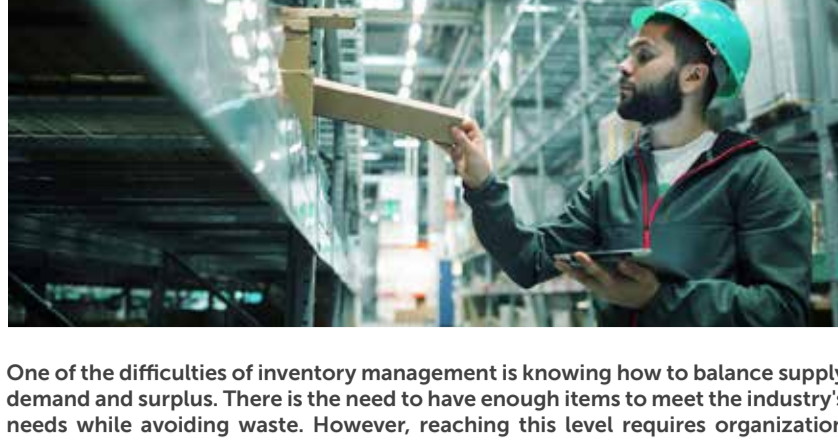


How can inventory management optimize operations in the industry?

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One of the difficulties of inventory management is knowing how to balance supply demand and surplus. There is the need to have enough items to meet the industry's needs while avoiding waste. However, reaching this level requires organization and knowledge of routines.

Although often neglected, inventory management is one of the sensitive aspects of the business. When inefficient, the result tends to be loss of opportunities, either by lack of products – which prevents the fulfillment of an important sale – or by compromising the working capital – which jeopardizes other investments in the industry.

That is why in this article we will explain how the management of products, inputs, and raw materials optimizes the operations in the industry and what practices makes this activity more efficient. Are you ready?

Inventory management

In the industrial context, inventory management relates to the administration of material resources needed for the operation and generation of future revenue. Ideally, we ensure that the quantity of items is enough to meet the demands with no capital underused, because long-term inventory surplus jeopardize investments and the company's finances.

This is the rule to be efficient. However, forecasting the demands of the coming periods and preparing to meet them is not always so easy. In addition, it is also necessary to consider a safety margin for seasonal periods or eventual high demand periods in the market.

How to reach this balance? The recommended approach is to analyze the company's sales history. Then, you will need to plan a strategy in line with the production expectation. Sounds difficult, right? However, the idea is just to review the data from previous periods and add a growth forecast.

By performing this activity and doing good management, the profit margin of the business is increased. In addition, the main problems derived from lack of stock control are avoided. In other words, you want to ensure:

- the availability of inputs to produce high demand items;
- sufficient quantity of raw material to manufacture low-demand products;
- inventory update, with correct information to help its management;
- knowledge of available goods and of the company's profile regarding incoming, outgoing, and returning items;
- existence of safety stock;
- alignment with the procurement team;
- the use of the stored items and no disposal of items due to deterioration, obsolescence, or theft.

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Thus, it is clear that efficient inventory management reduces losses, administrative errors and misplacements. These reasons are already enough to justify the implementation of good logistics practices, but there is more.

The benefits of inventory management for industries

Companies need good inventory management to maintain their operations. For factories, this is even more important, since production depends directly on an efficient control system. This is how operations are optimized.

At this point, you may ask yourself: what is the purpose of having an inventory? It has 4 main functions:

- to maintain safety stock of products
- to meet customers' demand for a certain period
- to keep the production going
- to ensure better prices

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Maybe only one or more of these objectives are worth considering for your company. In any case, the benefits are similar. Do you want to learn what these benefits are? Check it out!



Cost reduction

Efficient inventory management reduces costs by avoiding waste, losses, and misplacements. In addition, good planning avoids emergency purchases, which tend to be more expensive and have less negotiation margin.

This measure also impacts equipment maintenance. By reducing the setups – work interruptions for machine repair – the production line is optimized between 2% and 3%. Moreover, there is a reduction of losses and damages of items with no turnover, which reaches 10%.



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Waste reduction

The waste of materials implies loss of revenue and opportunities. This happens because you no longer serve certain customers and also because unnecessary purchases are avoided. Thus, there is more money left to invest in this and other areas of the business.

Having an inventory policy is a good measure to reduce waste. In this process, it is important to consider the product mix, the stock rotation, the ABC curve – to classify the inputs according to their representativeness in profitability and revenue, as well as their output volume.

