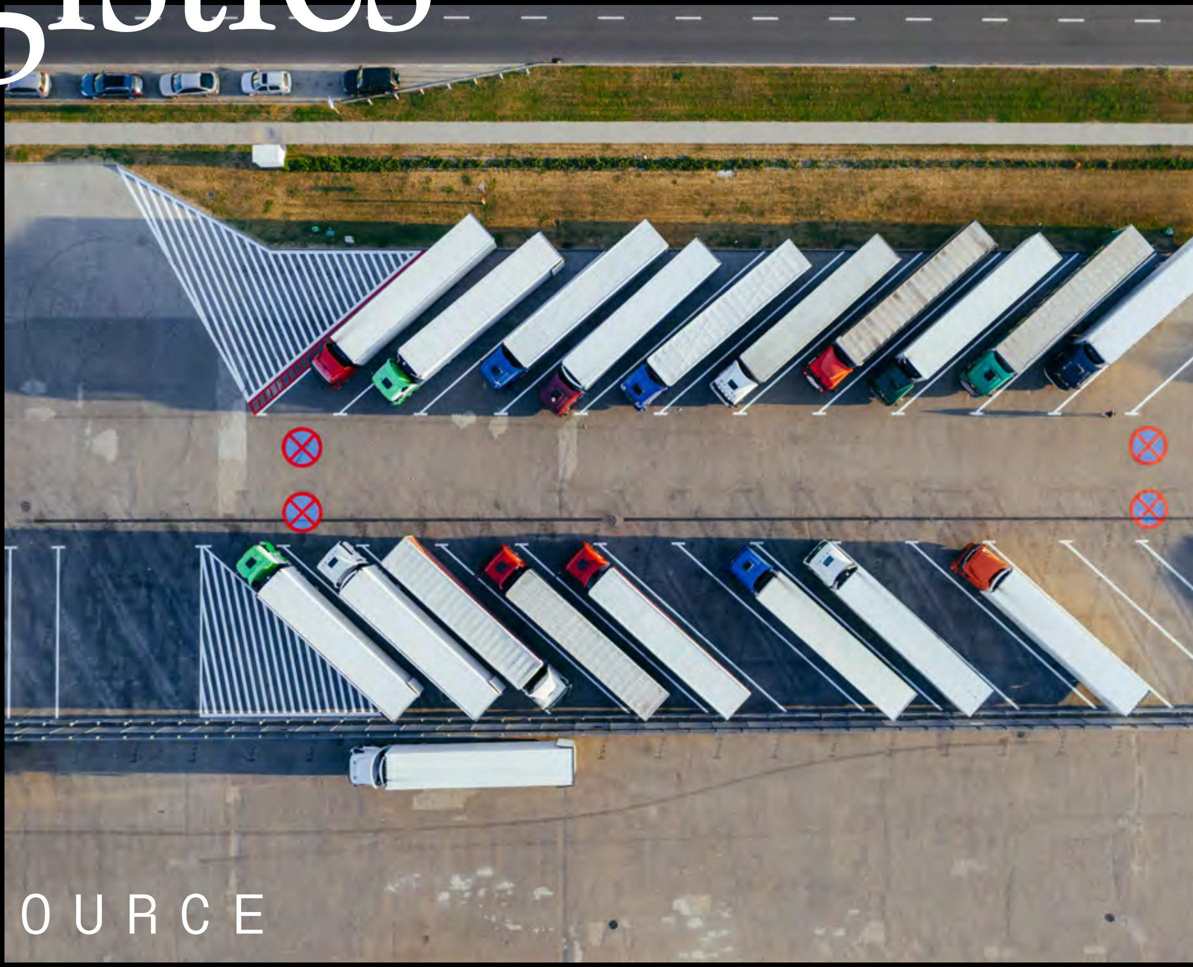
Navigating Inventory Logistics



A RESOURCE FOR FOUNDERS

Nowadays, inventory management systems seem to be working increasingly against founders, much to their chagrin. If you've ever spent over half of your revenue to secure inventory from suppliers — sacrificing ad spend and other expenses along the way — then you know what we're talking about.

At Clearco, we believe inventory shouldn't be pitted against everything else — inventory management should work in tandem with the other arms of your business to create better and more successful purchasing experiences for your customers.

As a founder, you're likely wondering, how do I navigate the ins and outs of inventory management without getting a headache? Well, we've got just the thing.

