

16 TIPS TO REDUCE EXCESS STOCK

Set accurate service levels, refine stocking strategy, improve vendor management and more with our helpful how-to guide

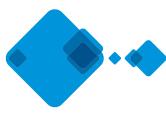


Most businesses hold some excess stock. This likely includes yours (otherwise you wouldn't need this guide!). But do you know how much surplus you actually have? Could you put a dollar amount on it? How about a close guess?

If you answered with a shrug or an amount that could be off by several thousand dollars, then it's likely you've been aware of the problem for a while. Why do businesses ignore their excess stock? Because getting rid of it is hard.

Thankfully, you don't have to do it alone. Slimstock has over 25 years of experience in helping companies optimize their inventory, and this guide will get you many steps closer to achieving that goal for your company.

MORE INFO AT [SLIMSTOCK.COM](https://slimstock.com)



What makes excess stock so bad? It costs you more money than you might realize. In fact, **you pay for excess stock (at least) three times:**

1. The first is the initial cost of buying the stock
2. The second are the continuous holding costs paid to keep inventory you don't need
3. The third are opportunity costs – excess stock locks up working capital that would be better invested elsewhere

Adding to the complexity of this problem, is that it affects both fast and slow-moving items differently.

- Excess stock on fast moving items causes short-term cash-flow issues
- Excess stock on longtail items causes long-term working capital & cost issues

For these reasons and more you now understand why you need to take action against excess stock. But before we begin, it's important to note that this book is not a miracle, quick-fix solution. Instead, the goal is to help you identify the reasons why you have excess stock to begin with. These are often systemic, and involve company processes and culture. Because of this, they take a lot of work to fix.

"So, what's the good news?" you ask. **IT'S WORTH IT!**

#1 SET YOUR SERVICE LEVELS

"We need 100% availability at all times!"

This is a common misconception shared by thousands of management teams across the world.

Who wouldn't want 100% availability across your entire assortment? It seems counterintuitive, but businesses with this mindset typically have poor product availability and big problems with excess stock.

Instead, you need to prioritize the products that matter most. This is where service levels come in.

Service level targets ensure that any investment (whether that be time, money or even space in your warehouse) is prioritized for the products that are most important.

PRODUCT CLASSIFICATION	LEVEL OF IMPORTANCE	EXAMPLE TARGET SERVICE LEVEL
A ITEMS	A Class items are your most important - you really need to keep them stocked up!	99.9%
B ITEMS	B Class items are of medium importance, but you still need to an eye on availability.	92%
C ITEMS	C Class items are a much smaller part of your overall performance. Too much inventory here puts you at serious risk of excess stock!	85%

The criteria you use to determine product classification boundaries depends on what factors matter most to your business.

A few examples could include:

- Margin per SKU
- Number of customers per SKU
- Number of picks per SKU
- Shelf space area per SKU

Check out [our guide to ABC / XYZ Analysis for more information](#) on service levels.

#2 REVIEW YOUR SERVICE LEVELS

Now that you've set your service levels, you're ready to move on, right? Nope. Far too many businesses use a "set it and forget it" approach to service level targets, and only reexamine them when something goes wrong (e.g. safety stock goes through the roof, or stock outs increase).

Service levels drive all operational decisions around inventory. If the service level targets are inappropriate, excess stock can quickly grow. How do you know when you need to review your service levels? Well....

5 SIGNS YOU NEED TO REVIEW YOUR SERVICE LEVELS NOW

1. Are supply chain costs increasing while sales remain static or drop?
2. Are you struggling to hit your current service level targets?
3. Have the corporate goals of your business changed?
4. Are you losing customers to your competitors?
5. Are customer complaints increasing?

If you answered Yes to one or two of these questions (and especially if it's four or five!) then you need to review your service level targets... **NOW!**

#3 WHO HAS THE FINAL SAY ON YOUR FORECAST?

This is an important question. Typically, the answer depend will on who you ask.

So far, we have only really talked about creating forecasts based solely on historic demand: a task which typically sits with the supply chain or operations team.

