The Inventory Problem That Was Silently Eating Profits

Inventory issues drain cash and reduce profitability. Better tracking and review turned it around.

$350,000	35%	0
tied up in excess and obsolete stock	faster inventory turns	stockouts on top sellers after the fix

Inventory Management · Operations · Cash Flow · Profitability

The situation

A $15 million distribution business was growing, but profit was flat and cash was always tight. Inventory levels kept rising, yet customers still heard "out of stock" on popular items.

The challenge

A full count and review showed the warehouse didn't match the records:

- **Excess stock** — slow-moving items filled shelves and tied up cash.
- **Obsolete items** — products no longer sold were still carried at full value.
- **Stockouts** — fast-moving products ran out because reorders were based on habit.
- **Inaccurate records** — counts were done once a year, and differences were written off without explanation.

Why it mattered

More than $350,000 was tied up in stock that wasn't selling, while lost sales on top items and higher storage costs cut into profit. Unexplained shrinkage also meant theft or errors could go unnoticed.

Inventory practices that make the difference

Practice	What it prevents
Monthly cycle counts of high-value items	Record errors and hidden shrinkage
Reorder points and min/max levels	Stockouts and over-buying
Quarterly slow-moving and obsolete review	Cash tied up in stock that won't sell
Investigating count differences before write-off	Theft and process errors going unseen
Separate duties for receiving, records and counts	One person hiding losses

What they did

- Completed a full physical count and reset the records.
- Cleared obsolete stock through discounts and returns to suppliers.
- Set reorder points and min/max levels for every active item.
- Started monthly cycle counts and investigated every significant difference.
- Added a monthly inventory report with turns, aging and shrinkage.

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The outcome

Over the next year, the company freed up more than $350,000 in cash, improved inventory turns by 35% and eliminated stockouts on its top-selling items. Count differences are now rare, and each one is explained.

Self-check: could this happen to you?

- ☐ Do you know the true value of your inventory?
- ☐ How much of it hasn't sold in the last six months?
- ☐ Do you run out of the items customers want most?
- ☐ Who investigates count differences before they're written off?
- ☐ Do you review inventory reports every month?

Want to talk through what this means for you?

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