

**NETSTOCK**

**Unlock  
hidden cash:**  
How to turn  
your inventory  
into capital

This eBook provides a comprehensive framework for turning your inventory into a valuable asset and optimizing your business's financial health.

# Content.

1. Introduction
2. Why inventory optimization is important
3. Inventory optimization strategies: KPIs, Classification, Demand Planning
4. Understand your supplier network
5. Conclusion

# 1. Introduction

Inventory holding businesses face various challenges that directly impact cost-savings, cost reduction, cash flow, and risk mitigation. Factors such as shifting consumer behaviors, constrained shipping services, labor shortages, and escalating living costs are exerting substantial pressure on financial performance. With increased shipping delays resulting in extended lead times, **almost one in four** businesses are purchasing inventory from local suppliers. This shift in purchasing behavior has influenced businesses to look at multiple suppliers for the same product or source larger warehouses to hold more stock.

A recent **Netstock survey** indicates irreversible changes like reshoring and nationalism, increased cost in capital and volatile demand in the supply chain landscape that should be addressed.

**But, you can only manage what you measure well!**

Regardless of what industry you operate in today, understanding the relationship between inventory investment, availability, and supply chain uncertainties is vital for your financial success.

➤ **92%**

of respondents stated that over the last three years, supply chain disruptions have caused a significant increase in the amount of inventory kept on hand.



Here are four vital steps to unlocking operating cash ensuring your business remains agile and responsive to market change to optimize financial outcomes.

**01** | **Increase visibility and monitor your inventory Key Performance Indicators (KPIs)** to improve fill rates, reduce excess stock, and minimize stock-outs.

**02** | **Classify your stocked items** and focus on the right products that are important for your customers and will drive sales.

**03** | **Enhance your demand planning efforts.** Generate improved forecasts factoring in trends, seasonality, promotions, and supply chain disruptions.

**04** | **Monitor your suppliers** to plan for longer lead times and increase forecast accuracy.

Our Senior Sales Executive from Australia, **Peter Austin**, explains how your business can unlock operating cash...

Watch here



## 2. Why inventory optimization is important

**Inventory optimization** is vital for small-to-medium sized businesses. One of its primary advantages lies in its ability to unlock hidden cash, a critical concern for CFOs.

By strategically aligning inventory levels with actual demand patterns, businesses can reduce the cash locked up in excess stock. This will lead to substantial cost savings by minimizing expenses related to storage, insurance, and the risk of inventory obsolescence, all of which significantly impact a business's financial health.

[Take our Inventory Health Quiz](#)



Thanks to Netstock we were able to reduce our inventory value by an impressive

**\$1 million.**

**HartlandControls**



[Read their success story](#)

### Unlocks working capital

The freed-up working capital can then be reinvested in core business activities, such as expanding product offerings, research and development, or sales and marketing. It's not just about reducing costs but also about maximizing cash flow, which is essential for managing the financial stability and growth of a business.

### Enhances operations

Maintaining optimal inventory levels streamlines the supply chain, ensuring products are available when needed without using too much storage space. By fostering a leaner and more agile supply chain, inventory optimization empowers businesses to adapt to market fluctuations and changing consumer behavior, positioning them for long-term success. This translates to better financial stability and the ability to meet investment and growth targets with confidence.

# 3. Inventory optimization strategies: KPIs, Classification, and Demand Planning

## A. Know your KPIs

**KPIs help monitor your inventory levels, enabling you to respond to change.**

Accurate and razor-sharp inventory visibility gives demand planners a holistic view of all inventory KPIs such as stock vs. model stock, fill rates, stock-outs, and excess stock. With this level of visibility, you can action and prioritize items enabling rapid response to key issues affecting your ability to meet fill rate targets.

The more volatile the supply chain becomes, the more regularly you have to review and measure your KPIs to plan your inventory better. Inventory visibility will show all internal inventory records so you can better stock, monitor, and order relevant items at the necessary time to prevent stock-outs.