However, historical sales data can only tell you so much. For example: What happens if you lose a major customer?

Or, what if your main competitor suddenly goes out of business? How will this impact demand?

Unfortunately, historical demand tells you very little about what is going on in the world. For this, you need market intelligence. And here is the problem: different business functions will have very different perceptions about what factors should and should not be included in the forecast!

Take your Sales team for instance - they obviously want to keep their customers happy. So, it makes sense that they would want **EVERYTHING** to be included in the forecast. But what happens when a new deal doesn't make it over the line? Well, given that your forecast will play an important role in defining how much stock you need, poor judgment here could easily result in excess.

Of course, you need market intelligence to build a robust forecast. But considering the impact of over forecasting, someone needs to take ownership of the forecast process to ensure that the whole business can trust the final result.

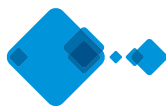
#4 LOOK BEYOND THE INVENTORY VALUE

Inventory value is one of the biggest figures on your balance sheet. So, it probably seems like a logical place to start measuring the performance of your inventory. But, what does this figure really tell you?

Most management teams struggle to see past the inventory value. As a consequence, most businesses have no idea how much excess stock they actually have.

IMAGINE THAT YOU HAD AN INVENTORY VALUE OF \$7M.

SCENARIO 1 - If your warehouse is full with fast moving items, you will be raking it in! This stock will be turned into cold, hard cash in no time!



SCENARIO 2 - However, if your inventory value is made up of obsolete or even just slow-moving items, you have a real problem. A large proportion of your \$7m inventory may never be sold.

As these scenarios show, **inventory value tells you absolutely nothing!**

Even if you know the inventory value from the previous year, the number itself is too vague to tell you anything about the composition of what's in your warehouse.

So, if total inventory value isn't the KPI you should rely on, what is? There are many to choose from. Here are a few examples to get you started:

- Inventory value vs stock turn
- Week of inventory
- Inventory value per phase of product lifecycle
- Inventory value per product group / product classification

Tracking these KPIs instead will provide you with more data to make better decisions about your inventory with. For instance, by lowering stock on items that are end-of-life or near it you decrease the risk of having excess when a new model replaces it.

#5 GET RID OF YOUR OBSOLETE STOCK (EVEN IF IT HURTS!)

At this point it, we all know that excess stock is bad for business. But obsolete stock is even worse! It's nothing but a parasite that steals all your money and takes up space in your warehouse. So, why do you hold on to this stock?

Because removing excess and obsolete stock is easier said than done. Given that you have made a financial investment in these products, accepting that these items no longer offer any value can be a hard pill to swallow.

But when you consider that you have already lost your original investment in these items, continuing to hold on to them only costs you more money!

3 STEPS TO "PAINLESSLY" REMOVE EXCESS

1. Physically Remove the Stock

- Just the presence of these items in your warehouse will deceive your team into believing that the stock will eventually sell through.
- Remove these products from your warehouse and store them somewhere out of the way. Doing so means they're no longer a distraction.

2. Remove the Products from Your Systems

- Once you have identified the excess stock, the last thing you want to do is order even more!
- Ensure that the obsolete articles are removed from your ERP as well as any other transaction systems.

