SCALEDRIGHT
CONSULTING

SMB INVENTORY GUIDE

INVENTORY CONTROL & OPTIMIZATION GUIDE

Proven strategies, actionable tips, and frameworks to stop capital leaks and scale your fulfillment profitability.

Framework
ABC Analysis & Dynamic Safety Stock setup

Execution
Cycle counts, FIFO flow, and lead time audits

Readiness
Diagnostics, tracking templates & scaling

Table of Contents & Overview

Mastering inventory control is one of the highest-leverage opportunities for growing small-to-midsize businesses. Unlocking cash flow from warehouse shelves directly fuels growth, marketing, and talent acquisition.

"Let's Build Something Beautiful"

Michael Mangicaro
ScaledRight Consulting
Founder | Principal Consultant

01. Hidden Cost of Mismanaged Inventory

For growing SMBs, inventory is often the single largest asset on the balance sheet, and the least optimized. Without rigorous controls, inventory quietly bleeds working capital through three primary leakages:

01 EXCESS COSTS

Carrying excess stock costs between 20%-30% per year above purchase price due to warehouse space, insurance, taxes, and shrinkage.

02 STOCKOUTS

When popular items run out, you don't just lose immediate sales. You damage customer trust and drive buyers directly to your competitors.

03 DEAD STOCK

Slow-moving or obsolete items lock up working capital that should be used for expansion, hiring, or marketing. Data-driven replenishment prevents this.

02. SMB Inventory Control Framework

To establish control without overwhelming your operations team, implement this structured approach: Categorize inventory based on dollar value and sales volume to focus attention where it matters.

Step 1: ABC Analysis (Prioritization)
Class A: Top 20% of items generating 80% of revenue (tight controls). **Class B:** Middle 30% generating 15% of revenue (automated controls). **Class C:** Bottom 50% generating 5% of revenue (bulk reordering).

Step 2: Dynamic Safety Stock & Reorder Points
Stop relying on static gut-feel orders. Set automated Safety Stock levels based on lead time variability and daily consumption rates to prevent unexpected stockouts.

Standard Formulas
Safety Stock: (Max Daily Usage x Max Lead Time) - (Avg Daily Use x Avg Lead Time)
Reorder Point: (Avg Daily Usage x Avg Lead Time) + Safety Stock

03. Tips for Immediate Optimization

TIP 1 CYCLE COUNTING

Shutting down for an annual physical count creates friction. Switch to continuous cycle counting. Counting a small subset of Class A items weekly.

TIP 2 FIFO ROTATION

Always rotate stock so older units are sold before newer shipments. This prevents product degradation and obsolete SKUs.

TIP 3 LEAD TIME

Supplier lead times are rarely static. Track supplier delivery times quarterly and update your WMS or ERP to avoid stockouts caused by delays.

04. GUIDE TO INVENTORY RESERVES

An inventory reserve is a contra-asset accounting entry used to write down the value of inventory that is anticipated to be lost, stolen, damaged, or obsolete. Instead of waiting for a year-end physical count to take a massive, unexpected hit to your bottom line, establishing a reserve allows you to plan for and recognize anticipated losses incrementally, keeping your balance sheet accurate and GAAP-compliant.

When to Apply a Reserve (The Triggers)

TIP 1 OBSOLESCENCE

When products reach the end of their lifecycle, expire, or are replaced by newer models. The reserve covers the difference between the original cost and the expected salvage value.

TIP 2 SHRINKAGE

Accounts for expected inventory loss due to theft, shoplifting, administrative counting errors, or unrecorded movements before a physical count validates the true on- hand quantity.

TIP 3 SPOILAGE & DAMAGE

Critical for businesses dealing in perishables or fragile goods. A reserve should be applied based on historical averages of transit damage or warehouse accidents.

TIP 4 MARKET VALUE DROP (NRV)

When the market price of your goods falls below what you paid to produce/acquire them, GAAP requires inventory to be written down to the Lower of Cost or Net Realizable Value.

How to Calculate & Maintain It

METHOD 1: HISTORICAL AVG

Look at your write-offs over the last 12-24 months as a percentage of total sales or total inventory. Apply this rolling average percentage to your current inventory balance on a monthly or quarterly basis.

METHOD 2: INVENTORY AGING BUCKETS

Apply progressive reserve percentages based on how long stock has been sitting. For example: 0% reserve for 0-90 days, 25% for 91-180 days, and 50-100% for anything untouched over 365+ days.

The Operational Impact

Failing to maintain an inventory reserve artificially inflates your assets and overstates short-term profits. This creates a painful tax liability and valuation problem down the road. Regular reviews of your reserve policy bridge the gap between warehouse reality and financial reporting.

This is for informational purposes only and does not constitute financial or tax advice. Please consult a qualified finance professional regarding your specific situation.

05. The Readiness Diagnostic

Run your operations through this quick checklist to identify vulnerabilities:

STATUS	DIAGNOSTIC CRITERIA	IMPACT / FIX
☐	**ABC Classes:** Are your items categorized into ABC classes based on sales volume?	Focuses team energy on high-margin revenue drivers.
☐	**Cycle Counts:** Do you perform weekly cycle counts rather than annual physical counts?	Prevents cumulative variance errors and shrinkage.
☐	**Automated Points:** Are minimum reorder points automated in an inventory tool?	Eliminates manual guesswork and sudden stockouts.
☐	**Vendor Reliability:** Do you review lead times and vendor reliability twice a year?	Ensures safety buffer reflects real shipping times.

06. Sample Audit & Reorder Template

Use this standardized framework for planning weekly SKU replenishment:

SKU	CATEGORY	ON HAND	REORDER POINT	SAFETY STOCK	STATUS
SKU-101	Class A	45 units	50 units	15 units	**REORDER NOW**
SKU-102	Class A	120 units	40 units	10 units	**HEALTHY**
SKU-201	Class B	85 units	30 units	8 units	**HEALTHY**
SKU-301	Class C	210 units	20 units	5 units	**OVERSTOCKED**

07. Scaling Operations with ScaledRight

Building scalable operations and robust inventory management requires systems, software alignment, and expert execution. At **ScaledRight**, we help SMBs streamline operations, eliminate inventory constraints, and maximize working capital.

Ready to Optimize Your Inventory & Scale Profitably?

Schedule a 1-on-1 Operations Strategy Session with ScaledRight consultants today.

Book Your Free Strategy Session

www.scaledright.co | hello@scaledright.co | 513-500-0176