



Avoid These 7 Pitfalls in Manufacturing Materials & Inventory Management

Improve your material and inventory management processes to positively impact the bottom line

Introduction

Many small to mid-sized manufacturers (SMMs) struggle to compete with their larger counterparts because they have fewer resources including personnel, technology, budget, and time. That said, using your production resources as efficiently as possible is extremely important.

Material and inventory management are one of the most vital areas of any manufacturing business yet often needs the greatest improvement. Struggles in this area can lead to a variety of problems including poor customer experience, lack of visibility across departments, low inventory turns, out-of-control labor costs, decreased profitability, and ultimately, business failure.

Here are seven material and inventory management pitfalls that many manufacturers face and how successful businesses can streamline purchasing and inventory processes to drive efficiency, eliminate errors, and reduce costs.

- 1. Inventory record inaccuracies:** Manual processes involving physical counts and disconnected, disparate spreadsheets and data systems can never really be trusted. Companies relying on such processes often find themselves in a quandary. Are missing items the result of employee negligence, fraud, or unfulfilled shipments? Is there a logistics problem tracking the flow of inventory from purchasing to the warehouse, to shipping? Important questions constantly go unanswered and, with little time to dive into data, can drag on for months and even years.

Surprisingly, many SMMs do not have inventory recordkeeping policies and processes in place, including regular inventory counts, maintenance, and documentation. Results from a recent ECi Software Solutions' customer "Warehouse Management Woes" survey shows that 53% of small to mid-sized businesses conduct manual inventory counts at least once a quarter and 50% of respondents have challenges counting or reconciling inventory.

- 2. Inefficient storage and receiving processes:** Fewer financial, personnel, and time resources make this a particularly vexing challenge for many SMMs. Inefficient storage and receiving processes are often the genesis of costly mistakes including difficulty accessing merchandise, over-ordering, and missing stock. This can often lead to delays in manufacturing production.
- 3. Excess inventory:** Holding excess stock, reordering materials too early, or reordering materials too late are each among the biggest overhead cost drivers for manufacturing SMMs. Inefficient inventory control leads to wasteful spending. Efficient control means that cash isn't tied up in excess inventory, and this requires real-time transparency into stock levels. Accurate inventory and sales information is essential to maximizing utilization of inventory and ordering, monitoring existing sales and planning for future growth.

“Many SMMs operate at a relative disadvantage to their larger counterparts. Typically having less resources, including personnel, technology, budget, and time, it is imperative to put the resources they do have to good use.”

- 4. Stocking and ordering of raw materials and product components:** For manufacturers, keeping optimal quantities of all raw materials and product components prevents equipment downtime and lost productivity; it's essential to manufacturing production schedules. Technological solutions to automate “backflushing” of materials and components are an absolute imperative in these environments.
- 5. Time-consuming, expensive physical inventory counts:** The Warehouse Management Woes survey found that 82% of respondent companies do complete scheduled physical inventory counts. In addition, 46% also do spot checking without a schedule, 22% perform cycle counting of specific products on a rotating basis, and 19% do full physical counts whenever an issue is discovered. Without efficient storage and receipt processes and accurate inventory recordkeeping, expensive physical inventory counts must be performed more often and are less reliable than ongoing electronic monitoring and updating.
- 6. Stock disorganization, poor labeling and picking:** Inventory management problems often occur when inventory is stocked in different areas throughout a facility without a centralized and systematized organization. At the very least, SMMs should keep raw materials in one area, goods in production in another, and finished goods in yet another.

Among Warehouse Woes respondents, 25% reported picking challenges. Businesses lose valuable time when items cannot be found by warehouse crew members and identified for quick fulfillment. In addition to documented processes that can be maintained and accessed by all divisions, maps of the warehouse kept in convenient areas, clear signage, and well-labeled stock bins with accurate item descriptions are helpful.

- 7. Poor regulatory and compliance records:** Accessible documentation is key to meeting compliance and regulatory requirements when you're managing pipeline inventory. If this is the case in your industry, a digital solution is essential to centralizing inventory information so that users can access and share individual product specifications, reference documents, material test records, and technical, transportation, health, safety, quality, and environment requirements.

Finding management in stock

From the warehouse employees who stock the shelves to the accounting department that maintains the records to the owner who analyzes business performance, successful material management reverberates across the entire business and impacts every department.

Cloud-based ERP material management software integrates all business data, accurately accounting for and communicating inventory data across all business functions. It ties work orders and bills to existing materials with functions including materials tracking, inventory monitoring, and automatic reordering.

Material management software tracks merchandise and materials through the entire supply chain or the portion in which the business operates. This may include every step from manufacturing to warehousing to shipping to customer, and all of the movements in between.

Inventory forecasting is a crucial aspect of material management, and software designed for the job allows decision-makers to use historical sales data to predict future performance, assess demand levels, and optimize inventory levels. Analytics tools enable executives to detect trends and patterns in sales, create fill rate reports, and tighten the connections between purchasing, sales, and order fulfillment.

Here are 17 benefits that companies quickly realize when transitioning to an ERP with integrated material and inventory management:

1. Optimal balancing of inventory levels to meet market demand while minimizing tied-up capital.
2. Reduced operating costs that come from manual processes.
3. Smarter predictive capabilities, including how much product will sell, when it will sell, and when replenishment will be necessary.
4. Accurate product shipping, consistent on-time deliveries and lead time analysis.
5. Streamlined workflows through elimination of redundant tasks across business functions.
6. Maximized warehouse space and equipment usage.
7. Boosted productivity rates through riddance of time-consuming, manual inventory management tasks.
8. Optimized job prioritization and production scheduling.
9. Real-time information tracking of inventory levels, production schedules, and market demand, enabling smarter forecasting and decision making.
10. Maintenance of accurate inventory counts even with fast order turns for maximum profitability.
11. Streamlined invoicing and increased accounting accuracy.
12. Analytics and reporting tools to identify the rate at which orders are fulfilled, and to make continuous improvements, including monitoring slow-moving SKUs.
13. Awareness of variable inventory levels caused by seasonal or fluctuating demands, product promotions, and business cycles.

14. Better response times and customer service.
15. Visibility into current stock levels, including profit-eating dead stock, broken stock, and stock shrouded in dust.
16. Reduced operating costs and improved cash flow.
17. Stronger profitability through a more perfect calibration of inventory to business needs.

**The time has come to pull away from the past.
46% of SMMs either don't track inventory or use a manual method.**

(Source: Wasp Barcode)

Businesses, especially manufacturing SMMs should fully utilize the best practices and tools that can enable them to compete and grow through resource optimization in these critical business areas. Material and warehouse management are two functions that can be made time and resource-efficient through the use of best practices in documentation and transparency in all areas of business.

In particular, an ERP system with fully integrated material and inventory management functionality can streamline the entire inventory process from purchasing to storage. It will also provide full visibility into the process, allowing for faster business decisions, improved cash flow, and consistent on-time delivery rates.

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