items if this occurs frequently. If employees are educated on the importance of proper management of the inventory at all stages, they can have a positive effect on inventory productivity. ■