

Importance of Inventory Control in Warehouse Management



Inventory Control for Warehouse Management



Table of Content

Introduction

Importance of Inventory Control System

Types of Inventory Control System

What does Inventory Management do?

Techniques of Inventory Management System

How to Decide?

Facts and Figures

Final Thoughts

References

Introduction

Are you wondering how Inventory Control can help with managing the warehouse and increasing warehouse efficiency?

Let's find out and share all that we know with each other. Let me begin.

Inventory Control is crucial for the proper functioning of a warehouse and a company as a whole. It ensures that an appropriate inflow and outflow of inventory are maintained, thus, ensuring that the warehouse is adequately stocked. It helps the warehouse management by making better decisions to handle stock, manage storage capacity, avoid overspending, and reduce costs by optimum utilization of capital.

While we are discussing Inventory Control for the good of the warehouse, we will learn about Inventory Management as well. Because both of them play a vital role in developing and maintaining the warehouse inventory.



Inventory Control and Inventory Management may seem similar in a lot of ways! But in reality, both have their individual space in helping the warehouse management. Where Inventory Control is all about controlling and handling the **On-Hand** stock; Inventory Management System deals on a broader prospect of **managing and maintaining** stock, timely availability of products, appropriate quantity, and analyzes the future demands.

Furthermore, we will discuss the difference between [inventory control](#) and inventory management, benefits of both the systems, types of inventory control and inventory management systems, and a necessity for a company. To begin with, let's understand the difference between the Inventory Control and Inventory Management System. This way, we will learn how both of them benefit the warehouse efficiency and warehouse management. As said earlier, the Inventory Control deals with In-house warehouse activities, and Inventory Management deals with managing the warehouse and stock. Although they may seem similar, they do work on two very different aspects.



Importance of a Good Inventory Control System



1. Accountability of Goods

[Inventory Control](#) Management System helps you know where your product is and how to find it in the warehouse. Through accountability, you are aware of the exact location of the product, size, quantity, and remaining inventory. This speeds up your process, saves time, and prepares a pick list at the earliest. Thus, when there are nearly 1000s of products to pick from your warehouse, the Inventory Control Management system will help you organize your work.

2. Track the InFlow and OutFlow of Goods

As the company makes numerous sales in a day, it is essential to keep track and monitor the fulfillment of all the orders. Also, the dispatched orders are accurate and going to the right buyer. Moreover, if a product returns, Inventory Control Management tracks and feeds data for every incoming and outgoing merchandise. Thus, all the product movements are tracked and recorded through the Inventory Control Management System.

3. Overstocking and Understocking

It is always a bad idea to keep your warehouse overloaded. This way, you have not only deadstock but also an unorganized warehouse. This makes it very difficult to manage the space efficiently. Many companies face trouble in properly stocking their warehouse and end up completely exhausted while placing a new order. Through the Inventory Control Management System, it gets easier to understand the current stock figures and accordingly places orders. In other words, it minimizes the scope of overstocking and understocking. This saves the investment costs, and the finances are not blocked due to real-time updates.

4. Optimum utilization of Warehouse Space

Accurate inventory counts help with the proper management of the warehouse. In other words, by reducing overstocking, the warehouse can be utilized in a much efficient manner.

Types of Inventory Control System

There are majorly two different types of inventory control systems based on the company's requirements. Let's compare the various types of inventory control systems and understand their benefits.

Periodic System							Perpetual System						
SUN	MON	TUE	WED	THU	FRI	SAT	SUN	MON	TUE	WED	THU	FRI	SAT
	1 ●	2	3	4	5	6		1 ●	2 ●	3 ●	4 ●	5 ●	6 ●
7	8 ●	9	10	11	12	13	7 ●	8 ●	9 ●	10 ●	11 ●	12 ●	13 ●
14	15 ●	16	17	18	19	20	14 ●	15 ●	16 ●	17 ●	18 ●	19 ●	20 ●
21	22 ●	23	24	25	26	27	21 ●	22 ●	23 ●	24 ●	25 ●	26 ●	27 ●
28	29 ●	30					28 ●	29 ●	30 ●	●	●	●	

Image Credits: netsuite.com

1. Periodic Inventory Control System

The name suggests it all! Periodic Inventory Control System is when a company does an occasional physical count of its inventory levels as well as Cost of Goods Sold (COGS). Periodic Inventory Control is best suited for small business entities as the number of goods are lesser in comparison to the more prominent companies. Thus, Periodic Inventory Control works well. As companies have thousands of products, carrying out physical counts, tend to be a little tricky and confusing. Therefore, they generally prefer doing it once a week, that means, four times in a month and again on a quarterly basis.

Periodic Inventory Control calculates the Cost of Goods Sold (COGS) as follows:

Initial Inventory Balance + Cost of Purchases - Cost of [Ending Inventory](#)

Difference	Perpetual Inventory Control System	Periodic Inventory Control System
Meaning	Continuously updates stocks present in the warehouse	Updates stock on specific time and relies on physical count
Inventory Status	Calculates the constant change in inventory	The change can be seen only on a periodic basis
Inventory Record	Records Real-Time Inventory and Cost of Sales	Records Inventory and Cost of Goods Sold
Workflow	Workflow is not interrupted while inventory calculation	Workflow is interrupted as the inventory is physically counted
Cost Calculation	Workflow is not interrupted while inventory calculation	Workflow is not interrupted while inventory calculation
Accuracy	More Accurate	Less Accurate
Compatible	With Big Business where large inventories are involved	With Small Business where less inventories are involved

2. Perpetual Inventory Control System

The dictionary meaning of the word “perpetual” is ‘never-ending or changing.’ Thus, as the name suggests, Perpetual Inventory Control System is the continuous updates of the inventory changes and keeping a constant track of the goods that enter and exit the warehouse. Perpetual Inventory Control is generally used by the prominent companies where inventory levels are substantially enormous, such as supermarkets or large manufacturing units. Under Perpetual Inventory Control, the goods movements are immediately entered into the system, including any purchases, returns, or goods sold. This way, the accuracy is maintained, human error is reduced, and chances of theft are also minimal as everything coming in and out of the warehouse is tracked and recorded at the very minute. In other words, Perpetual Inventory Control System deals with real-time inventory updates.

