



# INVENTORY MANAGEMENT WORKS FOR YOU



# 1.

## WHAT IS INVENTORY MANAGEMENT?



Inventory management is the system that guides how your organization stocks, stores, and issues vital products to your workers. Inventory can take many forms, whether direct or indirect. On the indirect side are cleaning and janitorial supplies, personal protective equipment and even tools, and every organization keeps some form of these crucial products on hand.

The common goal for any inventory management system is to create a process to support productivity and efficiency at your facility while making it fast and easy for workers to get the supplies they need and get the job done.

Unfortunately, not all inventory management systems meet the need. In fact, in most organizations, problems ranging from severe overstocking to constant undersupply are rampant, crippling overall efficiency and the inventory budget. With some processes, little guidance and poor planning leads to clutter and inconsistency. In others, the process can require more than 5 people and 30 steps just to replenish products. The problems can be subtle depending on the size of your company, but severely impact performance at scale. <sup>1</sup>



# 2.

## WHY INVENTORY MANAGEMENT MATTERS

Getting inventory under control does more than just reduce clutter. If you are like most organizations, a large portion of your inventory is never used, sitting on shelves for months or years before finally being thrown away. Grainger estimates find that 60% of inventory exceeds 1-year need, if products are used at all. Space is at a premium across organizations, and this unused inventory forces supplies to take over space that could be used for production.

Unused inventory also hangs on the balance sheet as an unneeded expenditure, tying up cash flow that could be used in other parts of the organization. The numbers are not insignificant – Grainger research shows that organizations spend \$12 billion annually on inventory that is never used. <sup>2</sup> The more inefficient the inventory management system, the more likely it is that your team is also working inefficiently. Instead of getting quick access to the products they need, workers must wait on supplies to arrive, cross the warehouse to get even basic equipment, or lose time digging through closets to hopefully find what they need. These delays add up to serious lost time and productivity when scaled across even a modest team.

Ineffective inventory management systems also tend to consume costly talent that could have more impacts in other areas of your business. These team members are often skilled laborers who spend more of their time making sense of the inventory than on revenue-generating activities. The time they spend managing an inefficient process could be better redirected to production.

Inventory management helps you, your organization, and your team get a handle on the products that help you get the job done. Investing in a solution for inventory will make this process natural and effective for your team.

### HOW EXCESSIVE INVENTORY IMPACTS YOUR PROCESS

Based on over 500 customer engagements completed by Grainger Consulting Services, on average, over 50% of a company's MRO inventory can be considered inactive due to poor management of their MRO supplies. <sup>3</sup>



Up to 60% of on-hand MRO inventory levels exceed a 1-year supply. <sup>4</sup>



A recent study found that U.S. businesses spend \$110 billion on maintenance, repair, and operating (MRO) materials – products ranging from light bulbs to cleaning supplies to nuts and bolts – and of that \$110 billion, approximately \$12 billion sits on shelves and never gets used. <sup>5</sup>

# 3. SETTING GOALS FOR INVENTORY MANAGEMENT



Before evaluating your inventory management program, you must consider what you want to accomplish with your inventory process. Adjusting or recreating your process can impact many different aspects of your business and team. Understanding what it is that you want to achieve with your inventory management system can help determine your starting point.

The goals of changing the inventory management process usually fall into a few common groups, including efficiency, employee satisfaction, and overhead. Because inventory management touches on aspects of who works, how they work, and the tools available to them, it can easily shift your organization's operations.

## Efficiency and Productivity

If you seek to impact efficiency, you want to see the team do more with less. That means finding exactly how much of each product you need to have on hand, reducing downtime spent seeking inventory, and optimizing what gets ordered. It is likely that changes to your process will deliver against these goals, so focusing on general efficiency itself is likely to significantly shift the organization.

## Employee Trust in the Process

Impacting how employees do their jobs boosts morale and productivity in clear ways, but these measures may not impact the full organization. When your team lacks easy access to products and struggle to find what they need, morale and effectiveness suffer. The team wants to get work done, and they have little time to find products and move around supply closets. Look for improved spirits, higher production, and even fewer unnecessary breaks as signs that your inventory process is helping.

