

# Managing your business inventory

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A good inventory management process means you can easily identify what stock you have on hand and the value of it. Find out the types of inventory you could have and how to manage your items so your business is well stocked.

## What is inventory?

Inventory is the goods and materials a business acquires, produces or manufactures, for the purpose of manufacturing, selling or exchanging. Also known as [trading stock](#).

Inventory management is the part of your supply chain management, which can help you make sure you have the right products in the right quantity for sale, at the right time.

Having an up-to-date inventory list will help you maintain your stock levels and give you a better understanding of what's selling and what isn't. This can help you decrease your costs and increase your sales.

It'll also help you meet your tax obligations as all businesses must account for the value of their trading stock at the end of each income year (closing stock) and at the start of the next income year (opening stock).

## Types of inventory

Understanding and classifying your inventory can help you plan and budget for your business.

There are three main types of inventory:

- raw materials inventory
- work-in-process inventory
- finished goods inventory

Inventory doesn't include capital assets such as:

- company cars you use to visit clients
- equipment and tools you use in your business
- staff and their training

## Raw materials inventory

Raw materials inventory are raw materials that your business changes to produce its goods and/or services. For example, if you manage an ice cream business, raw materials inventory could include milk you use to make ice cream.

## Work-in-process inventory

Work-in-process inventory is any unfinished goods that your business has made. If your business makes and sells chairs, work-in-process inventory would include any unfinished chairs on hand that your business has made.

## Finished goods inventory

Finished goods inventory includes any finished goods that are ready to sell. If you have a retail business that buys and sells toys, the toys you buy would be finished goods inventory.

# Manage your inventory

When you have inventory to sell, you need to balance how much stock to purchase to satisfy customers with how much inventory is old or in excess.

To manage your inventory effectively, you could follow a 4 step process:

1. Assess what you have now
2. Review what you had
3. Analyse sales
4. Identify items to repurchase or retire

All businesses must account for the value of their trading stock at the end of each income year (closing stock) and at the start of the next income year (opening stock).

If you're a small business with an aggregated turnover of less than \$10 million a year, and you estimate that the value of your trading stock changed by no more than \$5,000 in the year, you don't have to:

- conduct a formal stocktake
- account for the changes in your trading stock's value

The ATO can help you identify your [stock reporting obligations](#).

## 1. Assess your inventory

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When you assess your inventory, you'll need an inventory record system that can track the amount of material or products you have on hand. You need to make sure that what your record system says you have on hand is what you actually have in stock.

If you use a periodic inventory system, then you'll update your records from time-to-time by physically counting each item.

If you use a perpetual inventory system, then your records will be updated immediately after inventory levels change. These systems are often electronic and connect with a point-of-sale system.

## 2. Review your last inventory stocktake

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When you have a list of inventory items, use your previous inventory item list and compare numbers. You may want to consider:

- Have numbers stayed the same?
- Have numbers increased?
- Do you have stock you shouldn't?
- Is there stock which isn't selling?

## 3. Analyse sales

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While you compare your inventory lists, you should also review your sales data. Using these three documents (a current inventory list, a previous inventory list, and a list of sales), you will be able to identify and determine which items:

- sell quickly after you repurchase them
- haven't sold any units
- are core to your business

Core business items sell steadily and provide significant gross margin.

Remember to keep in mind that items that sell seasonally may be slow sellers during the rest of the year.

## 4. Identify items to repurchase or retire

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You should now be able to determine which items to repurchase regularly and which items to retire.

When you retire an item, you'll need to sell the rest of that existing stock. This will give you more space in your storage unit and on your displays for other items. You may want to consider selling the stock at a discounted rate.

When you repurchase an item, consider if you need to increase the number you order. If the item sells quickly, you may be able to reduce postage costs by ordering more. You can also order less more regularly and arrange for more frequent deliveries.

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