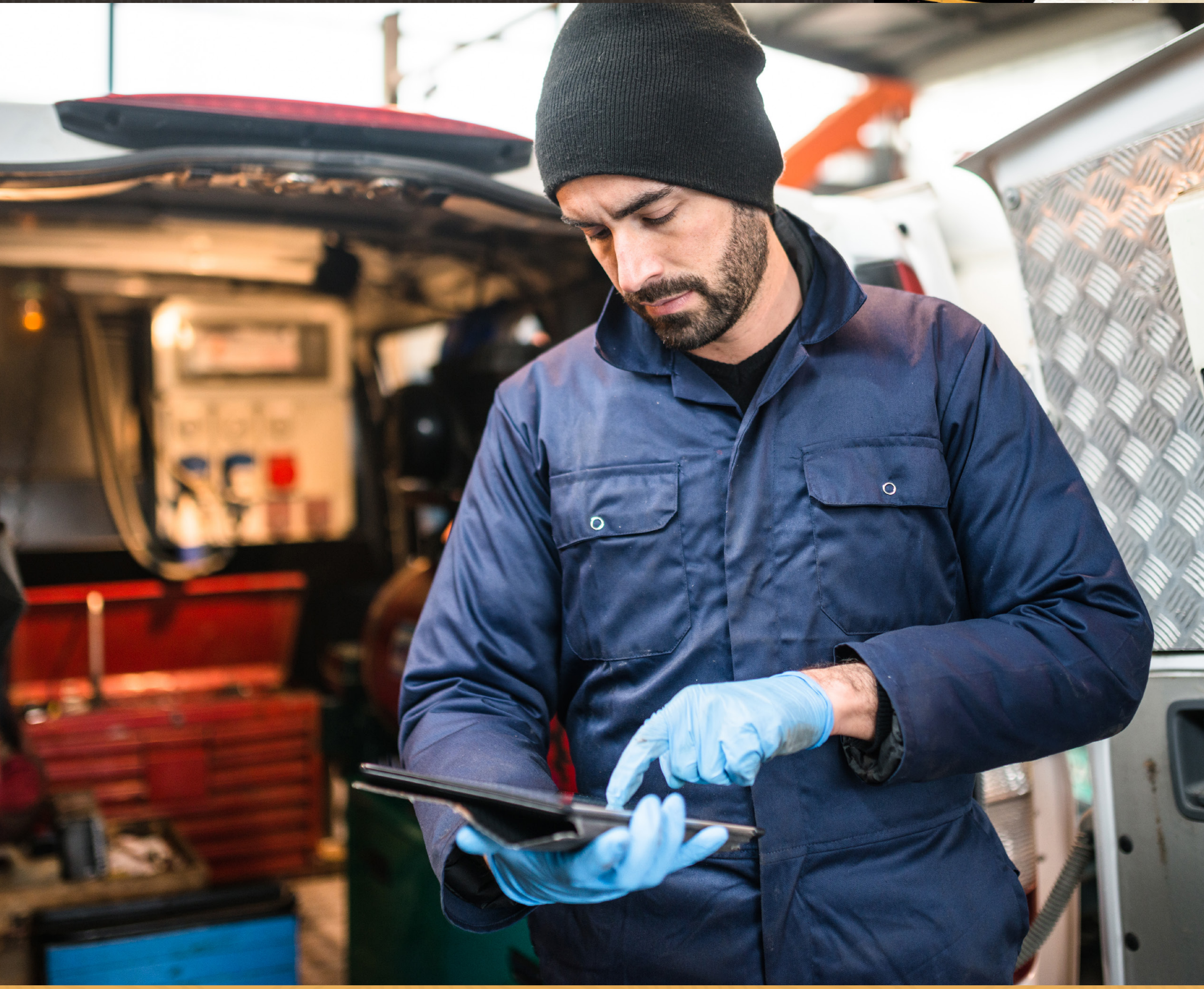
WHITE PAPER

Managing Inventory for Your Services Business



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Managing Inventory for Your Services Business

Services-Based Companies Have Inventory Too

Businesses that provide a service, such as HVAC companies, electricians and plumbers, may not have a physical product they sell, but they all have inventory. Inventory that won't be sold to a customer often falls into two buckets: either inventory that is necessary to provide a service, but whose cost will not be directly passed on to the customer; or maintenance, repair and operations inventory, commonly referred to as MRO.