What does the Inventory Management System do?



1. Forecast Requirements

On the contrary to the Inventory Control Management system, calculates the current stock data; Inventory Management collects information to predict product requirements. Moreover, by using Just-in-Time theory, the inventory is stocked as per requirement. Thus, to avoid overstocking and increasing the efficiency of the company.

2. Work on Stock Replenishment

Inventory Management streamlines the warehouse and business activities. It ensures the warehouse has adequate products, moreover, utilizes the products efficiently. It determines which product to order and when to order, the right vendor, and the most competitive rates.

3. Automate Inventory with Real-time Changes

Let's see how automation helps your warehouse. Starting from the most basic automation – Barcoding products – The labels capture the product details; thus, it continuously calculates the inventory.

4. Software and Hardware Automation

Complete information is required to calculate inventory accurately. Thus, through the warehouse management system, the inventory flow and orders are recorded.

5. Track Incoming and Outgoing Inventory

Moreover, with automation, manual labor is reduced. Also, the product details can be registered in the system effortlessly.

Amazon and Nike have one of the finest warehouse automation systems. Amazon has one of the largest storage units and operates on complete automation. They use a warehouse management system to track incoming and outgoing products and track every shelved item. Also, Nike has automated its software and hardware with its 2 Million sq.ft distribution unit to monitor their inventories.

6. Integrate your Workplace

As discussed earlier, Inventory Management works on a broader aspect. Through this, you can easily integrate all your marketplaces through a single point of contact. Moreover, with all the channels integrated, you can easily modify the inventory, and the same will display throughout the channels.

7T Techniques of Inventory Management System

Also, in the Inventory Management System, various techniques can be considered based on company requirements. Let us understand them briefly.



- **ABC Analysis** – As the name suggests, inventory bifurcation occurs in three categories A – Most Expensive, B – Moderate Expensive, and C – Least Expensive
- **Just in Time (JIT) Method** – By keeping only the needful products required during production, the company doesn't own overstock products. This way, they save on inventory and storage costs.
- **Material Requirements Planning (MRP) Method** – Each product has a value based on the sales forecast. This way, the company releases orders through the MRP method.
- **Economic Order Quantity (EOQ) Method** – Through this model, place an order only when the inventory has reached a threshold level.
- **Minimum Safety Stocks** – This refers to a minimum inventory threshold that a company maintains to avoid going out-of-stock.
- **Vital Essential and Desirable (VED) Analysis** – This model controls and maintains the spare parts of the inventory.
- **Fast, Slow, and Non-Moving (FSN) Method** – This method tracks the most used products and least used products in the inventory.

How to decide?

Too many options and yet unable to decide? Ask yourselves these questions?

Do you have to maintain a large number of inventories?

What kind of business do you have – online stores or brick and mortar?

Are you running a big scale business or a small scale business?

What kind of investment are you planning to roll out?

Most of the queries will sort out immediately; thus, giving you a better idea of the kind of inventory system that is rightly suited to your objectives.

Facts and Figures



Let's see some **real-life examples and statistics** and understand how Inventory Control Management system and Inventory Management have helped companies:

- According to a Wasp Business Report, 2017, nearly **43%** of Small Businesses do not track their inventory or use manual tracking.
- Also, nearly **42%** of small businesses plan to increase IT spending in 2017.

- Moreover, a report of a loss of **\$461.9 Billion** per annum, according to the 2018 research report of IHL. This happens due to Overstocking and **\$634.1 Billion** due to Out-of-stock in the eCommerce industry.
- Nike hit a rough patch in 2016, and the CEO of Nike has commented, Less is More. Further adding, they are concentrating on customer preferences. And will reduce the clutter accordingly. This way, Nike Inventory Management System made a few changes to serve better to their customers.

Popular store ‘Ralph Lauren’ – Their inventory system was highly unorganized. Even after high sales and revenues, they earned only 50% as profits for two consecutive years. During this time, Mr. Stefan Larsson, the new CEO of Ralph Lauren, stepped in to replace Mr. Lauren. After the new CEO, the company observed there was a credible growth in the profits. Moreover, his first steps as a CEO were to streamline and organize the inventory. Also, he worked on the inventory control management system to achieve the desired goals. Not to mention, within 4 years of inventory control management system, the profits maximized exponentially.

Final Thoughts

In conclusion, for any business – big or small, the biggest threat is the poor management of inventory. This includes overstocking, understocking, and out-of-stock. It is crucial to select the most suitable inventory control management system which can organize and control the stock. Thus, through this, you can avoid huge costs and mobilize revenue effectively. Smart businesses plan ahead of their current situation and search for an organized technical solution. While you search, Orderhive can provide inventory control solutions based on your requirements. Moreover, it helps track your goods, display stock in the warehouse, and utilize the warehouse optimally.

References

[Little more depths of Inventory Control](#)
[Periodic and Perpetual Inventory Control](#)
[Tips for Effective Warehouse Management](#)
[Techniques of Inventory Management System](#)
[Little More about Inventory Management](#)