3. Write-off the Inventory

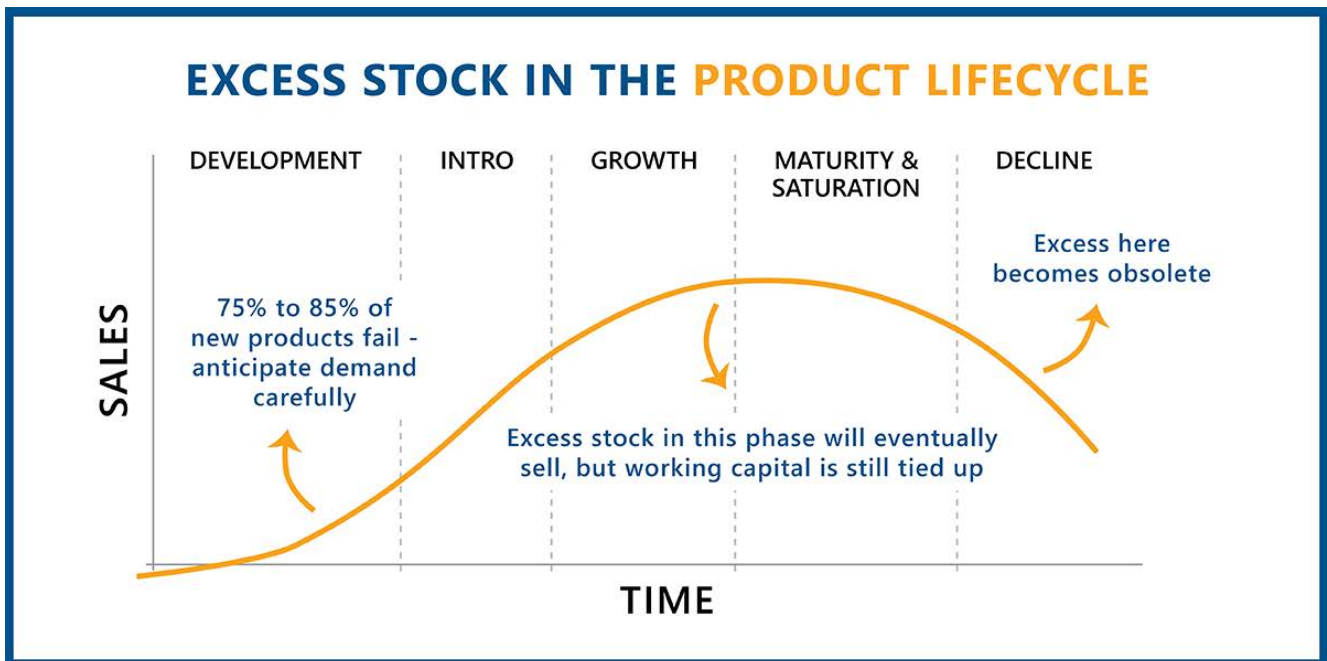
- Although painful, you cannot afford to postpone this step!
- The sooner you remove the financial ties to the stock, the sooner you can start saving money.
- Once the obsolete stock has been devalued, you can now say goodbye to it once and for all.

#6 LOOK FOR EXCESS IN EVERY PRODUCT LIFECYCLE PHASE

Much like with your assortment, excess stock issues can occur at every phase of the product lifecycle.

THE RIGHT STRATEGY FOR EVERY PHASE

1. Introduction: 75-85% new product fail. Even then, many new product introductions deliver average results. Your goal here is to establish a “sensible” initial order as well as a clear set of criteria to determine whether the product has a future in your assortment.
2. Mature: Sure, the levels of risk are a bit lower. But you still need to approach mature products with caution. Excess stock can easily build up and lockup invaluable working capital. The goal here is to fulfill demand as efficiently as possible!
3. End of life: Excess stock at the end of the product lifecycle is a perfect storm for obsolete. Be decision. Phase end of life products out before these products wipe out your working capital.



You can't manage a new product the same way you would if it was a mature or end of life item. This would be madness! To minimize the risk of excess (and obsolete) stock, you must adopt a suitable strategy for every phase.

Here are a few things you need to think about:

Tracking inventory through each stage of product lifecycle can be a lot of work if you're just using a spreadsheet for forecasting. For this reason, we recommend investing in a forecast and supply planning tool like Slim4 from Slimstock, which has these and hundreds of other searchable metrics built in.

#7 RETHINK YOUR STOCKING STRATEGY

It makes perfect sense to hold stock as close to your customers as possible. But does this mean you have to stock every product at every location? Of course not!

Let me explain.