## Control Cashflow

Overhead is a matter that should concern the entire organization, even if it mainly impacts supervisors, supply closet managers, and the executive team. Every time products are ordered and not used, they weigh on balance sheets and sit in storage. By Grainger estimates, 50% of all inventory is overstocked or inactive, rarely seeing use. When overhead is reduced, you see clean, organized supply closets, balanced budgets, and happy teams. <sup>6</sup>

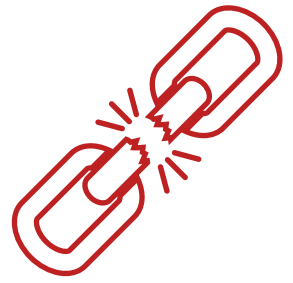
No matter which goals you choose to pursue with your inventory management program, it is important to gain executive and team alignment before change. Without this support, you may struggle to see the scale of change that you anticipate. Focusing on the goal in mind during the process also helps you engineer to the right outcomes.





# 4.

## SIGNS OF AN INEFFECTIVE INVENTORY PROCESS



No inventory process is perfect. Your team's needs change, shipments take time and space always comes at a premium. In the most common situations, these issues combine to form a broken process.

There are generally two big ways to check if your organization is following an ineffective inventory management process:

### Replenishment

- Shipments are slow to get to your teams, with products over and under-ordered
- High value team members are focused more on inventory than their primary roles
- Inventory is reordered randomly or on demand, and often redundantly

### Issuance

- No one process to issue and track inventory once it arrives
- Workers struggle to find what they need and each follow a different process
- Storage rooms are cluttered, overflowing, or barren

These signs individually indicate that something is wrong with your process. When many signs show in your organization, it likely means that you have one of three common challenges: Overstocking, understocking or an unclear process.

## Overstocking and Obsolescence

When inventory supply closets are overflowing, and the team does not even know where key products are, you likely have an oversupply situation. Oversupply is easy to create and difficult to fix, with little time to trim the extras, know which items are obsolete, and reevaluate what supplies are really needed.

Overstocking is dangerous because it costs large sums of money to maintain. Overstocked inventory sits on your budget, costs money to store and often goes to waste. In some cases, overstock can consume up to half of your inventory budget. With rooms overflowing with supplies, it also becomes difficult for your team to find the parts and products they need, wasting time and efficiency.

## Understocking

Compared to over-stocking, understocking inventory seems like a better situation. It may appear that keeping inventory understocked is a way to prevent clutter, but understocking can be more expensive in the long run.

Signs of understocking will show at the team level. Your workers will struggle to find parts and products, and often need to spend time searching various supply closets for what they need. Production can slow or complete downtime can result as the team awaits a shipment to complete their work. Some will even go to supply stores on their own, buying what they need and submitting for reimbursement. Each situation is costly, slowing down operations and demanding that your team work below their peak efficiency.

Understocking can also create "high-demand" products within your team, making it even less likely that everyone can get the job done. A product that is poorly stocked and highly used can become a target for workers to squirrel away or hide. Workers save these products for later use or even take them home, reducing inventory while breaking trust with other workers, who cannot find the products they need on demand.

## Missing Data

The most severe inventory issue is when nobody knows the rules of the inventory management system. Teams each do their own thing, with no coordination on orders and supplies. In some cases, supplies will be over-stocked and overflow into unused space. In other places, crucial products will always be understocked and hard to find. Redundancy will be high, and no single person can know supply levels or even process.

When an inventory process is simply missing, you suffer the consequences of both overstock and understock all at once, with waste and inefficiency across the system. If you find that supervisors, inventory specialists, or even plant managers cannot explain how, when, and why inventory reaches their areas of operations, it is a clear sign that a new inventory management system is needed.

