B2B SAAS ARTICLE

How to Digitize Inventory Management and Stop Losing Millions: Five Problems and One Solution

My role: Wrote the complete article.

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Modern warehouse logistics has no room for gut feeling. Companies lose staggering amounts of money to careless demand forecasting and inventory management. In Russia, the out-of-stock rate for fast-moving goods averages 17.7%. All of that represents lost profit.

Overstock is just as costly. Even a slight over-order of dairy products can lead to write-offs of 10-20%. Planning demand for non-perishable products is getting harder too, with ever-wider assortments and fierce competition. Experts estimate that around 10-20% of mid-range and premium apparel collections in Russia end up as dead stock, worth $2-4 billion.

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Problem #1: Not enough stock

A miscalculation, a missed seasonal spike or a promotion that worked a little too well - and the shelves run empty. Even major retailers sometimes sell out of promotional items on day one. But chronic stockouts mean customers eventually give up on the purchase or go to a competitor.

Depending on turnover, the lost profit can range from several hundred thousand to several million rubles. Our research indicates that digitizing warehouse data can help retailers with 30 or more stores reduce stockouts while increasing sales by at least 10%.

Problem #2: Too much stock

Overstock typically leads to wasted warehouse space and unplanned promotions to clear slow-moving inventory. Warehouse space should earn its keep, with no dead stock sitting on the racks - especially if your products have a limited shelf life.

One of our clients, a chain of stores selling parts and accessories for outboard motors, boats and inflatable dinghies, ran into exactly this problem. With more than 100,000 SKUs, calculating the right order quantity could

take up to two weeks, so buyers relied on rough estimates when placing orders to save time. Unwanted stock piled up in the warehouse, while the cost of new batches did not go down.

Within six months, automation increased the client's inventory turnover to 2.5 times its previous level and cut stock levels by 40%. “A full warehouse and nothing to sell” became a thing of the past.

Problem #3: No single system

People make mistakes, especially when information is scattered. One person has access to 1C reports, another uses an auto-ordering tool written by an in-house developer, a third relies on an Excel spreadsheet, and a fourth “just knows.” The result is incorrect orders that lead to both overstock and shortages.

A shared platform for everyone involved in purchasing can help solve the problem. With a single automated system, Prokonsim sped up replenishment planning at its central distribution center by nearly a third, and the Olonia store chain freed up to 70% of its buyers' working time.

Problem #4: Irrelevant planning parameters

There are hundreds of parameters you could factor into a purchasing plan, but only about twenty really matter. They include accounting for periods when items were out of stock, removing atypical sales and setting safety stock.

Not every buyer evaluates sales against the parameters that count. Some don't record the real reasons sales were absent, such as an item being out of stock, and produce an inaccurate forecast for the following month. Others fail to remove outliers - atypical spikes and dips - and end up choosing the wrong forecasting model. All of this leads to both stockouts and overstock.

A dedicated inventory management solution bases forecasts on relevant parameters and reduces the likelihood of error. Automating purchasing can deliver significant results within the first few months. Olonia, for example, tripled its order accuracy and cut lost sales by 27% within three months of automating.

Problem #5: Automation done wrong

Automation itself takes significant investment and effort. Choose the wrong solution, and the company may face unplanned losses. To automate purchasing effectively, think through the pitfalls in advance.

1. Investment

If your company is going through a crisis or rapid growth, you need to move fast. In that case, we recommend subscribing to a service rather than undertaking a lengthy, labor-intensive implementation project. Implementation takes anywhere from six months to a year and a half; getting started with the service takes a couple of months.

For one client, we had the software up and running in just four weeks. After two months of use, the company had stopped relying on borrowed funds and cut inventory by 40%, while sales grew.

2. Who builds it

What makes more sense for your business: developing your own product or buying a ready-made solution from a company with years of expertise? Build in-house only if your IT team has the skills and can dedicate resources to support and user training.

The key role in a project of this scale belongs to the solution architect, who analyzes business processes and defines product requirements and logic. This is usually someone who has optimized processes at dozens of companies. An in-house expert is likely to propose a single solution, which may not be the most effective.

3. Blindly copying competitors or market leaders

Sometimes a mid-sized company wants to adopt the same product the biggest player uses. The result: far too much functionality, dozens of reports nobody needs and extra time spent processing them. At best, automation like that won't make inventory management any more efficient; at worst, it will make it even more expensive.

These are far from the only problems caused by inefficient inventory management. Many companies know their purchasing is ad hoc and driven by gut feeling but keep putting off change. Yet if you calculate their lost profit, it turns out automation would pay for itself in just a few weeks. Here are five tips to help you build an effective inventory management system at the lowest possible cost.

Five tips for better inventory management

1. **Choose automation.** If your catalog runs to hundreds or thousands of SKUs, you can't manage purchasing efficiently by hand. A calculation that takes a skilled employee two weeks takes software 20 minutes.
2. **Choose the parameters that really matter for your business.** Study case studies from companies in your segment to keep improving your inventory management.
3. **Use a period of change to make improvements.** A crisis, a growth spurt or a change of team is the best time for change. You can see meaningful financial results after just one month of automated operation.
4. **When choosing between implementation and a subscription service, go with the service.** Implementation is a long, expensive project: the software is installed on a limited number of devices, and each one needs a license. A service offers speed, a reasonable price and access from any device for an unlimited number of users. All data is stored on the provider's servers, so you don't need to invest in your own IT infrastructure.
5. **Choose a product whose features you'll actually use.** Inventory management software keeps getting better, so you can find a solution that fits your needs and budget, whatever the size of your business.

Ask our expert a question on our website or call +7 495 130 01 87.

Book a free expert consultation.