This e-book was designed for mid-sized online businesses looking to stay on top of their ever-crucial inventory management. It's full of best practices for founders who believe the key to their business' success lies in large part in optimized inventory logistics (and they're not wrong!).

It all begins with stock forecasting.

CHAPTER ONE

1

One word: forecasting

It probably goes without saying that regardless of whether you run an eCommerce business or a brick and mortar store, inventory forecasting can make or break your profits. Too little inventory and you lose out on revenue; too much and you have to deal with rising holding costs and risks, unable to use that capital for other crucial areas of your business. So how do you straddle that fine line that optimizes inventory while managing cash flow?

In the context of inventory management, the goal is to strike that not-too-hot, not-too-cold Goldilocks zone. Stock forecasting is all about holding just the right amount of inventory so that you're not overstocked nor are you understocked. For most medium-sized businesses, you'll have to begin by establishing whether your inventory turnover is within industry benchmarks.

What is inventory turnover?

Inventory turnover is the speed at which you sell your stock and the subsequent need to replenish it. For the majority of businesses, a turnover of between 2 and 4 is optimal — keep in mind, however, this is not a hard rule as it does fluctuate depending on your industry.

The reason this ratio is ideal is because it signifies that your restocking matches your sales cycle, meaning you are receiving new inventory before your current one is depleted. A low inventory turnover means you have excess stock, whereas a high inventory turnover can potentially point to a problem in keeping up with demand, which leads to the risk of stockouts.

For example, if your annual sales make up $1,000,000 and you have $250,000 worth of stock, your inventory turnover rate would be 4 (it's your total sales divided by the value of your stock).

EQUATION →

$1,000,000 ÷ $250,000
=4

Additional considerations

Once you've figured out your stock turnover, you'll want to put together a plan to forecast future sales. A 30-60-90 day forecasting relies heavily on historical data, including past sales velocity and your products' seasonality.

To create a holistic and accurate forecast, you'll want to also consider:

Sales velocity refers to the rate of sales, omitting out-of-stock days. This is a more useful figure compared to average sales because the latter could potentially omit days in which inventory was stocked out, meaning you may end up underestimating future sales.

Seasonality means taking into account significant trends from the previous 12 month period (such as the holiday season or Black Friday). Sales trends will inform whether demand is steady, or whether it has increased in recent months.

Replenishment,

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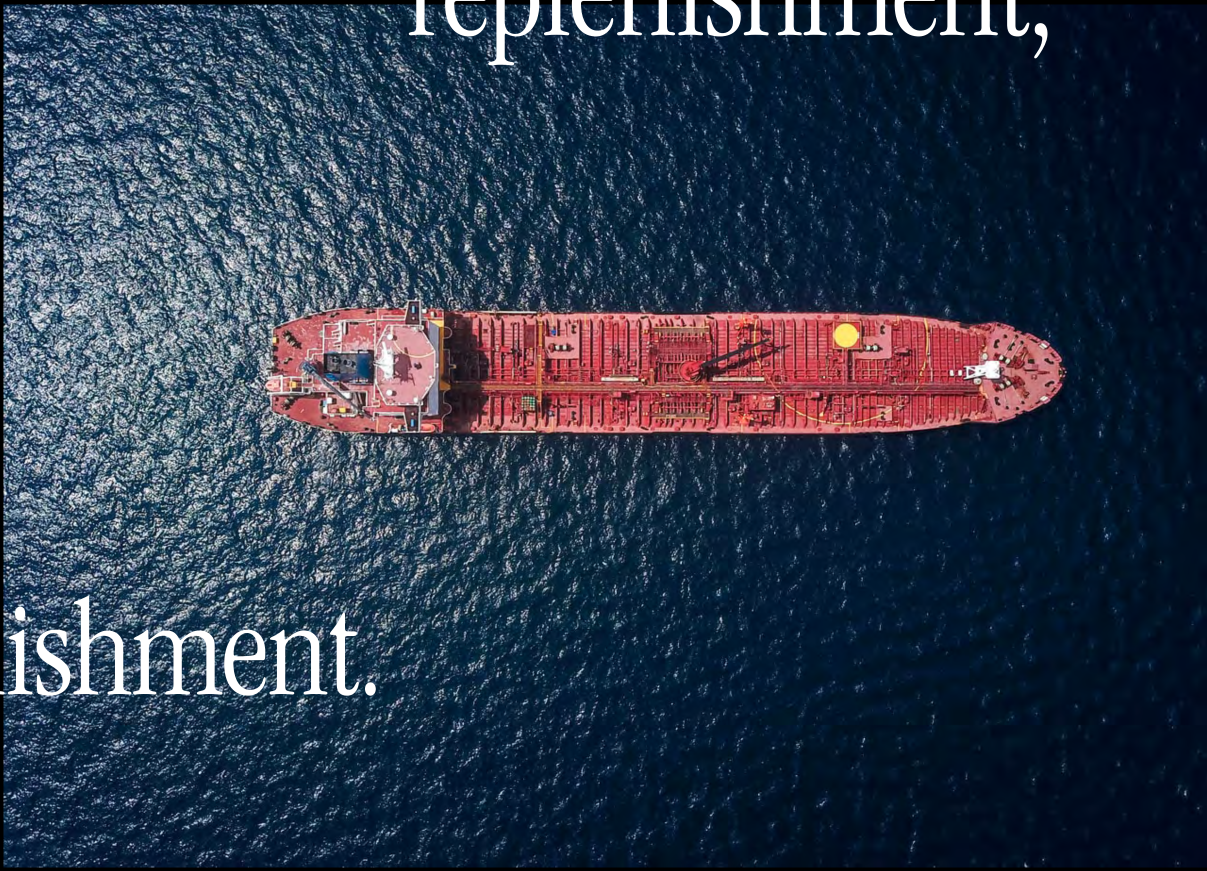
replenishment,



