

Get A Handle On Inventory

An often ignored and overwhelming area in spa and salon management is effectively handling inventory. This entails ensuring products are used in amounts only as required to limit wastage and ensuring that you are neither over-stocked nor under-stocked.

Given the high turnover of product, the high number of products that can be used, that relatively small quantities may be used and that inventory is typically stored in multiple locations, it can be challenging to monitor usage of products on a busy day.

Most spa managers do not know how much their business loses from wastage and pilferage over the course of a month. In this whitepaper, you'll learn how to implement processes that help you get a handle on inventory management.

Goals of Effective Inventory Management

Inventory is often tracked through registers where employees check in items delivered to a store room and check out items from the store room to be used on the floor. Registers are useful, but make generating reports and verifying stock levels tedious and difficult. They also do not help to track products that are about to expire or track inventory that is not moving. For chain spas or salons, tracking inventory effectively is more complicated and can become a significant expense.

In an ideal situation, a manager:

- Knows how much product should be used for any service
- Can track how much product was actually used for that service.

By knowing these two things, the manager can effectively monitor wastage over the course of a day, week, or month and effectively cut the extra expense.

However, monitoring product usage against many treatments running in parallel and for the whole day is not only tedious, but must be done consistently across all treatments, all therapists and every day for accurate inventory control. While managers may recognize the need for tracking inventory, chances are they are pulled away to address more pressing matters on a daily basis.

This whitepaper discusses how you can implement a system that is manageable and does not require significant time commitments.

We'll first identify goals for an effective inventory control solution and then identify processes to meet those goals.

Goals For An Inventory Control Solution

- Real-time access to current inventory levels
- Ability to compare physically audited product levels against expected levels
- Project how much inventory should be used for any number or combination of services
- Compare projected usage with actual usage (and monitor that difference is within 10%)
- Order products only when you need them (so you don't overspend on inventory that does not move quickly)
- Order products just in time to stay stocked on quickly moving items
- View reports on spend by treatment category and vendors and compare against projected expenditure

In an ideal situation, a manager knows how much product should be used for every service.



Implementing The Processes

Processes should meet these goals and be implemented in a way that they can be followed consistently and with little effort.

Store Room Procedures

Every spa and salon should have a store room within each facility. Inventory that arrives should be signed into the store room. Similarly, when a product is taken out of the store room, the employee name and product quantity should be recorded and signed. This can be achieved through the use of a register, but software allows for further benefits. For example, software can automatically give you expected product levels for the store room based on how much product came in and how much was signed out. This can then be used to run monthly audits of the store room.

With a dedicated storeroom, you can use also assign a stores manager who would be solely responsible for ensuring all items are checked-in and out. This enables you, the owner, to hold that stores manager accountable for inventory levels in the store room and for any discrepancies.

Conducting a Physical Audit in Stores

For proper inventory control, you should conduct a monthly, physical audit of the store room. The audit is best performed by someone who is not part of the day to day operations of the spa. The audit should show that product levels match with expected inventory levels based on the register of incoming and outgoing products from the store room. This ensures that staff is following the sign-in and sign-out process, and that no pilferage has occurred. Without this basic adherence to process, it becomes hard to manage inventory in any center.

Conducting an Audit on Retail Products

You may want to keep retail products, the products that you sell to customers, separately from the products consumed for your services. Tracking retail inventory is easy. Whether you use a register, a stand-alone POS (Point of Sales) machine, or a sophisticated software like ManageMySpa, you should have a tally of product sales.

You simply compare the sales tally against the number of remaining products you have in the stores room and on display units. Discrepancies in retail product levels should be considered pilferage and be looked into immediately.

Defining Product Usage

After products are placed on the salon floor or into treatment rooms, tracking product usage becomes challenging as well as critical for the overall inventory control.

First, determine how much product should be used for each treatment. Any single treatment can use a variety of products. For example, a scrub might use three different salts and two oils. Regardless of the small quantities and number of products, it is important to determine the expected amounts to be used.

Not only is this important information for therapists as part of their training, but this data can be used by software to do the heavy calculating and yield interesting results.

