Inventory Management: How Much Is Too Much?

Inventory management is all about keeping track of the goods you buy, process or store as part of your business.

Good inventory management involves minimizing your inventory costs. The cost of buying and holding inventory can be very high. In fact, it can account for up to 80 percent of the final price of goods or services in some industries.

To keep track of your in-stock position there are many options. Their suitability will depend on the type of business and the size of operations. Here are the two most common:

**The Manual Entry System:** On purchase, inventory is manually entered into a computer system with a product number, quantity and price.

This method is inexpensive and easy to implement, but can be inaccurate if the data is not entered correctly and can take time if there is a lot of stock. It can also be “forgotten” when there are rush deliveries on.

**The Barcode Inventory Control System:** Purchased inventory is labeled with a barcode and scanned to capture inventory details. This method has revolutionized inventory management, particularly as many common small business accounting systems now seamlessly interact with them.

“**Costs increase when you have too much or too little inventory.**”

Implementation costs vary depending on the amount and complexity of the inventory, but as long as the inventory has been labeled correctly there are few errors and one click is all you need to do to upload information into your system.

Inventory software has made it possible for businesses to perform more complex and useful calculations that help them predict business.

From a management standpoint tracking inventory is critically important to some major decisions. It can affect cash flow and profitability and needs to be managed to ensure that neither is adversely affected.

An effective and up-to-date inventory-control system will provide you with information on:

- Which items sell well and which items are slow moving
- When to order more raw materials or more items
- Where each inventory item is stored in the warehouse or shop when it comes time to locate it
- The number of days in the production process for each item
- The typical orders of key customers
- Minimum inventory level needed to meet daily orders

Inventory management is a balancing act – to do it successfully you need to have systems and processes in place to track inventory, access supplies on short notice, and deal with poor quality supplies.