

Business Services Common: Inventory value is too high

As a percentage of working capital, the value of the business's inventory is too high. This means that the business's cash flow is restricted and there is more inventory available than is immediately needed or useable.

Indicators

- Decreasing cash.
- Increasing overdraft.
- Increasing inventory value.
- Increasing storage costs.
- Increasing creditors.

Causes of the problem

- Decreasing sales.
- Failure to take into account seasonal and economic variances in relation to the level of orders.
- Failure to modify the product for changing consumer preferences.
- Inefficient ordering policy.
- Poor quality of product.

Short term solutions

- Examine the business's inventory and write off any obsolete inventory.
- Offer discounts for large orders by customers over a specified period.
- Examine the business's purchasing policy and decide whether it should be adjusted. For example, more senior staff may need to authorise the orders.
- Examine the possibility of selling some of the surplus raw materials (eg send them to the auctioneers).
- Ensure regular stock takes.

Long term solutions

- Analyse consumer preferences and decide whether the product should be modified to increase sales.
- Ensure yearly budgets for purchases take into account seasonal variances in production and purchasing schedules.
- Maintain close contact with your market so that you know what your competitors are doing and what your customers need.
- Ensure the responsibility for purchasing is assigned to a senior employee who has a good understanding of the business.



- Introduce a Just In Time policy. That is, ensure that raw materials arrive only as they are required. Re-educate employees and management so they appreciate it is not good to have 'everything' on the shelves.
- Educate the ordering department in principles of stock control (such as a Just In Time policy).

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