No matter your situation, selecting and implementing an inventory management system will reduce the impacts of the problem. A mix of solutions is appropriate to solve each challenge, but improvement comes when a plan is put in place.

# 5.

## CHECKLIST FOR FINDING INVENTORY ISSUES



Inventory issues can pop up across the organization, and in unlikely places. From operations to storage and cash flow, everyone is impacted by an ineffective inventory management process. See which of these apply to your operation. Checking off a few issues in each category indicates general problems with how your process is running. If you check off a majority in each category, the problem is severe.

### Storage

- ☐ ..... Are storerooms cluttered?
- ☐ ..... Do workers struggle to access the products they need?
- ☐ ..... Is space in storerooms used poorly (no shelving, vertical space, cages)?
- ☐ ..... Is storage overflowing out of its dedicated space?
- ☐ ..... Is there no inventory control process in place (barcode, badging, check-out)?
- ☐ ..... Does the inventory control process require many people to manage?
- ☐ ..... Is inventory not tracked or measured?

### Process

- ☐ ..... Is there nobody to manage the overall inventory ordering process?
- ☐ ..... Is there no defined replenishment process?
- ☐ ..... Are products routinely over or under-ordered?
- ☐ ..... Are orders inconsistent in size and frequency?
- ☐ ..... Is there no defined issuance process?
- ☐ ..... Is the ordering process full of delays and difficulties?
- ☐ ..... Are all orders treated the same, regardless of importance?

### Cash Flow

- ☐ ..... Does the money spent on products routinely exceed budgets?
- ☐ ..... Is there no way to measure how often supplies are used or how long they sit?
- ☐ ..... Are costs associated with inventory unknown or underestimated?
- ☐ ..... Are personnel costs for inventory control exceeding budgets?
- ☐ ..... Is waste abnormally high?
- ☐ ..... Are products frequent thrown away unused?

# INVENTORY MANAGEMENT IS A CROSS-FUNCTIONAL CHALLENGE



Our finding is that improving inventory management processes can help businesses reduce spending by as much as

**25%**<sup>7</sup>

**60%**

say managing costs and space is their biggest inventory challenge.<sup>8</sup>

Up to

**90%**

of inventory items are issued fewer than 6 times a year.<sup>9</sup>



# 6.

## INVENTORY MANAGEMENT STRATEGIES



Getting command of your inventory does not mean that you need to go it alone. There are a range of strategies for inventory management, each with pros and cons depending on your situation. A mix of approaches may be best to meet the needs of your team. The three approaches to inventory management are Self-Managed, Vendor-Managed, and Vending.

### Self-Managed Inventory

Many organizations choose to use internal resources to manage inventory. In this approach, in-house teams or delegated supervisors manage what supplies come into the company, and how they get used, distributed, and restocked. A self-managed inventory approach can either rely on existing supply chains, or leverage third-party suppliers and expertise to keep track of products.

Self-managed inventory is the most popular form of inventory management, and not always for good reasons. Most organizations use this approach just because it is the way things have always been done, and other options may not have been considered. Other organizations that have complex compliance requirements or unique products may also adopt a self-managed system. If an organization already has an effective inventory management approach, self-managed inventory may also be a good option. Organizations choosing to manage inventory internally do not need to go it alone - programs from Grainger can help you manage your existing supply needs.

Taking a self-managed approach brings unique challenges to inventory management. Self-managed inventory is often hard to predict, with waves of over and understocking common. Because inventory is rarely estimated correctly, budgets are strained by unneeded product or slowdowns as workers wait on supplies.

#### Pros

- Appropriate when your organization owns its supply chain or works with a vendor
- Often leverages internal talent to maintain an efficient system
- Can increase product security in high-compliance environments
- Allows for direct control over inventory

#### Cons

- Extremely easy to over or under-order products
- Often requires many different processes and teams to manage
- Generally inefficient, unorganized, and expensive if run poorly





## Vendor-Managed Inventory

Vendor-managed inventory matches an in-house inventory team and process with the system, best practices, and supply chain of a third-party vendor.