According to a Netstock survey, **43%** of consumers indicated they would look for a similar product if the preferred brand were out-of-stock.



### Know your critical KPIs and how they affect your inventory holding

- Complex customer orders,
- a lack of data and insights,
- a shortage in shipping containers,
- and transportation capacity issues...

add extra strain to monitoring, tracking, and having complete visibility over your inventory holding.

However, if you have the right inventory KPIs in place, your supply chain is well on its way to success.



You'll need to ask yourself the following questions...

1. What is a KPI?
2. What inventory KPIs should I have in place?
3. How do you set, refine, and track inventory?
4. What are the benefits of setting KPIs?

## 1. What is a KPI?

Before we can define inventory KPIs, we will make a definition upfront. G2, a business software and services reviews platform, says...



Inventory KPIs are metrics used to evaluate inventory management efficiency, including stock levels, turnover, costs, and order fulfillment, aiding in optimizing performance and meeting customer demand.

**You need to remember that your business has KPIs for production, processes, cash flow, and profitability, which ultimately measure the impact of your business operations.**

The inventory KPIs will monitor your inventory policies, track inventory turnover and ultimately measure how well your inventory performs based on your sales.

## 2. What inventory KPIs should I have in place?

You can't manage what you don't measure, and you're flying blind if you don't measure what you do in your inventory or business. Your KPIs are like your North Star, affecting the overall performance and visibility of your inventory holding.

