



INVENTORY MANAGEMENT

FOR THE FOOD
ENTREPRENEUR



UNDERSTANDING INVENTORY TO
SCALE YOUR BUSINESS

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THE IMPORTANCE OF INVENTORY

Inventory, while the very foundation of Consumer Packaged Goods (CPG) businesses, is often misunderstood and underutilized. It is common to see food entrepreneurs try to manage inventory with complicated Excel spreadsheets that lag behind business needs. In effect, inaccurate inventory counts and skewed margins impact orders, leaving a business's customers, retailers, and distributors disappointed.

As of 2018, the startup food and beverage sector has been highly competitive. A recent article by Venture Fizz cites 1,300 completed deals—valued at nearly \$6 billion—involving food and beverage companies since 2012. Over-promising and under-delivering on orders because you're unaware of how much inventory is on hand puts your business at risk of losing an account or, worse yet, an enthusiastic brand evangelist, which can greatly impact your success and survival.

Having a clear understanding of inventory—what it is, how to manage it, when to manage it, and how to leverage it to scale your business—is a necessary part of business growth. Below is a guide to help food entrepreneurs and those in the CPG space become inventory gurus.



MEET SARAH:

Sarah started a paleo trail mix company last year that has experienced rapid growth. She has grown her brand to 12 varieties (Stock Keep Units, or SKUs) and sells them online on her website and on Amazon and at various regional grocery stores. While she was originally manufacturing the products herself, she now partners with a co-packer to expedite the process. So what is the problem with this scenario?

Sarah is in negotiations with a national distributor who wants to carry her products (way to go Sarah!), but unfortunately when it comes to inventory management she has no systems or processes in place beyond an Excel spreadsheet that she updates when or if she has time. As a result, Sarah runs the risk of over-promising and under-delivering when executing an agreement with the national distributor. Without having a clear understanding of inventory counts, the time it takes to get inventory, and the frequency in which she will need to fill orders, Sarah is setting her business up for failure.

Accountfully works with many entrepreneurs like Sarah who struggle to scale their business. There is a demand and desire for her product, but she needs assistance implementing an inventory management system and adopting proactive inventory management practices to help grow her business.

WHAT IS INVENTORY?

For business owners and entrepreneurs who have a product to sell, inventory is the single most important asset of the business because it is the primary source of revenue generation and is the foundation needed to establish cost of goods sold (COGS) and desired margins.

In the world of inventory, there are three basic types of food businesses:

[Those that use turnkey co-packers.](#)

Turnkey co-packers source and buy all the raw materials (the actual materials used in production, including ingredients, packaging, and labels), they manufacture the product, and they deliver a finished good (the final product that is ready to be shipped, sold, and enjoyed by consumers) at one price to the business owner.

[Those that use a co-packer for manufacturing.](#)

The business owner continues to source and purchase the raw materials, and the co-packer handles the Work-in-Progress (or WIP, which refers to the product while being manufactured) and ships it to the business owner once it becomes a finished good.



Those that manufacture goods internally.

The business owner sources and purchases the raw materials, manufactures everything in-house, and produces a finished good.

Regardless of whether you use a turnkey co-packer for everything, a co-packer for WIPs, or you manufacture in-house, inventory counts must be precise and the review process must be managed because it remains your greatest asset and largest cash investment.

**INVENTORY IS THE SINGLE MOST
IMPORTANT ASSET OF THE BUSINESS
BECAUSE IT IS THE PRIMARY
SOURCE OF REVENUE GENERATION.**



HOW TO MANAGE INVENTORY

There are no hard and fast rules when managing inventory. For many product-based businesses just getting started, Excel spreadsheets are an appropriate and cost-effective way to oversee inventory. We suggest that if you have less than 10 SKUs and work with a turnkey co-packer, you can probably use an Excel spreadsheet since there is not much to track or manage. When businesses are starting out, inventory management processes are more important than the inventory management systems.

As a business grows, and there are multiple sales channels selling goods and multiple locations housing inventory, a more robust inventory management system might be necessary. We recommend implementing an inventory management system that integrates with your bookkeeping and accounting systems. This gives business owners a clear view of warehouse stocks and thus the ability to budget to fulfill future orders. Accountfully has experience working with a variety of inventory management systems and crafts recommendations based on specific business needs.

We discourage product-based business owners from relying on QuickBooks Enterprise, which is frequently referenced as the best tool for inventory management needs. The software's limitations overshadow its functionality, especially since third-party inventory management solutions work with QuickBooks Online. QuickBooks Online is a great software solution for small businesses from a pure bookkeeping and accounting standpoint. In addition, there are plenty of third-party systems, such as Dear Inventory, Fishbowl, Cin7, Stitch Labs, and SOS, that integrate with your website and sync with QuickBooks Online. The Enterprise application typically cannot sync with website sales unless a third-party tool exists, requiring additional management and work by the business owner. For smaller businesses under \$5 million in revenue, QuickBooks Online helps business owners focus on automation and efficiency, which is the ultimate goal while scaling.



WHEN TO MANAGE INVENTORY

- On a daily or weekly basis, be aware of present quantities and prospective sales in the pipeline to make sure you have enough product to fulfill orders.
- Perform monthly inventory counts and reconcile what is on hand. Once completed, update your financials to reflect necessary inventory adjustments.
- Assess your product costs and supplier relationships quarterly to ensure a good price point and healthy margins. We have had clients that transfer co-packing needs to new vendors and find alternative raw material sources to increase margins and grow the bottom line.

(ABOVE ALL, WE RECOMMEND **CONSISTENT** INVENTORY MONITORING AND MANAGEMENT)

HOW TO LEVERAGE INVENTORY

Once inventory is under control and becomes well managed, it is an incredibly powerful, invaluable tool. Accountfully uses accurate inventory counts and smart inventory management systems to assist business owners plan for seasonal fluctuations as well as continued growth. We analyze data from sales figures and offer expert guidance that empowers business owners to evaluate new partnerships, products, and revenue streams.

Many food entrepreneurs and business owners benefit from having an accounting team that helps them with the following:

- **Segregating financials to report on profitability by sales channel**
- **Reconciling sales forecasts to inventory quantity requirements**
- **Evaluating cash flow to plan for inventory purchasing and day-to-day operations**
- **Calculating commissions to brokers and sales partners**
- **Accounting for manufacturer charge backs (MCBs), trade discounts, and other fees discounted from retailer and distributor relationships**
- **Reporting on industry-specific Key Performance Indicators (KPIs), including velocity and percent of sales by customers**

Work with a team that will help you understand inventory, teach you how to manage it, and work with you to leverage it as a tool as your business grows. Accountfully partners with food entrepreneurs and those in the CPG space to proactively manage inventory. We assist business owners in adopting systems and processes that keep them poised for growth, available to fulfill large orders, and continue impressing new and returning customers.



Accountfully

BOOKKEEPING AND ACCOUNTING
FOR FOOD ENTREPRENEURS

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