replenishment.

As your stock is depleted, you'll need to replenish before it drops below a certain number: the so-called inventory "sweet spot", also known as the reorder point (ROP).

This is the quantity at which you'll need to purchase more inventory. It's important that you create a separate and accurate ROP for every SKU that you have in your store. This will ensure you'll have enough stock to satisfy demand without tying up excess capital.

The reorder point formula is a simple way for eCommerce businesses to calculate the ROP for each and every product. Here it is:

→ ROP

Demand during lead time

+

Safety stock

Demand during lead time

Lead time refers to the number of days between when you place an order with your supplier and when you receive the product in hand. To calculate this figure, simply multiply the lead time (in # of days) for a given product by the average number of units sold daily.

→ LEAD TIME DEMAND

Lead time
x
Average daily sales

Safety stock

As you might be able to guess, your safety stock refers to any extra inventory kept on hand to anticipate potential volatility in supply or demand. Demand can suddenly increase with little to no time to prepare; inversely, an issue with your supplier could stop you from stocking as quickly as you had expected.

→ SAFETY STOCK LEVEL

(Max daily orders x Max lead times)
-
(Average daily sales x Average lead time)

Let's say...

Formulas are good and well — but perhaps the best way to demonstrate them in practice is by using an example. Imagine you own a mid-sized eCommerce business in Canada and you sell watches manufactured in China.

Let's start by totalling the lead time: a couple of days to pick and pack the watches, four days to ship the goods to the port, 30 days for the watches to ship to Canada, another week in customs, then five days to travel to your warehouse.

Let's assume that your company sells 600 watches per month. If you divide by the number of days in a month (let's call it an even 30), you'll arrive at the average number of watches you'd sell in a day. In this case, it's 20.

LEAD TIME →

2 + 4 + 30 + 7 + 5
= 48 days of sales

Now let's go back to our formula to find out how many watches you'll need to keep you stocked before your next shipment arrives:

LEAD TIME DEMAND →

48 x 20
= 960

Naturally, things don't always go as planned. Let's see what happens when an unexpected surge in demand occurs. Perhaps on an average day your business sells 20 watches, but on weekends, you might be able to sell as many as 30. And while the usual lead time is 48 days, it can go up to as high as 56 days during unpredictable weather.

SAFETY STOCK LEVEL → (30 x 56) - (20 x 48)
= 720

So you'll need to save 720 units for a rainy day. Keep in mind that certain products are seasonal, you'll need to adjust your safety stock to meet the peak season's demand. Once the peak in demand has subsided, don't forget to reduce your safety stock levels.

To close the loop in this example, the reorder point calculator would be as follows:

960 (Lead time demand) + 720 (Safety stock)
= 1,680

And there you have it! Once your stock hits 1,680 watches, you'll need to place an order with your supplier; however, you'll have enough to tide your business over until the new inventory arrives, even in the event of an unexpected surge in demand or supply chain issue.