**At Netstock, we divide inventory KPIs into two parts, namely...**

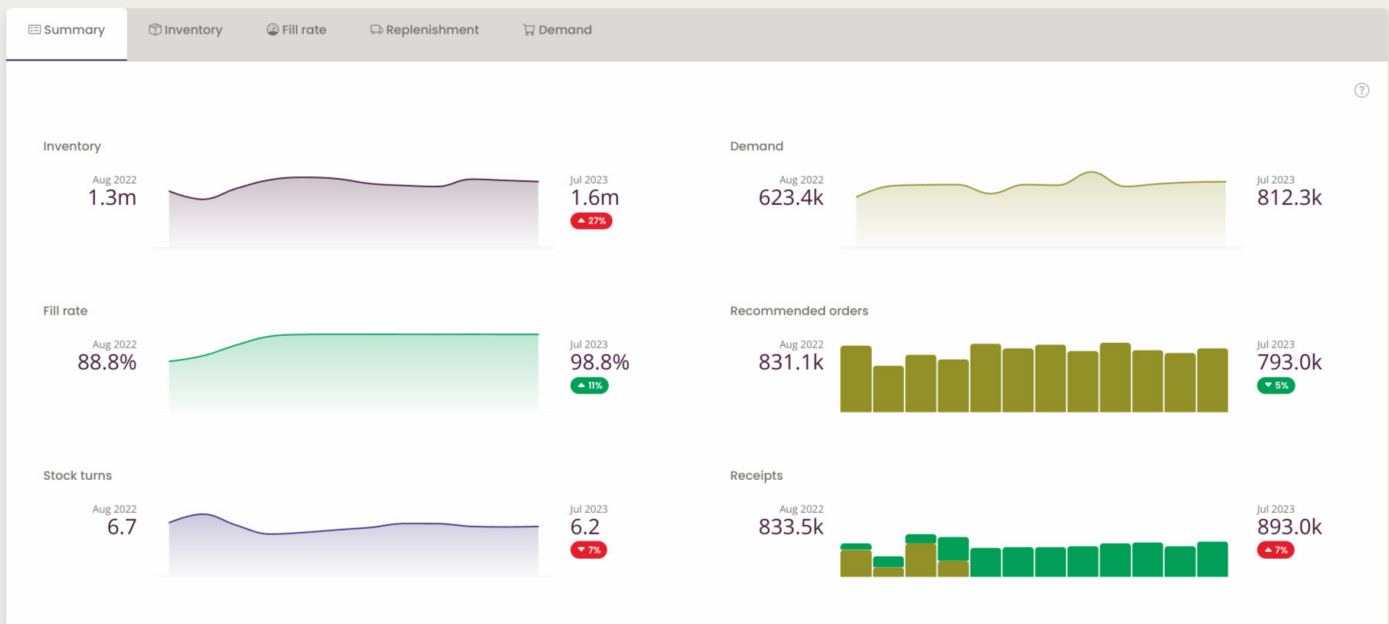
### i. Stock holding

### ii. Fill rate

### i. Stock holding

The amount of inventory a business keeps for future use compared to an ideal model.

- a. What is your inventory value compared to the benchmark in your industry?
- b. Where are you in excess?
- c. Where are you ordering too much of an item which may result in excess stock?



### ii. Fill rate

The fill rate is the percentage of demand met by immediate stock availability. Track how well you're servicing your existing customer base compared to what you're targeting.

- a. Measuring the fill rate and how well you serve your customers.

- c. Where will you potentially stock out, and when will you run out of stock in future?
- d. Where are you forecasting too much or too little? If you forecast too much, you'll have excess stock. If you don't forecast enough, potential stock-outs will occur.



### 3. How do I set, refine and track my inventory?

You need to know the value of your inventory holding in your business relative to how much excess stock you have. Is the value of your inventory holding increasing or decreasing?

It is vital to...

- **Classify your items** by looking at each item's value and velocity.
- **Understand your fill rate** targets and track towards them. If you keep getting closer to the target, then you know you are going in the right direction.
- To **measure your inventory value**, you need to compare it to previous periods.
- **Keep tracking it.** You have to know what you want to measure, your target, and how it changes over time.



We use Netstock every day to get a snapshot of our inventory, fill rates, stock-outs and forecasts, helping us to set realistic goals for all aspects of our business. We can't live without it!

**Starleaton Digital Solutions**

## In a more stable environment, you can review your KPIs less frequently.

When reviewing, ensure that you examine your upstream supply and downstream demand. Frequently check your orders and see if they align with your demand and whether your ordering cycle correlates with the current reality of receiving stock from your suppliers. We recommend reviewing the highest value, and the fastest moving item more closely to get the best value for your spend.

#### 4. What are the benefits of setting KPIs for my inventory?

**The use and selection of inventory KPIs help evaluate operational processes and turn them into financial records.**

**Selecthub** believes, "The purpose of using metrics and KPIs across inventory control systems is to drive the most effective behaviours, decisions, and strategies possible. Metrics and KPIs that reinforce the silo-based behaviour of many manufacturers (such as data and knowledge hoarding) are being replaced by those that reward collaboration. With valuable metrics and increased collaboration, businesses are able to improve on-time deliveries, reduce operating costs and increase overall customer satisfaction."

#### ● Customer insights

**Starleaton Digital Solutions** improved visibility using Netstock's up-to-date inventory dashboard. They have dramatically reduced excess stock and surplus orders.



What used to be a week-long purchasing meeting can now be done on the fly with all data at our fingertips, rather than running long cumbersome reports.