Imagine SKU1234 has the following parameters:

- Supplier MOQ: 1,000
- Internal MOQ: 100
- Average Monthly Demand: 25
- Safety Stock Requirement: 5

If you only hold this item in the central DC and one other location, your average stock holding will be significantly lower than if this item is stocked across 10 locations. After all, each location is subjected to an internal MOQ of 100. Each location will also need to hold safety stock.

And because each location needs so much inventory, instead of ordering 1,000 units from the supplier, you now need much, much more. The risk of excess increases ten-fold!

If you now multiply this by the number of items that you currently hold in multiple locations, suddenly this becomes a very scary number!

FOCUS ON AVAILABILITY WHERE IT COUNTS!

By optimizing your stocking policy per location, you can achieve some huge reductions in excess stock without impacting service level for customers.

To build a more efficient stocking strategy, Ask yourself the following questions...

1. Do I know the risk of stockouts vs. the risk of excess in each location?
2. What is turnover for his item at each location? Does it justify keeping it stocked?
3. Can I set different service levels depending on location?

#8 OPTIMIZE YOUR SAFETY STOCK LEVELS

“We hold at least X weeks / months of inventory for every product.” It’s truly shocking how many times I have heard businesses say this!

In order to identify opportunities to reduce excess stock, you have to be really honest about whether your safety stock is necessary. Many factors influence safety stock levels, but...

HERE ARE 5 KEY AREAS WHICH MUST BE ACCOUNTED FOR:

1. Volatility in demand
2. Lead-times and supplier reliability
3. Service-level targets
4. The true risk of stockouts
5. The true impact of stockouts

All of these factors are constantly evolving and are unique to every product. Therefore, safety stock must never be static!

#9 THE CURSE OF SLOW MOVERS

One of the most painful product groups to have excess stock of is your slow-movers. Because these products sell very slowly, you could be stuck with excess stock for months or even years.

Here is a real example a company who will remain unnamed...

Case Study - After a supplier offered an “irresistible” discount if they purchased a truck-full of stock, the supply chain manager in question went ahead and placed the order.

At first, he was extremely happy. And why wouldn’t he be? The unit cost was a fraction of the standard rate.

But, 3 years later and the business had only sold around a quarter of the original order. Worse still, the product had a shelf-life of 6 years meaning that at least half the stock was destined for landfill!

Sure, there might be some strategic reasons why you may be willing to accept a small amount of excess stock for slow moving products. For example, to fulfill a supplier MOQ or to attain volume discount.

But before you commit to anything, consider the following:

1. After you factor in the long-term holding costs, are you still getting a good deal?
2. How much value is the product really offering? Should you be stocking it all?
3. Are there any other suppliers who would be willing to offer a similar deal but with a lower MOQ?

#10 ONLY WORK WITH SUPPLIERS WHO WORK FOR YOU

We ALL know when a supplier is under-performing:

- Deliveries are ALWAYS late
- When deliveries do arrive they're short of the quantity ordered
- As a result, your business suffers with poor availability

But poor availability and stock-outs are not the only thing that can result from poor supplier performance. Supplier error can also result in huge amounts of excess!

Think about it. You order a container full of stock from Supplier ABC. If it arrives late, that's obviously going to cause some problems. But what if it arrives early?

"What could possibly be bad about a supplier delivering too early?"

If the stock is only a couple days early, this might not be a problem. But, if the products arrive weeks or even months ahead of schedule, then you have a real problem on your hands...

1. You will have to find space in your warehouse to store the unexpected delivery. In some cases, this may even mean investing in additional warehouse space.
2. Your inventory value and days of stock on hand will immediately go through the roof!
3. If the products in question have short product shelf lives, the risk of waste will be high
4. Finally, depending on the payment terms, the supplier may demand payment long before the order has sold through; leaving you with crippling cash flow issues!

SUPPLIER ISSUES NEED TO BE TACKLED HEAD ON

With this in mind, ask yourself (or your under-performing supplier) the following questions:

1. Is this a one-off issue?
2. Is this becoming a regular occurrence?
3. Do you need to review your lead times?
4. Do you need to renegotiate the contract with suppliers to prevent and protect yourself from early deliveries?
5. Can you make your supplier commit to a more suitable delivery schedule?
6. Can you collaborate with suppliers more effectively?