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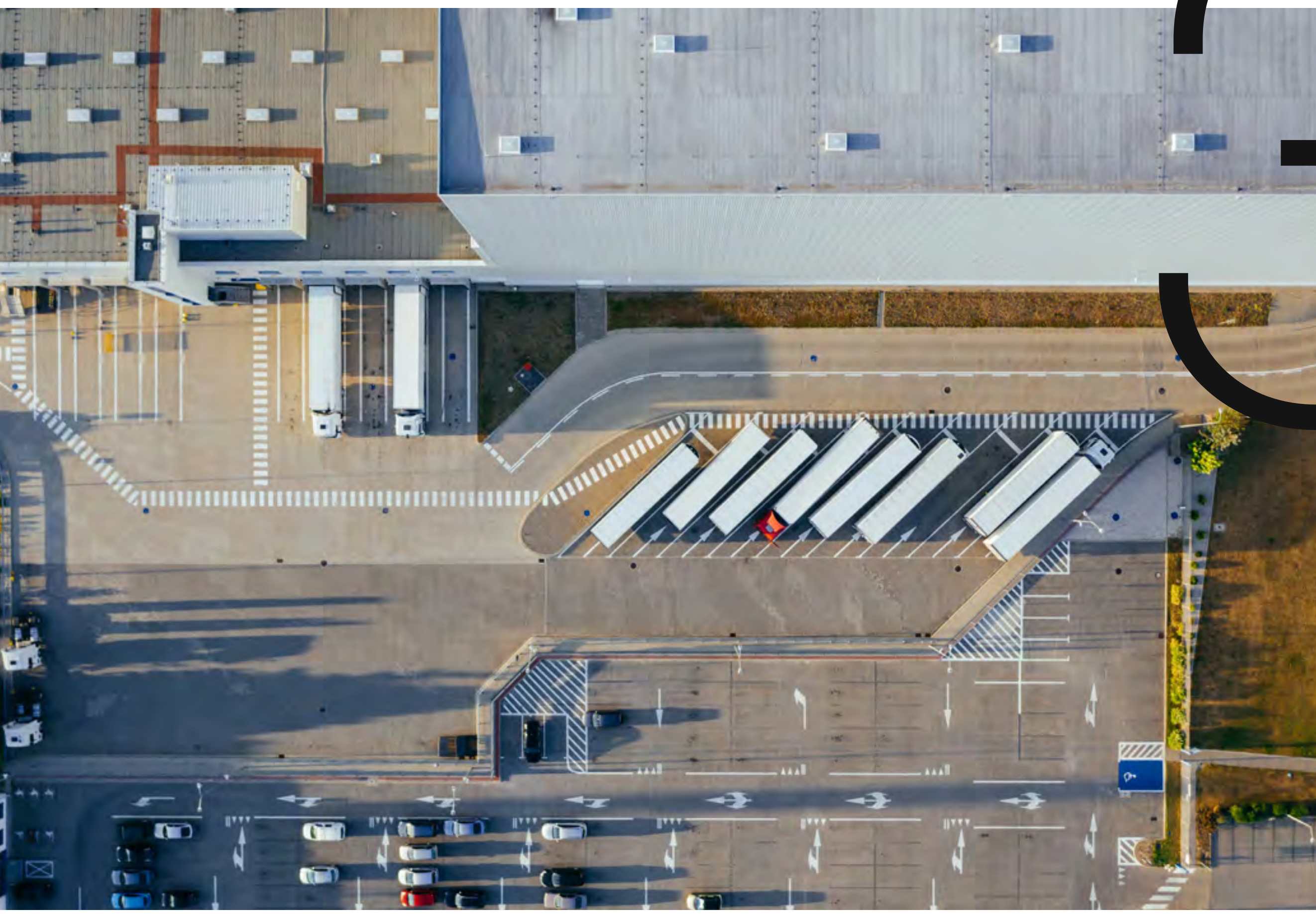

How to avoid overstocking and understocking.

Retailers have been struggling with the battle of over and understocking since the very first store was established. On average, overstocks cost the average retailer 3.2% in lost revenue. On the other end of the spectrum, out-of-stock items cost roughly 4%. That's a total of $253 billion worth of losses from the bottom line.

So what can you do to minimize these losses and keep your inventory at optimal levels?

TIP 1

Reduce any inventory that's no longer relevant to the market

The best practice when it comes to making sure your stock remains relevant is to use data to predict when an item is about to become obsolete in a market. This can include taking into account when a product is going to be replaced or overtaken by a new or competing version.

A product's life cycle needs to be monitored regularly — monthly if possible — to keep track of fluctuations in demand. Once you have a demand pattern mapped out, you'll be less likely to overstock on an item that's about to be removed from the shelf.

