



The Cost of Carrying Excess Inventory

Why understanding your inventory can help your bottom line.





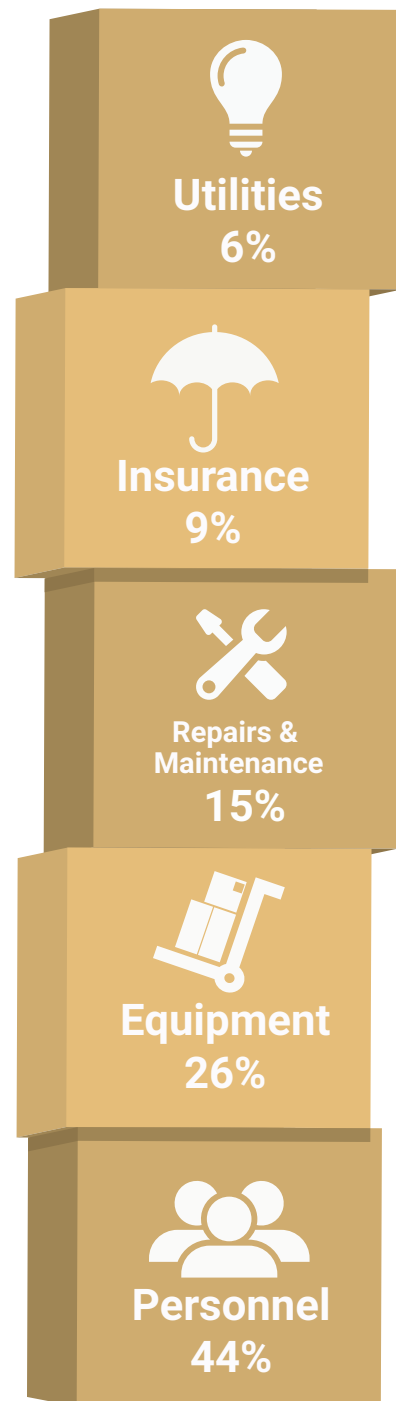
What's wrong with carrying excess inventory? After all, a customer will want it at some point, but the problem is no one can know when or if that product will move. What many fail to realize is there is a cost associated with carrying slower moving products.

Why Is There A Cost To Carrying Excess Inventory?

The surplus products a company stores actually touch a lot of aspects of business. First and foremost, they need a place to live — a Distribution Center, and that takes capital! Facilitating a Distribution Center may require rent, insurance, utilities, equipment, racking, and personnel, just to name a few. Once a product is housed, it's taking up space for an undetermined amount of time, and that's space and funds that could be used for other products.

Housing excess product requires more than meets the eye. The industry standard indicates that it costs 2% of the value of inventory to carry it each month because it includes resources such as the cost to receive the product, storage, and cycle counting (i.e. hiring an inventory specialist to periodically count the product).

So while it may appear to be harmless to carry extra product, it's actually eroding profits and eliminates the ability to carry other products customers actually want.



Where Does The Money Go?

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How Analyzing The Cost Of Carrying Helps Sales

Companies must ask themselves if their focus is **profitability** (Just In Time inventory and higher inventory turns) or **customer service** (carrying excess inventory to anticipate customer demands at the expense of some profits). If the focus is profits, then it's critical to understand the cost of carrying excess product, and how it affects margin. Earnest Machine walks a fine line of maintaining profitability and a positive cash flow while focused on delivering exemplary customer service.

Earnest Machine sells full cases as well as broken case quantities to help alleviate the need of carrying excess inventory. With excellent distribution performance which is carefully tracked each month, as well as two thoroughly organized Distribution Centers, Earnest is able to sell customers only a few pieces if that's all that's needed, saving them the cost of carrying extra inventory.

Managing Inventory In A Down Economy

In a down economy, cash is king. Companies can ride out a slowdown in sales by adjusting expenses to meet lower revenues. But if inventory and cash is mismanaged, that can be much more difficult and challenging to overcome, especially in a down economy. That's when things like excess inventory and higher payables can magnify the negative impact an economic slowdown can have on business.

In the case of importers, they commit months in advance to purchase a specified quantity at a specified price. If there's a sales slowdown after cutting import purchase orders, they now have a commitment to take those goods, which strains cash flow or line of credit availability.

During these challenging times, many of Earnest's customers trust Earnest to provide them the exact quantity they need, when they need it, so cash isn't tied up while meeting their own customers' expectations.

Conclusion

There are many factors that go into sustaining and accommodating product, people, and buildings. It's worth it for companies to look for partnerships where another entity can essentially function as their fulfillment center. Earnest Machine provides this service for its customers, ensuring parts needed are in stock – whether it's 17 or 170,000 pieces.

In addition to acting as a fulfillment center for customers, Earnest provides other services their customers can use to save on costs such as drop shipping and blind drop shipping. This eliminates the need for customers to parse through orders only to use more capital to repackage and ship products to their final destination. Earnest's stellar order fulfillment metrics give customers the confidence that the right parts are shipped at the right time, in the right quantity. On-time. Everytime.

Call us at 800-327-6378 to see how we can help you save money today.