
Business Series: Inventory Control

**How to Set up a Simple
System to Manage your
Inventory**

Are

you

ready

to

manage

your

inventory?



Introduction

This is a multi-part series on business tools for enterprises and entrepreneurs. The purpose of this series is to offer a practical, introductory guide to basic tools and systems that every business should utilise in order to succeed.

The series includes the following topics:

1. Inventory Management
2. Financial Record Keeping
3. Debtors & Creditors
4. Branding & Marketing

The series is hosted by Sierra Leone Opportunities for Business Action (SOBA). SOBA is a private sector development programme that uses a market systems approach to facilitate pro-poor economic growth in Sierra Leone. The programme collaborates with private sector businesses in three primary areas: (1) sustainable energy, (2) agriculture, (3) professional services and entrepreneurship markets, to trial and to scale innovative and inclusive business practices that reduce poverty and improve economic opportunities for poor women and men. SOBA has provided business advisory support to 200+ businesses in Sierra Leone, helping most to establish and to integrate sound financial and business management solutions that underpinned business growth and helped to attract investment.

Why keep track of
your inventory?

As a business person, you have stock coming into your business, and you sell products as output. The stock, or merchandise, you're holding in your business before you sell it is called inventory. Some days you sell more of certain products, some days you sell less. Some days you bring in (or produce) more stock and some days you bring in less.

How do you keep track of it all? How do you make sure you do not lose customers by running out of stock? How do you find the balance between the cost of holding too much product in stock with the cost of running out of stock?

The answer is that you must keep a record of your inventory and use this record to make informed decisions. It does not have to be a sophisticated system, to start out, and whether you do so by hand on a stock control card, or on a computer, is up to you.

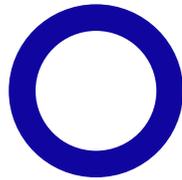
Why keep track of your inventory?

Here are some very good reasons to consistently track the amount of goods you hold in stock:

- Gives you a clear picture of how much product you have coming in and moving out of your business
- Helps you to plan your sales efforts
- Helps you to plan your production so you don't run out of stock
- Detects products lost from theft or damage
- Helps you control your expenses
- Prepares you for seasonal fluctuations in demand
- Allows you to be able to deal with costs associated with keeping too much or too little stock
- Gives you peace of mind

The benefits of a simple inventory management system

The Benefits of a Simple Inventory System



A SOBA partner that processes oil from locally harvested nuts had never tracked the amount of oil they were producing or how much processed oil they had sitting in storage at their factory at any given time. The company didn't track the diesel required to run the factory either. As a result, the processing company often ran out of stock at peak purchase/price times and often closed the factory altogether at great expense.

Recently the processing company implemented a simple paper-based inventory control system with SOBA support. This simple system tracks multiple products that generate revenue as well as the factory's diesel fuel. It allowed the owner to know exactly how much was coming into his factory every day, and how much was going out. He could then plan his production so he would always have the required inputs to run his factory, and he could match his production to his customers' orders.

As a result, costly shutdowns due to running out of diesel were avoided. The company owner also noted that he had been able to eliminate losses due to theft. And, maybe most importantly, this inventory control system has given the owner of the factory “the peace of mind to get a good night’s sleep.”

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Enterprises

Video



Video available here: <http://sobasl.org/video-basic-business-series-inventory-management/>

Results to date

So far, SOBA has helped more than 30 businesses implement inventory control systems. Some have been simple paper-based systems, and some have been more complex computer-based systems. We recommend doing what works best for your unique business. But if you haven't set up an inventory control system before, we recommend starting with something simple. Keep reading to find out how to set up a simple inventory system yourself.



How to set up a basic inventory management system

When setting up your inventory control system, a system that is easy to use is the most important factor. You don't want to create an overly complicated system that is either too daunting or too difficult to train to your stock keepers. It will never get used. So, **stick to a simple system.**

The critical component of a basic inventory control system is the stock card. A stock card is a sheet of paper that should be posted on the wall or kept in a record book at the place where you store your inventory or in your shop. It helps you to keep track of how much product you produce (or bring in), which adds to your inventory, and how much you ship out or sell, which decreases your inventory.

Examples

This is what your stock card should look like, and you should have one stock card for every product: (A template of both a printable stock control card and a Microsoft Excel version can be found at the end of this article.)

STOCK CONTROL CARD							
PRODUCT:							
DATE	OPENING BALANCE	NEW STOCK	BALANCE	STOCK OUT	CLOSING BALANCE	STOCK KEEPER	SIGNATURE

This is a step-by-step description on how to fill out each component of your stock card. You must record:

1. The product for which you are recording inventory at the top of the card
2. The date
3. How much stock you currently have of this product under 'opening balance'
4. How much new stock you are adding to your inventory
5. Adding the new stock to your 'opening balance' will give you the stock under 'balance'
6. How much stock is leaving your store, whether from sale or deliver is your 'stock out'
7. Subtract 'stock out' from 'balance' to get your 'closing balance'
8. The next day's 'opening balance' should be the previous day's 'closing balance'
9. Always have the stock keeper record their name and sign their signature

Examples

So, as an example, say you are a trader who buys rice from farmers, and then sells it to customers in Freetown. Yesterday you stated the day with 20 bags of rice in storage. You bought 15 bags from farmers and sold 12 bags to customers. Your stock card should look like this:

Salone Rice Co.		STOCK CONTROL CARD					
PRODUCT: Rice (25 kg bags)							
DATE	OPENING BALANCE	NEW STOCK	BALANCE	STOCK OUT	CLOSING BALANCE	STOCK KEEPER	SIGNATURE
2017-06-06	20	15	35	12	23	Mr. KOROMA	<i>M. Koroma</i>

Using the same example, if today you bought 10 bags from farmers and sold 18 bags to customers, your stock card will look like this:

Salone Rice Co.		STOCK CONTROL CARD					
PRODUCT: Rice (25 kg bags)							
DATE	OPENING BALANCE	NEW STOCK	BALANCE	STOCK OUT	CLOSING BALANCE	STOCK KEEPER	SIGNATURE
2017-06-06	20	15	35	12	23	Mr. KOROMA	<i>M. Koroma</i>
2017-06-07	23	10	33	18	15	Mr. KOROMA	<i>M. Koroma</i>

Notice how the 'opening balance' of 23 bags of rice on the second day was the same as the 'closing balance' on the previous day. This should always be true.

Make sure you check the stock card inventory record against what actual stocks you have in your store on a regular basis. This can help you find out if your stock keepers are using the inventory system properly. It can also help you know if you are losing your products to theft.

Conclusion

Now you know how to set up a basic inventory control system for your business. **Remember, the most important thing when doing record keeping for your business is to stay up to date and to be diligent in recording every time stock comes in or out.** Even a simple system can provide huge benefits which can translate into increased profits. You will keep customers happy by not running out of stock, theft will be prevented because you will know when products are missing, and you will be able to relax knowing that you don't have to keep track of everything in your head.

Links:

Basic Business Series- Inventory Management:

<http://sobasl.org/basic-business-series-inventory-control/>

Basic Business Series- Financial Record Keeping:

<http://sobasl.org/basic-business-series-financial-record-keeping/>

Basic Business Series- Debtors and Creditors:

<http://sobasl.org/basic-business-series-debtors-and-creditors/>

Branding and Marketing:

<http://sobasl.org/basic-business-series-branding-marketing/>

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