If you enter product usage for every treatment you offer, the software could give you a projected level of inventory for any product. By entering product usage amounts into the system once, you get ongoing control of your inventory and get access to expected product levels at any time .

After products are placed on the salon floor or into treatment rooms, tracking product usage becomes more challenging.



Current Inventory Levels

Software can automatically generate projected inventory levels for the store room and on the floor based on items that were checked-in and out of the store room. This provides a practical method to track movement of inventory. This does not, however, ensure that the right amount of product was used for the services performed in the month.

However this is a baseline, and should be used to either order more stock or stop from ordering extra.

Reconciling Audits

Every month, after an audit is performed, the inventory management system should be able to report two issues:

- **Inventory Levels:** A discrepancy of expected vs. actual inventory levels
- **Usage Levels:** A projection of how much product should have been used for the services administered. For example, if 75 hair colors were performed, the system should project how much product should have been used. This enables you to compare projected usage vs actual usage in the center

A reconciliation process provides the manager with data to follow up with staff and take action on discrepancies. It also enables a manager to be recognized for proper usage of inventory under their oversight.

Projected vs Actual Expense

The processes and reports discussed so far are used by a manager to control inventory. The following reports help the owner monitor inventory across all their centers very quickly:

- **Actual Expense vs Projected Expense –** This report shows the money you spent on products against the software's projected expense based on services performed for that period of time. If variations stay within 10%, an owner can presume that inventory is effectively under control.
- **Actual Expense vs Projected Expense by Category –** This report shows money spent for products in a particular category of services against projected expense for services administered in that category. This enables an owner to evaluate which area has the largest discrepancy and focus on specific areas to control inventory.
- **Actual Expense vs Projected Expense by Vendor –** This provides another way to monitor the projected vs actual expenditure. Here we see the list of products by vendor. This enables the owner to identify whether any discrepancies in product consumption are related to specific vendors.

While the first report may show low levels of discrepancies in overall usage, the last two reports help identify specific areas where the discrepancies can be high that are compensated by other well managed areas. These reports help the owner decide, at a glance, if further review and action is required.

Purchase Orders

A key aspect of inventory is "Just-in-Time Inventory Management", which helps managers to stock appropriate levels of products. It is important to:

- Order products before you run out of stock in a center. This ensures you don't lose revenue by being unable to deliver treatments or sell retail due to lack of stock.
- Do not over-stock products and end up with inventory that is not moving. This locks up your capital with no return.
- Avoid loss from expired products. Alerts ahead of expiration dates help you take action to either move that product to other centers with higher turnover or run special promotions.

Track your actual expenditure on products against how much you should have spent based on services



Ordering the Right Levels Of Stock

A common task for your manager is to order products, ideally on a monthly basis rather than haphazardly. To do this in an organized manner, and spend less time on orders, you need to determine what product and how much to order. Consider the following process:

- **Create Purchase Orders** – The manager should be able to review current inventory levels for each product, the amount of product consumed the previous month and the amount received the previous month. With this information, the manager can easily identify how much product to order. This process is best done by grouping product needs by vendor.
- **Approve Purchase Orders** – The owner or finance manager should review and approve all orders.
- **Delivery Against Purchase Orders** – After the PO is approved and sent to the vendor and the product is delivered, the stores manager needs to verify the right products, quantity and price are sent, and update the system.

This process enables the inventory system to track inventory based on products received and provides full transparency for the spa or salon manager, finance manager and owner.

Multi Centers

If you operate multiple centers, you can easily transfer inventory between locations to respond to product demand and shortages. An identical PO process can be used between centers and the system can track the transfers and changes in inventory per center.

Inventory Level Alerts

While products are ordered on a regular basis, it is easy for a manager to miss low stock levels between ordering cycles. An inventory management system should automatically send alerts when any product level falls below a specified threshold. The system should continue to send these alerts on a regular basis until inventory levels reach above the threshold.

Conclusion

While inventory management can seem an overwhelming task, a good inventory management software, like ManageMySpa, helps you streamline and get a handle on inventory. You'll be able to manage costs, reduce pilferage and reduce wastage.

An inventory management system should automatically send alerts when any product reaches low levels

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