TIP 2

Offload overstocked items

One thing you can do if you find yourself with plenty of stock for an item is to reduce the price, thus offloading it. While you'll experience a reduction in profits in the short term, the long term benefit of unclogging your warehouse facility means an overall reduction in carrying costs, while also freeing up space to store products that are more profitable.

TIP 3

Create one source of truth by centralizing your data

One of the most effective ways to minimize under and overstocks is to put all your data under one roof. Consulting multiple programs in order to compare data points is not only inefficient, but can cause errors. We recommend using an inventory management system that'll pull from a number of business units within your store, including eCommerce, marketing, shipping, POS, and everything in between.

TIP 4

Establish a strong relationship with suppliers

Strong relationships go a long way in pretty much every industry. When you show a supplier that you're a reliable customer, you can sit back knowing that they'll honour their commitments. That means making sure your orders arrive on time as well as creating a good baseline when it comes to negotiating deals in the future.

TIP 5

Automate the restocking process, if possible

No matter how hard we try (and we've tried!), human error can never be completely taken out of the equation. Automating inventory management means you can set up alerts that provide you with the most up-to-date information on a product's status, like whether it's about to sell out. Some inventory management software platforms have a wide range of impressive capabilities — including predicting when you'll need to reorder a specific product given its current stock and sales velocity.

Why warehouse management matters.

CHAPTER FOUR

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Any business that sells goods, whether online or otherwise, will need a place to store them. Proper warehouse management and oversight is an integral step along the supply chain, and will ultimately determine how successful your business will be. Improper warehouse management can lead to low profit margins, high operating costs, and — perhaps most importantly — a soured relationship with your customers.

Founders who have a solid understanding of how warehouse operations affect supply chain management are the ones best equipped to set their eCommerce business up for success.

3 reasons you should optimize warehouse management

Whether you're working with a 3rd party logistics partner or handling it internally, proper warehouse management is a must-have. You'll need dedicated and experienced experts to manage your warehouse logistics, not only so that you can keep up with your current volume, but so that you can be prepared for your growth down the line.

1 It enables logistical growth

Proper warehouse management involves leveraging the right technology, shipping carriers, and delivery options to fulfill orders as efficiently as possible. If you're a fast-growing brand, looking at ways to impact warehouse efficiencies should be top of mind. This could be anything from the number of dock doors being used to the physical space in the warehouse itself to the number of employees on the floor.

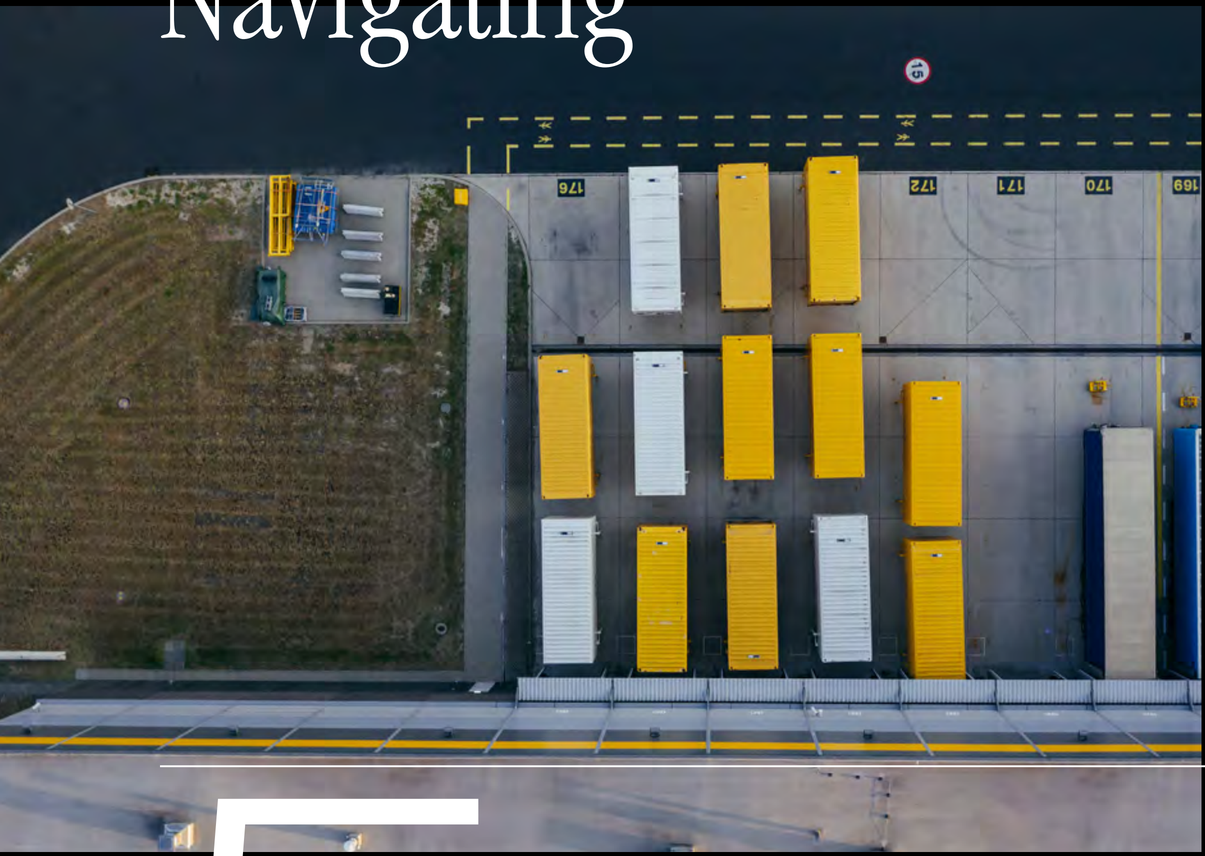
2 Goods are processed and thus shipped more quickly

