

The True Cost *of Inventory* Inefficiency

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Why inventory is more than stock on hand—and one of the most powerful drivers of cash flow, profitability and growth?



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ABOUT VALUESCOPE™ PERSPECTIVES	ValueScope™ Perspectives is Cuma's thought leadership series exploring the strategic, operational and financial issues shaping India's mid-market businesses. Each publication offers practical perspectives designed to help business leaders identify opportunities to create, recover and sustain enterprise value.
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The True Cost of Inventory Inefficiency

Inventory is one of the most important assets in a retail and distribution business. It enables sales, supports customer service and provides the foundation for growth. Yet for many businesses, inventory is also where significant amounts of value become trapped.

The challenge is not always having too much inventory or too little inventory. The challenge is having the wrong inventory, in the wrong place, at the wrong time.

As businesses grow, product portfolios expand, customer expectations increase and distribution networks become more complex. Without strong inventory management practices, inefficiencies begin to emerge quietly across the organisation.

These inefficiencies rarely appear as a single problem. Instead, they surface through a combination of symptoms:

- Slow-moving and obsolete stock
- Frequent stockouts of high-demand products
- Excessive discounting to clear inventory
- Increasing warehousing costs
- Poor inventory visibility across locations
- Working capital pressures
- Reduced service levels and customer satisfaction

Many leaders view these as operational issues. In reality, they are often symptoms of a deeper challenge: inventory is not being managed as a strategic business asset.



Inventory decisions influence almost every aspect of business performance. When inventory levels are too high, valuable capital becomes tied up in stock that may not generate returns for months.

When inventory levels are too low, businesses risk losing sales, disappointing customers and damaging supplier and customer relationships. The consequences extend beyond finance and operations.

Inventory performance directly affects:

- Cash flow
- Profitability
- Customer experience
- Supply chain reliability
- Growth capacity
- Enterprise value

A ValueScope™ Question?

If you could release 15–20% of the inventory currently sitting in your business, would it create a growth opportunity—or expose weaknesses in how inventory is being managed today?



Most inventory challenges are not caused by poor intent. They are usually created by gaps in decision-making, planning and visibility.

Common causes include:

- Forecasts based on assumptions rather than demand signals
- Excessive SKU proliferation
- Inconsistent replenishment practices
- Poor coordination between sales, procurement and operations
- Limited visibility across inventory locations
- Reactive decision-making during supply disruptions

Over time, these issues create an environment where inventory grows faster than revenue and complexity grows faster than control. The result is a business that appears healthy on the surface but struggles to convert sales into sustainable profitability and cash generation.

Leading retail and distribution businesses do not focus solely on reducing inventory. They focus on improving inventory productivity. They understand that inventory should support customer service, growth and profitability simultaneously.

This requires a balanced approach that considers:

- Demand planning
- Inventory segmentation
- Replenishment discipline
- Supplier collaboration
- Network optimisation
- Data-driven decision-making

The objective is not simply to hold less stock. The objective is to generate more value from every unit of inventory held.

RETAIL & DISTRIBUTION

THE TRUE COST OF INVENTORY INEFFICIENCY

Inventory is essential. Inefficiency is expensive.

Hidden inventory costs silently erode margins, tie up cash and limit a retailer's ability to grow profitably.



THE HIDDEN COSTS ADD UP



WHERE DOES IT HURT THE MOST?



THE BOTTOM LINE



Better inventory decisions.
Better cash flow. Better margins.
Stronger growth.

WHAT HIGH-PERFORMING RETAILERS DO DIFFERENTLY



Inventory done right is not just about lower costs—it's about better service, stronger margins and sustainable growth.

The Value Lens

Inventory is more than an operational metric. It is a strategic asset that influences cash flow, customer service, profitability and growth.



DISCOVER

Identify where inventory is creating value and where it is consuming it. Understand the drivers of excess stock, stockouts, slow-moving inventory and working capital inefficiencies across the business.



RECOVER

Address the gaps in forecasting, replenishment, inventory visibility and cross-functional decision-making that contribute to inventory inefficiency and reduced business performance.



CREATE

Build an inventory management capability that improves responsiveness, strengthens customer service, releases working capital and supports sustainable growth.

Inventory does not create value simply because it exists. It creates value when it moves efficiently through the business.



EXECUTIVE REFLECTION

RETAIL & DISTRIBUTION

THE TRUE COST OF INVENTORY INEFFICIENCY

Inventory inefficiency is not just a storage issue. It quietly drains cash, erodes margins and limits your ability to grow profitably.



ASK YOURSELF: WHERE COULD INVENTORY INEFFICIENCY BE COSTING YOU?

EXCESS INVENTORY Do we hold more stock than we need? Low Impact: 1 2 3 4 5 High Impact: 1 2 3 4 5	STOCKOUTS Are stockouts causing lost sales and unhappy customers? Low Impact: 1 2 3 4 5 High Impact: 1 2 3 4 5	OBSOLESCENCE & WRITE-OFFS Is slow-moving or outdated stock leading to markdowns and write-offs? Low Impact: 1 2 3 4 5 High Impact: 1 2 3 4 5	HIGHER OPERATING COSTS Are storage, handling and insurance costs rising year over year? Low Impact: 1 2 3 4 5 High Impact: 1 2 3 4 5	LOWER PROFITABILITY & GROWTH Is inventory tying up cash that could fuel growth and profitability? Low Impact: 1 2 3 4 5 High Impact: 1 2 3 4 5
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HOW TO READ YOUR SCORE

Most retail businesses experience high impact (4 or 5) in 2 or more areas—often without realizing it.

1-2 Low Impact Well managed. Keep strengthening.	3 Moderate Impact Some gaps exist. Address proactively.	4-5 High Impact Value is leaking. Act decisively.
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TURN INSIGHT INTO ACTION

1. DIAGNOSE Understand the true drivers of inventory inefficiency. - Analyze inventory mix - Identify slow movers - Map stockout patterns - Assess working capital impact	2. OPTIMIZE Design the right inventory strategy. - Right-size inventory - Improve forecasting - Optimize assortment - Set min-max parameters	3. EXECUTE Build disciplined processes. - Strong demand planning - Supplier collaboration - Efficient replenishment - Better inventory governance	4. MONITOR Track what matters. Act in real time. - KPI dashboards - Exception alerts - Root cause analysis - Course correction	5. IMPACT Unlock cash. Protect margins. Fuel growth. - Higher availability - Lower holding costs - Stronger profitability - Sustainable growth
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THE REFLECTION Inventory done right is not just about lower costs—it's about better service, stronger margins and sustainable growth.	If you could unlock 3–8% of annual revenue by improving inventory efficiency, what would that mean for your business?	
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Where Do You Go From Here?

Inventory is often viewed as a cost to control. The most successful retail and distribution businesses view it as a strategic asset to optimise.

When inventory is managed effectively, businesses improve cash flow, strengthen customer service, increase responsiveness and create capacity for sustainable growth. The opportunity is not simply to reduce stock levels—it is to improve inventory productivity.

At Cuma, we help businesses strengthen inventory planning, improve supply chain visibility and align operational decisions with growth objectives, enabling inventory to become a driver of value rather than a constraint on performance.

The next question isn't how much inventory your business holds.

It's how effectively that inventory is creating value?



About Cuma

Cuma is a strategy and performance advisory firm helping India's mid-market businesses create sustainable enterprise value through strategic clarity, operational excellence, financial discipline and organisational capability.

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www.cumaconsulting.com

info@cumaconsulting.com

+91 91029 77566/ +91 98104 31463

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