**STARLEATON**



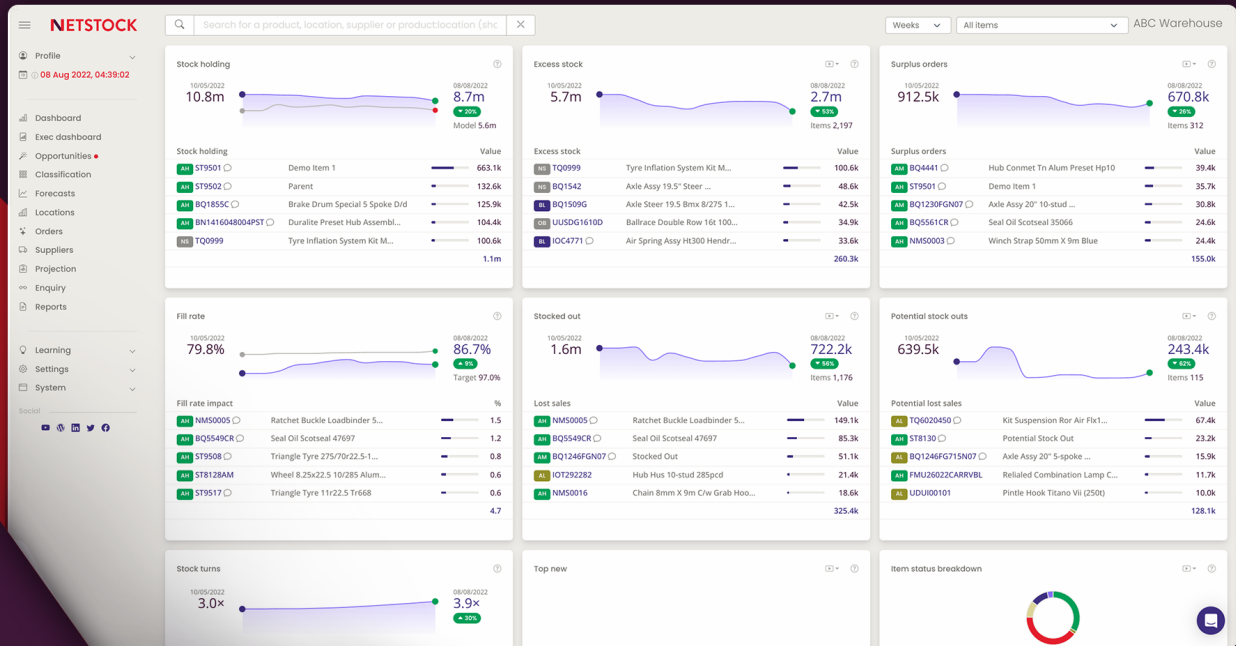
[Read their success story](#)

# Did you know?

Netstock gives you customized visibility!

The Netstock Inventory Dashboard allows you to manage and measure your stock holding and fill rate effectively. The dashboard lets you focus your attention on the top five items that will positively impact your inventory. The key is to work on the 80/20 Pareto Principle - focus on 20% of the stock items, which will give you 80% of the sales and help you make a massive and intelligent impact on getting your inventory on the right path.

# The Netstock dashboard



## B. Classifying your items is as easy as ABC

Focus time and resources on the stock items that align with your customer demand and increase profits.



## How many times have you found yourself in this scenario?

- Are you able to identify high-priority items?
- Do you know which items to reorder?
- Which items are sitting in excess?
- But, more importantly, do you know what items need attention right now?

## Allocate your working capital towards inventory that will give you a high return on investment.

Based on the Pareto Principle, the ABC analysis looks at classifying your items so you can focus on 20% of the items that will give you 80% of your sales. When applying the ABC analysis, you arrange your inventory by identifying your high-profit generating items, reviewing which items are slow-moving, and then establishing if you should stock these slow movers in your warehouse.

## The ABC analysis

### Step 1

Identify and remove your obsolete and non-stocked items.

#### A-items

Profit-generating, high-moving items (which make up 80% of sales)

#### B-items

Fast-moving inexpensive items (which make up 16% of sales)