#11 OPTIMIZE LEAD TIMES TO REDUCE EXCESS STOCK

Why does everyone ignore lead times?

Maybe it's because everyone just presumes that the lead times are set in stone by suppliers.

Or is it because everyone (wrongly) believes that long lead times are the price you have to pay to source from cheaper international suppliers. Either way, you can't afford to ignore this opportunity to eliminate excess stock!

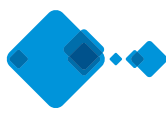
In essence, long lead times present you with **3 BIG PROBLEMS:**

Problem 1: Long Lead Times Force You to Plan Far Into The Future

- Between the moment you place an order and when it actually arrives- there is a huge window of uncertainty!

Problem 2: Long Lead Times = High MOQ

- Due to the fact that long lead times typically come hand in hand with working with overseas suppliers, the



minimum order quantities often have to be far higher to make it cost efficient

- For example, you have to order enough to fill an entire shipping container

Problem 3: Long Lead Times Leave You Open to Uncertainty

- Even if the MOQ is reasonable, long lead times still mean you have long cover periods to manage
- So again, long lead times force you to buy in large quantities to cover demand during the gap between one delivery and the next

4 SECRETS TO REDUCE LEAD TIMES

We have to accept that there is only so much you can do here. After all, China is still 5000 miles away. While switching shipping container for airfreight might cut down lead times, your finance director might not be happy with the extra cost! However, even small changes can make a big difference.

1. Utilize Local Suppliers

Relying on local suppliers may mean having to accept a much higher unit cost. But if a local supplier can fulfill your order in days rather than weeks or months, this could slash inventory levels and therefore massively reduce holding costs. Suddenly, local suppliers won't seem so expensive!

2. Communication

Communicate with suppliers! Spare a thought for your supplier. To them, your order will come completely out of the blue. Suddenly they have to ramp up production to satisfy your demand. But first, they themselves will have to order the required materials from their suppliers. So, the lead time is only extended further. By enhancing communication with suppliers and providing some insight into your future demand (e.g. purchase forecasts), you enable your suppliers more time to prepare for your order. As a result, lead times can be minimized.

3. Group Products

High MOQs are a pain. But there might be the opportunity to reduce the order quantity constraints by working with a supplier to spread the MOQ over a group of products rather than placing a huge order for just one product.

4. Force Suppliers to Prioritize Your Orders

Like you, your suppliers are probably very busy. With lots of customer order to fulfill, they will have some 'special' customers whose orders are prioritized and therefore jump the queue. If your orders account for a large proportion of your supplier's income, your supplier will be more than happy to jump through hoops to keep you happy.

However, if your orders are relatively small, you need to get clever. For example, maybe offer your supplier a financial incentive to hit lead time targets in the form of a bonus. Or even combine and commit to all of your orders for the next year (but remember to negotiate a payment and delivery schedule that works for you.)

#12 DON'T LET REBATES BITE YOU BACK

Rebates defy the laws of good inventory management.

Sure, you can understand a supplier offering you a tasty incentive for ordering a bit more stock. Giving you free money or an unmissable discount is a sure-fire way for their salespeople to hit their sales targets.

But are rebates really good for you?

The problem with rebates is that they force to buy more than you need. As a consequence, rebates directly result in excess stock. But then again, maybe it's worth it?

The problem is when ordering up to a rebate level, many businesses fail to do any real analysis into whether it is worth the additional investment (and the pain of holding the resulting excess stock). As a result, mistakes are made and the business is left with far more stock than what they actually need.

When the stock is still sitting in the warehouse months or even year's after the original order was placed, no one will remember the financial rebate!

