

Cashing in on INVENTORY

INVENTORY COST DRIVERS

Two issues drive the cost of inventory. The first is the capital cost or the amount of money your business has tied up in inventory. Let's look at an example. A full service lab with \$1 million in gross annual sales keeps an inventory of \$80,000 or 8% of annual sales. If that \$80,000 is borrowed money, it's costing the lab 8.25% or \$6,600 in interest if borrowed at prime rate. (Not many labs can borrow at prime so the borrowed money would cost even more).

If you are not borrowing the money, it's lost opportunity cost. You could be using that cash to pay for a new piece of equipment that would help improve quality or productivity. You could add a new product offering that could increase your sales and cash flow.

The second major issue driving the cost of inventory is spoilage and "shrink". Spoilage is the cost incurred when inventory is kept in stock so long that the expiration date passes and it must be tossed. Losses also can occur when inventory is damaged due to poor storage conditions. A leak in a roof over the die stone storage area can create a real mess.

Another loss occurs when employees are not careful with the amounts of inventory they use. Too much un-monitored inventory also makes it easy for materials to be "liberated" by potentially dishonest employees.

Obsolescence plays a role here, too. I've been in labs where the porcelain stored in the stockroom had either been discontinued by the manufacturer or no longer used by the lab. As a rule of thumb, you need to figure on about a 10% inventory loss to these factors.

So what's the easiest way to reduce this cost? You guessed it...reduce inventory! Spending quality time managing inventory is one step you can take that will help tune your lab to deliver improved financial results. **lab**

Keeping inventory to equal 3% to 4% of annual sales limits the total dollar amount invested.



Chuck Yenker

Do you struggle with cash issues at your lab? Have you ever used a bank credit line to make payroll? We all know that too much consumable inventory can tie up cash and become a drag on cash flow and profits. But do you have a full grasp on the impact an overstocked inventory can have on your business?

Keep in mind, we are talking here about consumable items. Equipment such as handpieces, furnaces, mixers, etc. are capital investments, not consumables.

Most successful, profitable labs limit the dollar amount of inventory to roughly equal to 3% or 4% of annual sales. (To calculate your lab's inventory percentage, divide the dollar amount of inventory sitting in your storeroom by your annual gross sales.)

For most labs the most significant inventory items in dollars are metals (gold and other alloys), denture teeth, porcelains, and investments/gypsums.

The trick to keeping your inventory percentage in balance is to carry an inventory level that equals the amount you have invested (carrying cost), against such things as freight, volume discounts, minimum orders, and expiration dates if applicable.

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Tips to REDUCE INVENTORY

Now, we all know inventory can't be eliminated completely, but here are some steps you can take to reduce your inventory and increase the cash flow.

1 **Keep inventory in a central location.** Put one person in charge of managing it. It's probably not a full time job in most labs, but someone needs to be responsible for items moving in and out of inventory. Inventory gets out of control if it's scattered about and each tech keeps his or her own stock. Set goals and targets to work toward.

2 **Calculate usage rates on your top items** so you can correlate that to the amounts you buy. Investigate using "standing" or scheduled orders so supplies arrive from the dealer or manufacturer as you run low.

3 **Investigate consignment inventories** from your dealer or manufacturer. Under this arrangement the goods are stored in your lab but remain the property of the supplier until you use them.

4 **Return or sell excess inventory.** Ask the sales reps who call on your lab if a product is returnable for credit or if they know of another lab willing to buy it. Classified ads in association newsletters and even the dental section on Ebay are other ways to find potential buyers. Consider donating it to a tech school or a non-profit clinic for a tax deduction. Get rid of old or excess inventory while it still has some value.

5 **Do an annual physical inventory count** at least once per year.