Vendor-managed inventory takes the guesswork out of the process, using the expertise of Grainger to optimize your systems. Grainger reviews your existing processes and needs, recommending how best to meet the inventory requirements of your company. When implemented, Grainger tracks your inventory, automatically orders what you need, and advises on where to make changes.

When a vendor guides your inventory management process, there can be early friction with the internal inventory team as well as supervisors who know their workers best. Vendor-managed systems will need some time to adapt to the contours of your business and team, and change is not likely to happen overnight. Over time, however, vendor-managed systems tend to reduce overhead and overstaffing, preventing overstocking and clutter along the way.

### Pros

- Manages all time consuming and costly aspects of ordering and maintaining supplies
- Vendor provides expertise in efficient supply chains and processes
- Single process for ensuring products are available and reliable

### Cons

- Takes time to get the new process in place
- Requires understanding of inventory needs and supplies
- May be out of scope if a specific inventory category is unavailable

## Vending

Vending is a newer approach to inventory management that brings the biggest benefits of vendor-managed inventory to your most commonly used products. Vending solutions use actual vending machines that require employee ID input and control consumption of high-use items.

The products most appropriate in vending machines are those that your team uses daily or weekly. These include personal protective equipment like gloves and masks, as well as job-specific items with high turnover. In some environments, abrasives and sheeting can move fast, while in others, fasteners and markers may need to be frequently replenished. Many common products are appropriate for vending, except for those used rarely, for specialty needs, or for only one type of job.

Vending reduces the amount of time your team spends heading to the supply closet and back. The average team member needing a product may spend over a half-hour getting that item, with breaks to head to the supply closet, talk, and grab a snack. Vending machines are located right on the production line, reducing or eliminating this wasted time.

### Pros

- Easy access to common products right beside worksites
- Managed inventory that reduces overhead, delays, and manpower
- Provides increased control and visibility over product usage and consumption

### Cons

- Not the right solution for all product types
- Requires the team to use one system for all common products
- Requires two inventory management processes – one for common products, and one for other items

# 7.

## ENSURING LONG-TERM SUCCESS



Once an inventory management strategy is in place, it is easy to celebrate the change and forget about long-term success. With any system, it is crucial to constantly evaluate progress against your goals. There are many strategies that your team can adopt to ensure compliance and measure success, but the important step is to pick at least one and follow it.

Not all strategies require you have perfect data or hire a statistician. While measurements help, even general observations of the process can show trends. The right strategy will often depend on the size of your team and which inventory management system you have implemented. Whether you choose to **track progress by observation** or **standardize**, there is a way to measure success that will always work for your team.

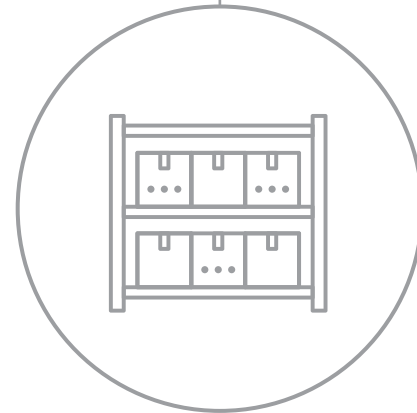




# Observation

The most effective form of tracking progress for individual steps of your new process is observation. By just observing how one step of the process works, you gain invaluable knowledge about how the inventory management process is being implemented, where adoption is high or low, and the sentiment of those involved in the process.

Take any step of the process to get started – for example, how your workers get products from the supply closet. Look first to see if each step you have planned as part of the new inventory management system is being followed, and take notes of steps not up to the standard. Look at the team members involved, and gauge their efficiency, interest, and any frustration or mood changes. Talk to them and see how they feel about the specific step of your plan. This information can quickly show where things are going wrong, or where the plan does not match reality.



# Standardizing

Standardizing on an inventory management strategy from the top down can change the process. Systems are the most effective when the entire organization buys in and everyone is constantly reminded of the importance of the process and benefits of adopting the new plan. With enough reinforcement, paired with clear executive support and engagement, the new inventory management process will become second nature, and the team will embrace even small steps toward change.