This one's intricately related to the first reason. Ultimately, warehouse management will make operations leaner and more efficient. This could mean setting up functional areas within the facility for each step of the fulfillment process (i.e. picking, packing, labelling, returns, and so on). If you can reduce the number of steps between when a customer places an order to when they receive their package, you'll reap the rewards in more ways than one.

3 You'll have a better handle on storage allocation

Keeping tabs on real-time inventory levels will ensure that you never run out of stock (or space, for that matter). Think about products with expiration dates, for example. Those should be stored by lot number so that the older goods go out before newer ones. The storage of SKUs in separate, dedicated storage locations should depend on the layout of the facility as well as the item in question. Having a warehouse management system in place means you'll be able to quickly identify the exact location of an SKU at any time.

Navigating



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third-party

logistics.

As your business expands, it may become increasingly difficult to manage the logistics involved in delivering your products to your customers. Not only could this stunt your growth and eat into your profits, but it could damage your relationship with your customers.

For many founders, outsourcing fulfillment and logistic operations to a third party is a logical solution as they seek to mitigate these supply chain management challenges.

What is third-party logistics?

Third-party logistics (3PL) involves outsourcing the supply chain operations and logistics to a company that will handle functions like receiving, storing, packing, and shipping.

Some 3PL companies also provide value-added services such as inventory management, kitting and assembly, and tracking using radio frequency identification and GPS. To gain further visibility into the supply chain, some companies even use the internet of things (IoT) technology to improve their tracking metrics.

Not all 3PLs are created equal — they offer a range of different services, more or less divided into the following functional categories:

Warehousing, fulfillment, and distribution

The most common type, these 3PL providers take basic fulfillment services like storage, pick and pack, shipping, and returns off your hands. Most of these 3PL providers will manage the relationship with the shipper and the seller, as well as optimize the shipping strategy by leveraging their expertise in the area.

Transportation

Transportation 3PL providers manage all the back and forth of shipments between manufacturers and your warehouse, and your warehouse and your customer. Think freight forwarders and small parcel shippers, like UPS, FedEx, and Canada Post.

Financial and information

Some larger eCommerce businesses rely on these 3PL providers for their accounting and cost control services. This includes functions such as freight forwarding, inventory tracking, and other related tasks.

CHAPTER SIX

How can Clearco help?

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Inventory funding programs are few and far between, meaning most founders are forced to take out costly bank loans with steep interest rates. As companies scale their eCommerce presence, the greatest challenge will be having the cash required upfront to meet future demand.

Interested in learning more about Clearco's inventory funding services?

Simply **click here** ↗ to find out more about whether this program is right for your eCommerce business.

THE FULL OFFERING INCLUDES

Easy inventory financing: Receive up to $10 million in stock financing when you connect us with your 3PL management software. Remember, you'll only need to pay it back when the product has been sold with a 6% flat fee.

Automatic invoicing: Clearco will handle all payments to your suppliers; all you need to do is upload your inventory invoices.

Better rates with suppliers: Save up to 10% on inventory purchases when you pay upfront with Clearco — helping to negate the 6% fee.