INVENTORY MANAGEMENT

How much stock to keep, when to reorder, and how to stop cash from sitting on your shelves.

TYPE: GUIDE REVIEWED: NOVEMBER 2026 TIME: 9 MINUTES LEVEL: INTERMEDIATE

AT A GLANCE

- **Inventory** is the products and materials you keep to sell or use. It's cash sitting on a shelf.
- Too little means lost sales. Too much ties up cash and risks waste.
- Know your **reorder point** for key items, count regularly, and track what sells.

Why it matters

For retail, food and product businesses, inventory is often the largest use of cash. Good inventory habits protect your cash flow, cut waste and keep best-sellers in stock.

Key ideas

Term	What it means
Reorder point	The stock level that tells you to order again
Lead time	Days from placing an order to receiving it
Safety stock	Extra stock to cover surprises
Inventory turnover	How many times you sell through your average inventory in a year
Shrinkage	Inventory lost to theft, damage, spoilage or errors

Reorder point = Daily use × Lead time (days) + Safety stock

Example: Amara's best-selling set

EXAMPLE

Amara sells about **12** of her best-selling skincare sets a day. Her supplier takes **5 days** to deliver. She keeps **20** extra as safety stock.

- Reorder point: 12 × 5 + 20 = **80 sets**
- When stock drops to 80, she reorders.

She also checks **turnover**. Last year, her cost of goods sold was **$60,000** and her average inventory was **$10,000**: $60,000 ÷ $10,000 = **6 turns a year**, so stock sits about two months on average. For slower items, she orders smaller amounts more often.

Step by step

1. **List your items** and how much each sells per week.
2. **Find lead times** from suppliers.
3. **Set reorder points** for your top items.
4. **Count inventory regularly**: key items weekly, everything monthly or quarterly.
5. **Use a system**: a spreadsheet, or inventory tracking in your point-of-sale or online store.
6. **Review slow sellers** and discount, bundle or stop reordering them.
7. **Track shrinkage** and find causes.

> TIP
>
> **Food businesses:** use "first in, first out." Put new stock behind old stock, and date everything.

Common mistakes

- **Buying big for a discount** that ties up cash for months.
- **Never counting** until year end.
- **Reordering slow sellers out of habit.**
- **No safety stock** for best-sellers.

Your checklist

- ☐ List your top 10 items and weekly sales
- ☐ Get lead times from suppliers
- ☐ Set reorder points
- ☐ Schedule regular counts
- ☐ Identify 3 slow sellers to clear

Where to go next

- **O-08 Working With Suppliers and Vendors**
- **M-06 Cash Flow: Why Profitable Businesses Still Run Out of Money**
- **P-03 Retail Shops**

IMPORTANT
This guide is general education from the Project Underdogs Founder Library. It is not legal, tax, accounting, immigration or investment advice, and it is not an offer of investment or a promise of funding. Figures are general examples and ranges, not quotes. Rules change and every business is different, so check your situation with a qualified professional. Full terms: LIB-03 Disclaimer and Terms of Use.