RATIONALIZE YOUR REBATE ORDERS

Before you place a big order, take a moment to reflect on the following:

1. Risk of excess - If you order to the rebate level, how much excess stock will you have to hold? How many days of inventory will this leave you with?
2. Holding costs - Look at the overall total holding costs: Are the costs of holding the excess more than the rebate on offer?
3. Order multiple products - Can you spread the risk across multiple products?
4. Smart negotiation - Can you re-negotiate terms that suit you? Can you agree a more favorable payment schedule or can deliveries be spread so everyone wins?

#13 MAKE SURE YOUR DATA IS SQUEAKY CLEAN

When supply chain teams determine that they are suffering the consequences of poor forecasts, the finger is always pointed at whatever forecast model was used.

And when they decide that the forecast model was sound, there is only one thing left to blame: human error! Sure, both of these factors can impact the accuracy of a forecast. But the real culprit always gets away Scot-free. I am of course talking about DATA!

Bad data will always yield bad results!

It does not matter if you are using the world's most sophisticated forecasting algorithm, if your data is garbage you will never achieve a good forecast.

HERE ARE 5 QUESTIONS YOU NEED TO ASK TO ENSURE YOU HAVE CLEAN DATA:

1. Is the demand history data set complete? If not, what are you missing?
2. Is the historic data correct? Do you know what defines your demand?
3. Is your data clean? (e.g. have you isolated demand from promotions or special events?)
4. Is the unit of measure consistent with capturing demand?
5. Is your data the right level of granularity for the goals of forecast and all future inventory decisions?

By knowing the answers to these questions, you can be confident in the results of your data analysis.

#14 UNDERSTAND THE IMPORTANCE OF MASTERDATA

Masterdata underpins all decision making.

Master data is a record of all the key information for a given product including:

- >> Product details (SKU number, item description and dimensions etc.)
- >> Unit cost

- >> Selling price
- >> Minimum order quantities
- >> Supplier details
- >> Stock on hand & on order
- >> Lead times
- >> Expiration dates
- >> Quantity and pack sizes
- >> Demand history
- >> Product hierarchy details
- >> Holding costs

To make effective decisions around where you can reduce inventory without impacting customer service levels, you need a complete set of Masterdata.

Put simply - **WITHOUT A COMPLETE SET OF MASTER DATA, YOU ARE MAKING DECISIONS IN THE DARK!**

#15 KEEP YOUR DATA UP TO DATE

Things change. And your data must reflect this! Surely this is common sense?

How can you make strategic decision that will influence your overall inventory levels if you are missing key details such as holding cost or supplier lead time?

Yet it's staggering how often businesses make potentially game-changing supply chain decisions on data that hasn't been updated since the dawn of time.

MASTERDATA IS EVERYONE'S PROBLEM!

Whether it be the purchasing team placing the orders or the warehouse operatives scanning the stock on its way out to the customer, everyone is involved in the collection, management, maintenance and validation of master data.

If the data is not up to scratch, you can't afford to point fingers. You have to take appropriate action to ensure that the right processes are in place to keep your Masterdata accurate and up to date.

The success of your supply chain hangs on this single factor. As a result, getting this element right should be accepted as a business-wide priority.

#16 EXCESS STOCK REDUCTION IS NOT A ONE-OFF PROJECT

I hope this book has given you plenty to think about. More importantly, I hope the strategies we have covered are already starting to deliver results within your business.

But please don't think that your excess stock reduction project ends as soon as you put this book down!

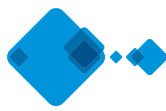
Excess stock is a creeping beast. Sure, these strategies will help trim the problem down to size...for now. But you must continue to look for opportunities to cut excess wherever you can.

What I am trying to say your inventory optimization journey is only just beginning!

But don't worry, you're not alone

My team has helped thousands of businesses around the world to minimize supply chain costs, maximize customer service levels and boost profitability.

Now I would like to help you take your business to the next level!



Since 1993, Slimstock has been synonymous with better demand forecasting, effective inventory optimization, clear inventory analysis and continuous inventory reliability improvement. Our customer base consists of over 925 companies worldwide, across a diverse range of industries, covering large, medium and small enterprises.



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