Stale Inventory Can Spoil Profits

The Ironbound, the Portuguese district of Newark named for the railroads that make up its boundaries, is famed for its huge consumption of fish. Fishmongers there need good noses — their customers, they say, can sniff stale inventory over the phone.

It's different on the warehouse floor. There, stale inventory comes palletized or stacked in crates. The contents of these containers — small assemblies, dishes, clothes — are out of date or out of fashion, and aren't very exciting to anyone.

If the bins of old inventory contained a few hundred dollar bills, they'd get some respect. Stale inventory doesn't yield fresh currency quite that easily, but better management can usually produce enough cost savings to justify the effort.

What Makes It Stale?

Staleness is a function of a company's sales cycle. No matter how often you turn your inventory — every two weeks or every four months — if anything you make or distribute is sitting quietly through six cycles, you can probably call it stale.

But staleness isn't an odor. It's a definition — one that suits your company, your business model and your financing.

Most companies face harsh demands from their largest customers, often with just-in-time delivery schedules. Other firms, by their nature, are whipsawed by fads and fashions. In all these situations, inventory pile-ups are inevitable, and keeping storage costs under control is the first reason to guard against staleness.

Better Information for Better Decisions

A stricter regime can also contribute to a company's agility in the marketplace. Inventory tracking and analysis are easier than ever today, and two key measures — the inventory turnover ratio and the average number of days in inventory — can help a company adjust its operations more quickly and precisely to serve its chosen markets.

Valuation decisions about stale inventory are also important. Choices in valuation systems — First-In-First-Out (FIFO), Last-In-First-Out (LIFO), Lower of Cost or Market (LCM) — can open up significant write-off opportunities on tax returns and financial statements.

Finally, some stale inventory can put actual cash on the barrelhead. "Right pricing" campaigns, remarketing initiatives, fire sales — they run on eBay nowadays — have all worked for some companies. And every retailer knows that items moved from the back of the showroom to the front enjoy an automatic, if modest, jump in sales.

If you'd like to talk over how your company could benefit from closer attention to inventory, please call our firm.