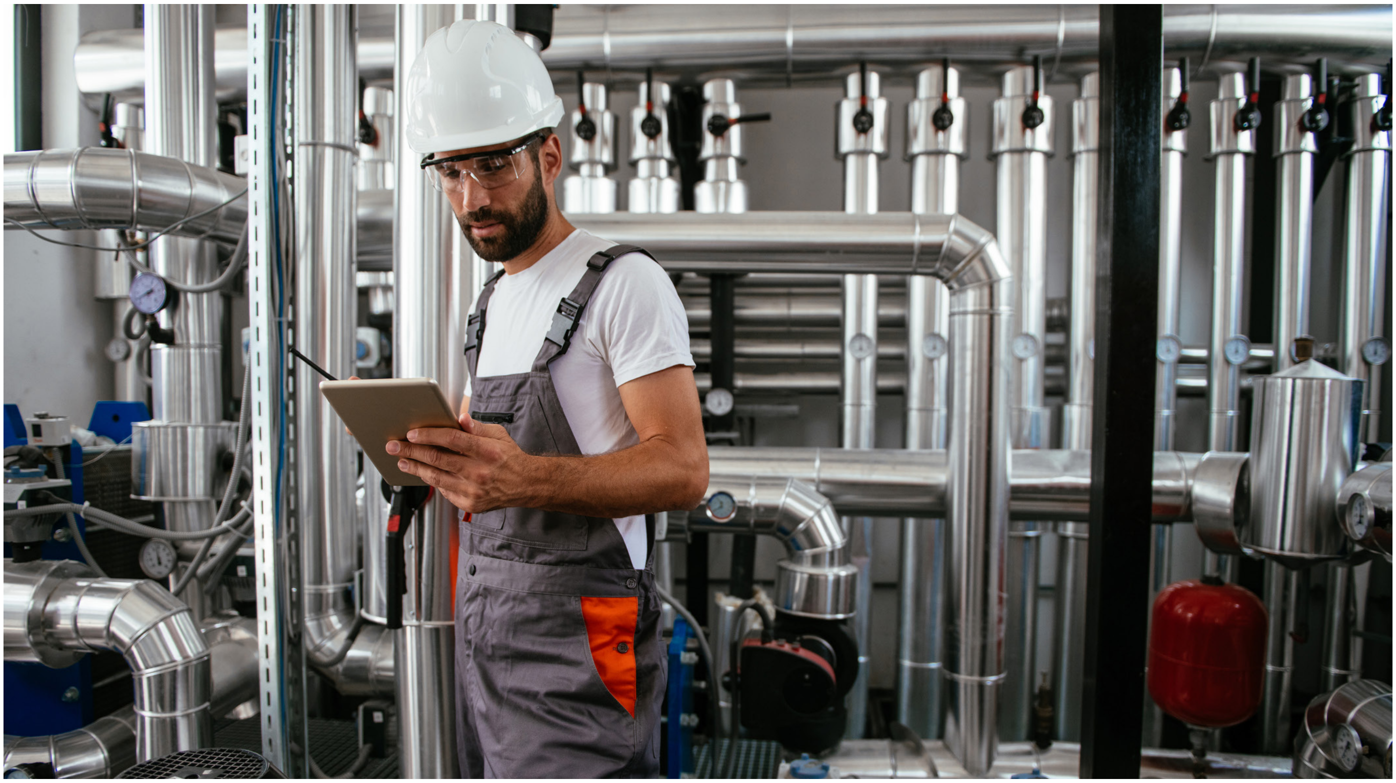
Inventory used to perform a service is made up of materials that are part of a service but that are not purchased by the customer. An example would be ducts, vents and coils used by an HVAC company to install or repair an air conditioner, or pipes used by a plumber. These materials need to be accounted for in the warehouse, when they are moved onto service trucks and then when they are used for a client job.