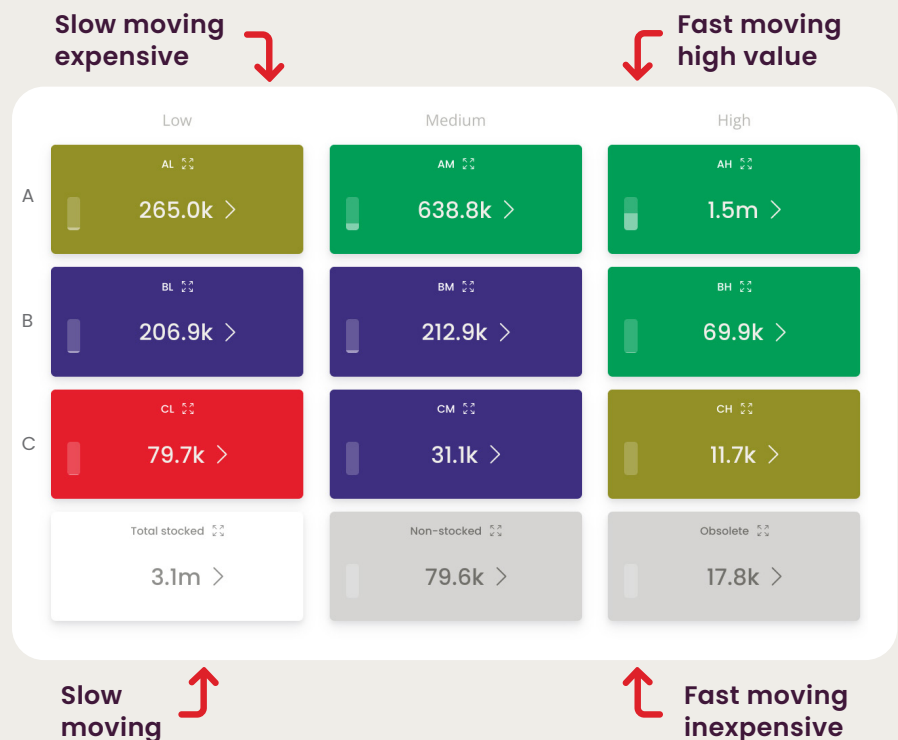
#### C-items

The bulk of your slow-moving items (which make up 4% of sales)

Netstock automatically classifies your inventory

### Step 2

Based on previous sales data and or your future forecast, breakdown your inventory into:



## The ABC analysis will help you to...



Focus on items that lower your working capital.



Know what items to re-order.



Reduce your excess stock.

### Knowing your high-moving items will help you to...



Forecast more accurately based on the demand and ensure you don't stock out of these items.



Develop your relationship with suppliers to ensure your supply consistently arrives in full and on time. Perhaps ask your supplier for a new pricing model as you will be ordering larger quantities of these items.



Prevent stock-outs of these items so you can consistently deliver to your customers.

### Knowing your slower-moving items, you can...



Free your time and resources to focus on more critical items or other aspects of your business.



Create pricing campaigns to sell slow-moving items quicker. This will reduce the costs of storing, insuring, and marketing those items.

# Never miss out on a sale!

## Safety stock can be your inventory lifeline.

### What is safety stock?

Safety stock is the extra inventory kept in your warehouse to ensure you avoid stock-outs and meet demand. Calculating the right amount of safety stock for specific items is important, but not every item requires it. Items with uncertain supply require more safety stock, while more predictable items need less. The amount of safety stock also depends on whether items arrive late or early compared to their expected delivery times.

#### 1. Define your safety stock requirements.

Once you have classified your inventory and better understand your sales and supplier performance, you can now focus on the stock quantities you need to keep as insurance or **safety stock**. Your safety stock will protect you when your supplier lets you down or your demand increases. Measure, and report monthly on the above factors. Remember, you will see improvement in the aspects you measure, and that visibility will help your team focus on the correct elements of your inventory.

2. **Re-evaluate your safety stock.** If you don't use your safety stock, you are holding too much stock and wasting working capital for your business. Continuously re-evaluate your safety stock levels and parameters and adjust where needed.



For items that are more likely to end up with excess, Netstock shrinks the safety stock away, while safety stock is increased for items with a risk of running out of stock, Netstock's ability to compute optimal safety stock levels has proven valuable for Medshop Australia.

