CEDA
CENTRAL ECONOMIC DEVELOPMENT AGENCY

BUSINESS TOOLS

EFFECTIVE INVENTORY MANAGEMENT AND TURNOVER

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UNDERSTANDING INVENTORY MANAGEMENT

Inventory management is vital to the success of a business's operations, especially for small businesses. Efficiently managing your inventory can lead to reduced costs, improved cash flow, increased customer satisfaction, and higher profitability.

THE SIGNIFICANCE OF INVENTORY:

Inventory represents a significant portion of your business's assets. It includes raw materials, finished goods, and work-in-progress items. Proper management ensures that these assets are utilised efficiently to meet customer demands while minimising your holding costs.

BALANCING ACT:

As a business you will need to find the right balance between having enough stock to meet customer demands and avoiding excess inventory as it will tie up capital and storage space. This balance is crucial to maintaining healthy cash flow.

THE FOUR MAIN BENEFITS OF GOOD INVENTORY MANAGEMENT

1. By optimising inventory levels, you will be able to minimise storage, insurance and handling costs. This frees up resources for other critical business activities.

2. Reducing excess inventory ties up less capital, making it available for essential investments, growth initiatives, or emergencies.

3. Efficient inventory management ensures that products are consistently available, reducing wait times for customers. Satisfied customers are more likely to return and reccomend your business to others.

4. When you have a clear understanding of your inventory needs, you can negotiate better terms with suppliers, including pricing, delivery schedules, and credit terms.

INVENTORY TURNOVER:

Inventory turnover is a key performance metric that measures how quickly a business sells and replaces its inventory within a specific time frame, typically a year. This is calculated as the Cost of Goods Sold (COGS) divided by the average inventory value.

A higher inventory turnover ratio indicates that a business is efficiently managing its inventory. It means products are moving quickly, reducing the risk of obsolescence, and freeing up captial.

THE FOUR KEY STRATEGIES TO IMPROVE INVENTORY TURNOVER

1. Use historical data and market analysis to predict customer demand accurately.

2. Look to recieve inventory shortly before it's needed to minimise holding costs.

3. Identify and address slow-moving or obsolete inventory promptly.

4. Invest in technology to automate and streamline inventory tracking.

For more resources, check out Tools and Resources

The Central Economic Development Agency (CEDA) exists to drive and facilitate the creation and growth of economic wealth in Manawatū and beyond.

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