# 8.

## GAINING EXECUTIVE SPONSORSHIP FOR CHANGE

Getting a handle on your inventory may seem like an overwhelming task, but the cost of delay makes it a crucial move your organization needs to undertake. By not changing the way product inventory is managed, your company risks taking on unneeded costs and reducing the overall efficiency of your operations.

Without an inventory plan in place, your organization will face productivity and cashflow challenges as it scales, with more time spent tracking down inventory and stocking shelves with duplicates and waste. Combating these challenges takes more than just a new plan - you need support, time and budget from your executive team to support a change management process that could take years.

### Driving Executive Adoption

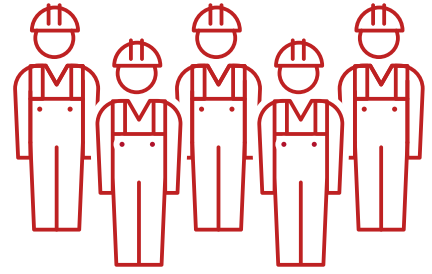
Driving adoption of the new inventory management approach with senior management should not be challenging, so long as you clearly document the problems and the impacts of your current process. Your CFO will be interested to know that much of your inventory sits unused, that key products are understocked, or that workers need a half-hour just to find the right products. The entire executive team will want to know about process inefficiencies, productivity and uptime reductions, and cash flow impacts caused by a poor process.

Before speaking to the executive team, generate a clear plan that demonstrates forward-thinking about the problem. Document the issues facing the organization today, the options available to address problems and the costs associated with each option, as well as a specific recommendation for how to move forward. A crucial aspect to getting buy-in is to frame change in light of cost and productivity savings, through a deep comparison to your existing inventory management system. With recommendations in hand, paired with visibility into competing priorities, your executive team will be able to invest in the right options.



# 9.

## BREAKING OLD HABITS - THE PEOPLE ELEMENT



Before rolling out any new inventory plan, it is worth considering change management. While all options are likely to make work easier for your team, and lead to more efficient operations, getting buy-in from your team and helping them adapt is crucial to a successful new program.

Your team will need to constantly take part in the inventory program, requesting supplies, using vending machines, or even helping shop and order. Before shifting how you manage inventory, it is important to implement a formal change program to capture their points of view. Those that do the work will often have ideas on when and how inventory is used that can guide your plan and the appropriate solution for the situation.

Best-in-class inventory management programs go a step further, creating a highly visible executive-level change management program. This can take the form of open meetings and talks, frequent communications and outreach, or greater involvement of workers in the creation of the new process. When paired with a full team that understands and supports the idea, the inventory management program is more likely to be successful. Change management and a change program combine to create the broad alignment necessary to keep the system working long after it is put in place.

Checking back in on the process also helps to prevent old habits. Like any plan, you will need to evaluate your progress regularly and check in with key stakeholders to keep it on track.