**+MEDSHOP**



## C. Monetization opportunities

Monetizing slow-moving inventory is a crucial aspect of unlocking cash in any business. By implementing monetization strategies, businesses can free up resources, minimize the risk of inventory obsolescence, and unlock hidden operating cash. Here are a few strategies your business can implement now.

**Liquidation.** Explore various liquidation methods, such as online marketplaces, to quickly sell excess or obsolete inventory at affordable, market-related prices.

**Seasonality.** Plan strategic seasonal sales and promotions to coincide with high-demand periods and reduce excess inventory.

**Donations.** Donate slow-moving inventory to charitable businesses to not only clear space but also gain potential tax benefits and positive brand reputation.

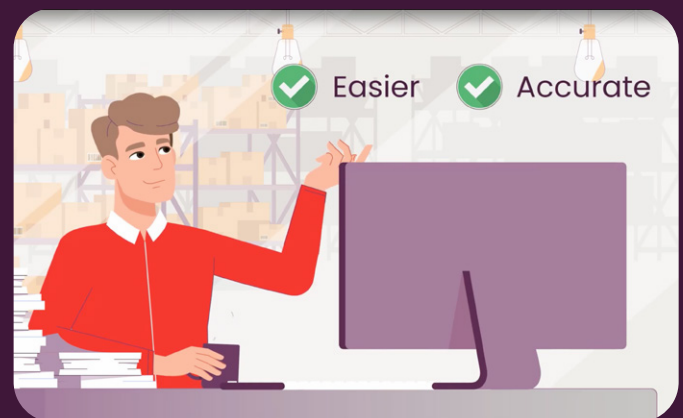
**Inventory audits.** Conduct regular inventory audits to identify slow-moving items and make informed decisions on how to monetize them effectively.

**Implement inventory management software.** Improve supply chain and inventory management processes to prevent future occurrences of slow-moving inventory.

## D. Enhance your demand planning efforts

The demand planning process is vital to the success of any business and requires accurate inventory forecasts to make optimal purchasing and planning decisions.

Watch here



## Customer insights

Medshop was struggling with inconsistent demand planning and excess stock. Integrating with Sage ERP X3, Netstock could increase sales, shrink safety stock and reduce excess.

66

Within 6 months, there was a 14% increase in product availability and a 38% increase in sales with just a 16% increase in focused investment.

**+MEDSHOP**

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[Read their success story](#)

## Achieve substantial cost savings

Achieving a more robust and well-balanced inventory can yield substantial cost savings for your business by preventing stock-outs and minimizing excess inventory. The implementation of a structured and reliable forecasting process becomes essential in effective inventory planning.

## Review and adjust your inventory data to help remain flexible in your demand planning

You can't rely on last year's data, as it's not a realistic representation of your inventory flow due to supply chain disruptions. To help remain flexible in your demand planning, select data from previous months that you feel best represents your current situation and then use that information to help with your demand planning. Be mindful about shifting through past data manually, which can be time-consuming and lead to errors. With an **inventory management solution**, demand planners can work smarter to select alternative months better suitable for your demand planning.



## 4. Understand your supplier network

Having visibility over your supplier network is vital in helping your business remain competitive and continue offering exceptional service to your customers. As consumers drive demand, it's essential to measure supplier performance which will enable you to:

- ✓ Reach your target fill rate targets.
- ✓ Reduce the occurrence of over-ordering.
- ✓ Balance your safety stock levels in line with supplier performance.

### Ask yourself...

- 1 Are you able to measure how well your suppliers perform?
- 2 Do you know which stock items are affected by poor-performing suppliers?
- 3 Do you know your inventory's average lead time per item per supplier?

## How to improve your inventory management process



**Understand your current inventory management processes**



**Increase communication with your suppliers**



**Source alternative suppliers to deliver inventory on time**



**Measure and monitor your supplier performance**





## Understand your current inventory management processes

Having **visibility into your supply chain ecosystem**, from placing the first purchase order through to delivering stock to your customer, will help you plan around problem areas and identify opportunities for change.



