Amazon Inventory Management: Solutions to Common Problems

Opinions expressed by *Entrepreneur* contributors are their own.

You're reading Entrepreneur United States, an international franchise of Entrepreneur Media.

Inefficient supply chain management and inventory management cause retailers worldwide to lose more than $1.8 trillion annually. Even though offline retail accounts for the majority of this number, the e-commerce losses suffered still number in billions of dollars.

Problems such as losing sales due to inventory stock-out, incurring costs due to overstocking and errors in product pricing and descriptions are common when selling on Amazon. Failing to identify and correct these issues in time can severely affect the search ranking of your products.

This not only leads to a loss of revenue but negatively hits your reviews and seller ranking. Moreover, it gives your competitors the time to fill the vacuum and steal market share.

What complicates things further is choosing between Fulfilled by Amazon (FBA) and Fulfilled by Merchant (FBM) modes of shipping. FBA might help you with achieving Prime deliveries but FBM offers you more control and possibly reduced costs if you have the right scale.

Below, I'll discuss how each of the major issues involved in Amazon inventory management can impact the performance of your business, and more importantly, how you can tackle these issues.

Poor supply chain management

Your supply chain begins at your suppliers. Though they're outside your sphere of control, suppliers are crucial to the success of your business. After all, your business hinges on the quality of your products. If you falter on properly researching when choosing suppliers, you might end up with sub-par products or delayed delivery, or both.

What you need to do next is identify whether your supply chain is operating as well as it can. The absence of glaring issues doesn't mean everything is optimized. There can be persistent inefficiencies in your procurement process, which would come to light only when it's too late.

The solution

Try to establish an effective and transparent communication channel with your suppliers and partners to leverage their help in identifying existing gaps in the process. To avoid delivery delays, set realistic lead times after taking into account all the factors governing the manufacturing and shipping processes.

Setting accurate timelines is easier with an AI-powered automation tool, to minimize uncertainty and human errors.

Related: How is Machine Learning Influencing Supply Chain Management?

Running out of inventory

A 2018 report showed that online out-of-stocks cause retailers worldwide $22 billion annually in lost sales. As I mentioned earlier, inventory stock-outs are exceptionally damaging to your business, and losing revenue is just one aspect of it.

You tend to take a hit to your reputation as a seller by way

of negative reviews and poor search results. Overall, your seller ranking drops and you lose business to the competition.

There are multiple reasons that result in inventory stock-outs:

- Not tracking your sales velocity: Sales velocity is the number of units you sell during a given time period. It is an indicator of the number of days or weeks you have left before your inventory runs out. If you aren't tracking your sales numbers, then it's very easy to run into an inventory stock-out.
- Poor forecasting: Your products don't sell uniformly throughout the year, owing to the holiday seasons and periodic sales like the Amazon Prime Day. Not factoring in potential spikes in sales can lead to your business losing out on additional revenue during those crucial times of the year.
- Lack of monitoring of sales outlets: Your products are also likely to be listed on platforms other than Amazon. If you let additional sales channels slip out of your mind, you stand the risk of unexpected inventory depletion and stock-outs.

The solution

The longer your products stay out of stock, the more damage your business incurs. The first step to tackle this problem is to get your sales velocity in control by pausing active ads and marketing campaigns.

You can also temporarily increase the prices of your product – to bring down the sales velocity until you have things in better control.

To better tackle this issue, it’s best to move from manual and Excel-based forecasting to an intelligent inventory forecasting tool that smartly identifies the market trends to help you prepare for sudden order influx.

Overstocking inventory

It’s equally worse to face a situation where your inventory is not moving and you’re still paying storage costs, especially if you’re getting your products Fulfilled by Amazon (FBA). Even if you’re shipping orders through the Fulfilled by Merchant (FBM) mode, your capital can still be tied up storing slow-moving inventory. A 2020 report showed that retailers worldwide lost about $626 billion annually due to overstocking.

Overstocking not only causes you to incur an opportunity cost – due to the blocked cash not being available for other direct revenue-generating activities – but also affects your IPI (Inventory Performance Index) score with Amazon. Your IPI score is a 12-week rolling average used by Amazon to determine how well your inventory is performing. A poor IPI score will lead to Amazon reducing your inventory storage limits and charging you long-term storage fees.

The solution

The solution to overstocking begins with reducing your pricing in the short term, coupled with sales promotions. You can also increase keyword bids in your active ads to acquire new customers. However, be strategic about the bids based on the costs you’re incurring.

Secondly, to avoid Amazon’s extremely high storage fees, you can remove excess inventory from Amazon’s warehouses to your own storage facility through a removal order. But keep this as a last resort to avoid further complicating the matter.

Related: How Advanced Analytics Can Put an End to the $50 Billion Retail Overstock Problem

Pricing and description issues

This can be a surprise – but incorrectly entering price and product information can actually lead to huge losses in your e-commerce revenue. In either case, pricing your products too low or too high, both will hurt your revenues. With an incorrect or un-optimized product description, you can end up with lost traffic due to bad SEO or worse, negative user reviews.

The solution

The easy way to mitigate such disasters is by having a single source of truth for all your pricing and description information, preventing errors due to incorrect or outdated data.

If you're not yet ready to switch to a tool for this purpose, make sure you maintain a centralized file that gives you a bird's eye view of your data.

Automation to the rescue

Keeping track of the potential issues that can affect your inventory management is invaluable. But at the same time, it consumes a substantial amount of time, which makes outsourcing the tasks to an expert extremely lucrative. As the legendary advice of Peter Drucker goes, "Do what you do best and outsource the rest."

Fortunately, you have the option of offloading the heavy lifting of tracking everything to automation and AI tools that seamlessly help in all the steps of the process – from procurement and inventory forecasting to data analysis.

Ignoring Amazon inventory management is no longer an option, but it doesn’t need to be complicated either.

Related: The Cost of Manual Supply Chains and the Migration to Automation

https://www.entrepreneur.com/article/391884