### WORKERS FEEL THE PAIN OF POOR INVENTORY MANAGEMENT

**22%**

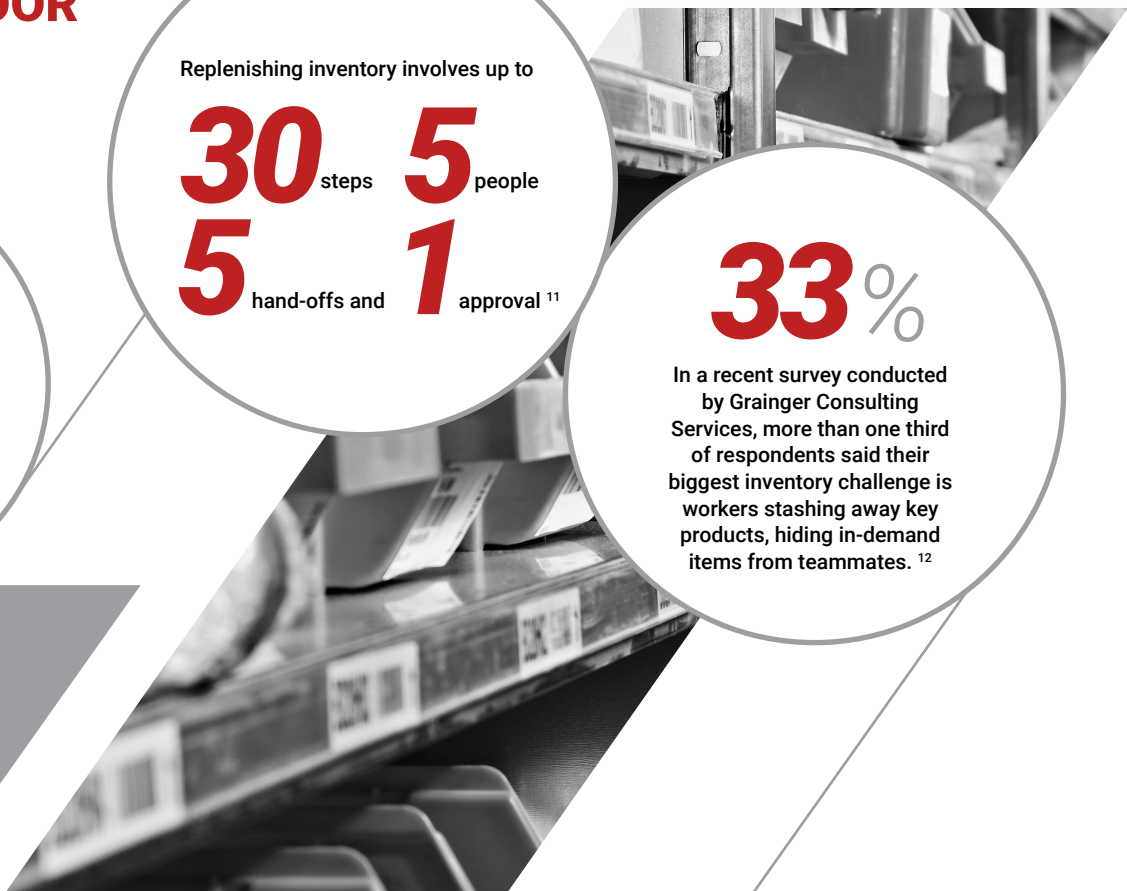
of the time, maintenance employees leave a stockroom without the proper material or quantity <sup>10</sup>

Replenishing inventory involves up to

**30** steps **5** people  
**5** hand-offs and **1** approval <sup>11</sup>

**33%**

In a recent survey conducted by Grainger Consulting Services, more than one third of respondents said their biggest inventory challenge is workers stashing away key products, hiding in-demand items from teammates. <sup>12</sup>





Ready to take the next step? Our inventory management experts can help you identify your unique inventory challenges and offer some solutions to get you started. Ready for a consultation? Learn more [here](#)

#### Sources

- 1) <https://www.grainger.com/content/keepstock>
- 2) <https://www.grainger.com/content/supplylink-mro-inventory-management>
- 3) <https://www.grainger.com/content/keepstock>
- 4) Idib
- 5) <https://www.grainger.com/content/supplylink-mro-inventory-management>
- 6) Grainger Consulting Services -The Facilities Central Storeroom: Clean or Chaotic? Whitepaper
- 7) <https://www.grainger.com/content/supplylink-mro-inventory-management>
- 8) <https://www.grainger.com/content/kc-inv-infographic-inventory-management-challenges-you-are-not-alone>
- 9) <https://www.grainger.com/content/keepstock>
- 10) <https://www.grainger.com/content/kc-inv-article-when-did-procurement-get-so-complicated>
- 11) <https://www.grainger.com/content/keepstock>
- 12) <https://www.grainger.com/content/kc-inv-infographic-inventory-management-challenges-you-are-not-alone>