Classify your suppliers and consider how external factors are impacting your suppliers.



Review each aspect of your supply chain and identify potential risk areas that can disrupt your supply journey.



Use a dashboard to disseminate your data using real-time supplier data across your supply chain.



Create an overview of your supplier network taking note of their manufacturing and distribution locations.



Review the readiness of your suppliers and what contingency measures they have in place when they can't deliver.



Find out what security measures your suppliers have in place to prevent cyberattacks. A cyberattack in your supply chain can compromise confidential data, resulting in reputational damage, loss of customers, and financial harm to your business.



What I like most about the Netstock app is the visibility of data. Everything you need is in the system to make intelligent decisions. For example, we have a supplier with a minimum order value, and they offer an incentive of around 15% if we order over that minimum order value. Being an international supplier with typically longer lead times, it makes financial sense to place larger orders to get that extra discount. However, you want to get the best balance of products, which the Netstock data helps us determine.



[Read their success story](#)



## Increase communication with your suppliers

If you don't ask, you won't know! Invest time in developing a solid relationship with your suppliers and your customers. Staying connected and knowing what your suppliers are experiencing, such as:

- their order availability
- reliability of delivery times
- or future demands,

will help you adapt your planning.

As soon as you know your supplier is experiencing delays, you can adjust inventory lead times and stock levels and update your customers immediately. Open lines of communication will reduce lost sales and customers!





## Source alternative suppliers to deliver inventory on time

And use them! Keep your selection of suppliers open by networking and building solid relationships with alternative suppliers. Stay up-to-date with their terms and conditions, processes, and new product lines.

If you experience bad service or continued delays with a regular supplier, you will have access to an alternative supplier you already know and trust.



## Measure and monitor your supplier performance

To optimize your supply chain, assess the risk exposure of each supplier within your network.

**Utilize** an inventory management solution to thoroughly analyze supplier data and evaluate lead times. Discrepancies between planned and actual lead times often pose challenges in supply chain management, impacting customer service.

**Consider** engaging with secondary suppliers periodically, even when not immediately required, to gain insights into their operational processes.

**Prioritize** suppliers based on their strategic importance, compliance scope, and an analysis of historical data.

## Customer insights

**Edco** increases visibility and experiences a **25% reduction** in excess stock in 9 months.

Integrating their SAP BI ERP to Netstock provided a 360-degree view of their inventory.

**Edco**



Netstock not only draws the data directly from our ERP, but it also automates the order entry process and allows us to refresh the data to see the forecasted results of new orders. **Edco**

[Read their success story](#)

## 5. Conclusion

- Improve supplier data to measure and monitor your suppliers and develop a resilient supplier network.
- Increase visibility to improve your fill rates and reduce stock-outs or excess stock.
- Focus on the right products that are important for your customers and will drive sales.
- Automate your planning and don't do manual planning via spreadsheets.

**Unlock operating cash and accelerate business growth.**

Get in touch with an inventory expert, and let's discuss how we can help accelerate your inventory management processes.

**Calculate your estimated ROI when you implement Netstock in your business.**

[Use our ROI calculator](#)

# Netstock's intuitive cloud-based software can help optimize your inventory management processes, enabling you to...



Save time on planning and place orders quickly.



Retain your customers and increase sales by avoiding stockouts.



Release working capital tied up in your inventory by reducing excess inventory.



## About Netstock

Netstock is a leader in inventory management and has earned the trust of over 2,200 global customers. Netstock's Predictive Planning Suite™ provides two powerful solutions – Predictor IA and Predictor IBP. Integrating into leading ERP platforms, Netstock empowers SMBs to place orders quicker, reduce stock-outs, minimize excess inventory and optimize capacity planning. Delivering immediate ROI, Netstock provides customers with the visibility to free up working capital, adapt to changes, and deliver outstanding customer service.

For more information <https://www.netstock.com/>