

TEN WAYS TO DEAL WITH EXCESS INVENTORY

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No matter how lean your operation is, your company will likely end up with excess inventory at some point.

The culprit may be purchasing too much or overly optimistic forecasting. But unforeseen shifts in the marketplace or technology may also result in overstock.

In most cases, you won't be able to recover all your costs. But at least you can stem the bleeding from carrying costs and halt the inevitable decline in value faced by aging inventory.

Disposal methods can be tiered regarding the percent of original value you'll be able to get. Some methods won't work for all excess, which can occur at any stage from raw materials to finished goods. The type of inventory will also limit the options available.

Here are 10 ways that might help you reduce your excess inventory.

1. Return for a refund or credit. If your supplier allows this and will give you a full refund or a reasonable discount, then this might be the best option. You'll probably take a hit on shipping and handling but at least you can swap out the dead excess for something you can use.

2. Divert the inventory to new products. Perhaps the raw materials or components can be used in other lines or at other plants. The inventory might need some rework, so the cost of that should be taken into account. Some companies have created entirely new products based on scrap and overage from others.

3. Trade with industry partners. Competitors might be your friends when it comes to sharing inventory and supplies. The items taking up space in your warehouse could be exactly what another company needs right now. In return, they might have something you can use. This type of interaction not only helps your inventory management, but it builds relationships, which are always valuable.

4. Sell to customers. The route for this depends on whether your customers are businesses or consumers. If you sell directly to distributors or businesses, then approaching them with a different or special deal on finished goods might work. You might try packaging your product for a discounted price. Regarding end-users, there are many who don't care about having the latest make or model and will gladly buy your out-of-date inventory.

5. Consign your product. Independent distributors will allow you to maintain ownership while taking a cut of sales, often a 75/25 split. Consignment may be virtual, which means you keep the goods and are responsible for shipping them once a sale is made. You will need to be prepared to respond quickly to sales. Physical consignment means the distributor stores the goods and handles delivery.



6. Liquidate excess inventory. In this case, you're looking to just get rid of it. A liquidator will buy up what you have for a negotiated price. That's all you will see from the deal.

7. Auction it yourself. With the availability of online outlets such as eBay, you can sell inventory directly to whoever wants it. This requires staff time and can be a slow and tedious process. Not everything will sell, either.

8. Scrap it. Totally obsolete inventory can often be sold for the materials it contains, metal or cloth, for example. Scrap dealers will come and get it, and if it has any value, they'll pay a small fee. In the worst cases, you will have to pay to dispose of it.

9. Recycle it. When all else fails, rather than landfill inventory you absolutely can't dispose of in another way, see if it can be recycled. Most municipalities have recycling programs. There are also services that will pick up recyclable goods.

10. Donate it. Collaborations between corporations and not-for-profit organizations can be beneficial to all concerned. An article in the next issue will discuss the possible tax advantages of donating excess inventory.

Disposing of excess inventory is a balancing act between maximizing what you can get versus any further investment of staff time or other resources. To prevent the issue from becoming a huge headache, monitor and dispose of excess inventory all year-round. Once a year after your physical inventory could mean that much of it has already declined in value.