Free Up Your Finances By Avoiding the Pitfalls of Excess Inventory



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Most companies have a lot on their plates currently. The rapid shifting of societal and economic elements has brought challenges to getting funds, sustaining cash flow, finding partners and dealing with essentially every other aspect of running a startup.

Supply chains usually don’t make it into the startup headlines. But in today’s climate, the chaos of global supply and demand means that supply chain management is one of the most crucial skills early-stage teams need to get right.

Even the largest retail companies — such as Target — have recently gone public about their supply chain issues and the

impact of excess inventory. They are announcing drastic strategies of cutting prices and canceling orders to regain their inventory equilibrium and free up warehouse revenue.

And if giants like Target are having trouble demand forecasting, smaller businesses and startups are in even more precarious situations, often without cash buffers to support wasted materials and orders.

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

How does excess inventory happen?

When your inventory strategy hinges on fulfilling demand, rather than considering lead times for replenishment, you end up over-ordering. Bulk buying seems cheaper in the short term and less risky than letting orders go unfulfilled. Still, eventually, you'll probably end up with a case of musical chairs: You can't shift inventory quickly enough, it piles up and you need to store or shift it because no room remains for the new product you're trying to impress the market with.

This also happens because of a lack of accurate demand forecasting, but forecasting tools only work when they can find patterns. When you have an inventory management solution to make deliveries and consumption more predictable, you can order more frequently in smaller batches. This way, you'll have less inventory tied up and sitting around, and you'll have more ability to be nimble – to intervene and course-correct – without saturating your warehouses. The biggest gap in demand forecasting and planning systems is their inability to support real-time intervention.

Why is excess inventory

significantly impacting early-stage companies?

A stunning number of startups find that the money tied up in excess inventory could equate to a round of funding. That's funding that could support the startup's research, survival, growth or next development phase. What might seem like a temporary glitch becomes a significant hindrance to a startup's long-term success and life expectancy.

Managing material goods should be vitally important to startup founders; without it, they just won't be able to stay financially nimble enough to take chances and grow.

Take Peloton, for example. This VC-backed company found itself with products with huge physical components (bikes and treadmills) that were no longer selling in droves. Peloton faced dire financial consequences because of this wasted inventory and had to take emergency measures, including laying off thousands of employees and canceling plans for a new manufacturing facility.

Rivian, an electric vehicle manufacturer, is the latest casualty of excess inventory. An inability to sell its physical product meant it had to hike prices before it had even developed enough to sell at scale. The final nail in the coffin? The company made the critical mistake of asking customers who had already ordered the lower-priced vehicle to make up the difference.

The sad thing is that this could have been a very different story; the company admits that if it hadn't struggled so much with its supply chain issues, it could have produced two times more units.

Related: 3 Ways Small Businesses Can Survive the Supply-Chain Crisis

How should startups deal with the immediate problem of excess inventory?

Before startup leaders can begin practicing better demand forecasting, they'll need to deal with the immediate problem of excess inventory and insufficient cash.

How startups resolve this initial state of affairs will depend on their unique financial situation. If they need the cash to stay alive, faster cash velocity is better than inventory as an asset on their balance sheet. For most inventory-heavy startups, there are more excess and wasteful dollars tied in inventory than the savings they are gaining from laying off employees right now.

One immediate step that can lighten the load is to cancel all upcoming orders that are in excess of your needs. If you can access real lead time data, you can reroute or cancel inventory. You shouldn't have to consider laying off employees when there's excess inventory that could be monetized.

How do you know when it's time to make this kind of intervention? You might be seeing changes in demand, abnormally long lead times, changes in on-shelf availability, etc. Keep an eye on the materials passing through (and getting stuck) in your supply chain.

Related: How Better Inventory Management Can Improve Your Finances

How can startups use AI to forecast demand?

Newer retailers and early-stage startups can use AI-powered tools to better plan demand going forward, and it needn't mean

retraining or relearning everything you know about supply chains. Consider these strategies:

1. Keep an eye on lead time estimates

Looking ahead at real lead time estimations for your goods can help you plan for potential excess inventory. Understand how often a supplier can deliver. Look at global shipments to determine if you will get your materials on time to either distribute or manufacture. This information can set up more accurate expectations for the rest of production and beyond. It also helps you advise customers ahead of time rather than apologizing after you've let them down.

2. Don't undersell your clearance inventory

Price your clearances properly; there is no need to price something 50% off when a 40% discount would result in the same purchase volume. The great thing about awareness of lead times is that you don't need to go to desperate measures. You can see ahead at the whole picture and put more gradual, smaller measures in place to deal with excess inventory.

3. Actively manage inventory buffers

Inventory buffers shouldn't just stagnate because excess inventory (even in the form of a planned buffer) can oversaturate your supply chain, causing the flow of goods to grind to a halt. If you can actively manage inventory buffers for critical goods, factoring carrier and demand disruption patterns, you can create a healthier flow even when the market environment is in turmoil.

Excess inventory happens to the best (and biggest) of us. But when you’re an early-stage company fighting to fuel your way ahead with VC funding and struggling to find enough spare cash to make changes, then excess inventory can drag your business down and threaten its future. By focusing on your supply chain and reading lead time estimates to manage the flow of your material goods, you can take back control and free up your finances.

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