It is worth pointing out that the ABC curve is an inventory organization technique that categorizes items according to their importance. The categorization considers the cost or sales price to get a final result. So here we see:

- **Curve A products: these are the most relevant. These represent 20% of the total of items and are equivalent to 80% of sales**
- **Curve B products: medium importance. These consist of 30% of the stored materials and correspond to 15% of the revenue**
- **Curve C products: the least important. These total 50% of the total and account for 5% of the company's revenue**

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Guarantee of continuity of operations

Detailed management ensures that the company runs its operations smoothly and without interruptions. By having a good lubricant in stock, for example, you ensure that your machines will run properly for a longer period.

This measure ensures that operations are aligned and organized. This way you avoid seasonal concerns, as well as shortages or excesses of raw materials.



5 tips for efficient inventory management

The benefits and the achievement about what inventory management is make it clear that you need to be efficient to achieve the expected goals. But how? See 5 essential tips to get there!

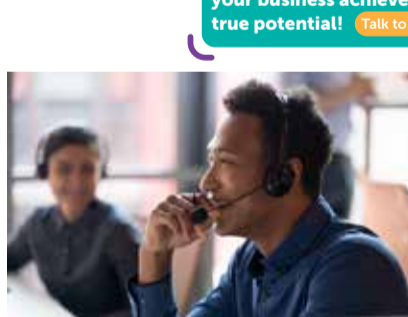
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1. Evaluate demand

Demand forecasting is a fundamental skill for good inventory management. You need to forecast your needs for specific products and goods for specific times of the year, especially in the case of seasonality. This criterion also serves as the basis for the inventory system, which we will see more about below.

Keep in mind that the demand forecast should be based on your industry's sales history and production style. In this way, you can determine with greater precision the size of the monthly stock you should be keeping.

Also, remember to add unexpected demand – this is the safety margin – and to integrate the inventory with the other departments in the business. This way you can identify atypical upward trends and meet the needs of that department.



2. Analyze the minimum inventory amounts

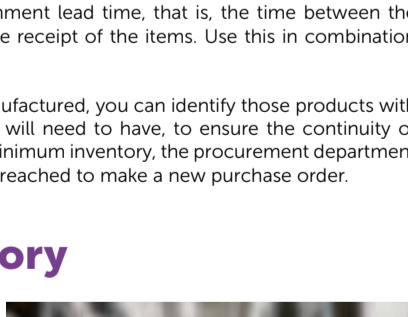
Minimum inventory is the smallest quantity of a certain item that is needed. For this determination, you must consider the replenishment lead time, that is, the time between the issuance of the purchase order and the replenishment receipt of the items. Use this in combination with the ABC curve.

With a graph based on the products sold or manufactured, you can identify those products with the highest demand and know how much you will need to have, to ensure the continuity of operations. You should have in mind that, with minimum inventory, the procurement department can take action as soon as this lower capacity is reached to make a new purchase order.

3. Count your inventory

An inventory is the sum of stored products. To this to be efficient, you need to have a mechanism to monitor the number of items in stock. In addition, this stocktaking procedure should be done regularly.

This regular assessment is necessary, because products can be misplaced or no longer be accounted for in the daily routine. With regular checks, out of stock issues and inconsistent information are reduced and, consequently, unnecessary purchases can be prevented at that moment. In addition to inventory count, minimize organization and stocking failures with zoning. The idea is that each area has an employee responsible for his task with training on the processes of storage and cataloging.



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4. Standardize your records





Stock control depends on standardized records. Otherwise, the information is no longer reliable and you may have duplicated items. Therefore, define matching names and codes to have an accurate count of available materials.

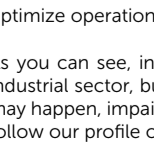
There are several ways to do this cataloging. One of them is with the help of barcodes, which make an accurate record of the stored items. It is still worth using a specific system and defining objective identification processes.

5. Calculate the time and money spent to store your inventory

Product maintenance needs to be considered, even while these items are not used. Check the materials with longer storage times, those with immediate turnover, and the average monthly cost to ensure this storage. This way you will know how to outline strategies to reduce costs and optimize operations, based on the reality of your industry.

As you can see, inventory management is an essential practice to optimize operations in the industrial sector, but it needs to be done carefully and efficiently. Otherwise, common mistakes may happen, impairing the smooth running of operations. Did you like learning these tips? Then, follow our profile on LinkedIn and check out more relevant information!

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