The Challenges of Managing Inventory Manually, or Not Managing It at All

Managing inventory manually using pen and paper or spreadsheets is time consuming and error prone. Worse, some businesses aren't tracking it at all. Services companies likely do not have a person dedicated to managing inventory and may not have someone dedicated to purchasing that inventory either. As a result, many businesses do not have corresponding processes in place for purchasing or managing inventory, instead relying on an ad hoc, as needed approach. This can be costly and impact the business's profitability.

- Lack of visibility and control. Without a process in place to manage inventory, there is no record of what items come in, where they are located or how they are used, making it difficult to predict ongoing inventory needs. Furthermore, MRO inventory often lacks the most basic inventory controls and practices. It is very rarely measured using key performance indicators (KPIs) for inventory, such as inventory on-hand, turns, obsolescence or usage, which feed demand planning capabilities and ensure proper quantities on hand.
- Inaccurate demand planning. When a services business purchases items using spot buys, it often sacrifices finding the best price by prioritizing availability. Further, this process may induce purchasing in bulk to obtain a discount regardless of how quickly items will be used, which can tie up significant cash in items with low demand or repurchasing items frequently as they are used up. Without visibility into how much of an item you've historically used, buyers are unable to predict how much they will need.

- Overstocks and stockouts. Inventory is a liability on the balance sheet and, without proper planning, large amounts of cash can be tied up in having that inventory sit on a shelf when the cash could be better used in other parts of the business. On the other hand, not having enough inventory available can impact daily operations, requiring emergency repurchases and potentially expedited shipping. For services businesses, stockouts can have a significant impact on customer satisfaction if, say, the right plumbing materials are not on hand.
- Inability to locate items. Many times, the supplies required are actually in stock, but they just cannot be located. This is especially true if there is not a designated storage location for items. Furthermore, if items are not available on a consistent basis, people often take those items when they are available and hold it for themselves in offices or storage rooms—this not only creates a false demand but increases costs.
- Lack of visibility across multiple locations. If you have stock that is held in multiple locations—such as in the warehouse, with contractors or in service trucks—inventory visibility becomes even more difficult. You need to understand how much of each item you have on each of your service trucks and what you have in the warehouse—a single rolled up number won't do much good.
- Manage inventory and accounting in different systems. Inventory is considered a business asset, so inventory management is closely tied with accounting. If you're managing your inventory in one system and your accounting in a different one, you're creating unnecessary manual work, forcing someone to input the inventory changes into the accounting system. More importantly, the accounting records will never be accurate because inventory is constantly moving and changes will not be reflected in real time.



How an Inventory Management System Can Help

An inventory management system allows businesses to optimize inventory levels and ensure the right items are available, at the right time, in the right place. Automating the inventory management process allows businesses to understand what items are being used, with what frequency and how they are being used. With this information, businesses are equipped to make more informed decisions about what is needed and when, allowing them to optimize their inventory levels and minimize their cash obligation.

- Organize your products. Entering your products into an inventory management system is the first step in tracking inventory, orders and stock levels. You'll need to give each product a unique name and assign it a barcode—you can choose to use an existing barcode or create a new one. Barcodes will be the unique identifier used to track products in the system.
- Track stock levels. The ability to track and maintain inventory levels is central to any inventory management system to avoid stockouts and potential lost sales. To be more proactive, you can set automated alerts when a count hits a certain number; this way you're automatically alerted when an item is running low instead of waiting until a report is run and analyzed. These alerts can prompt purchase orders or production so new stock is available before you run out.
- Run reports. With inventory and orders being tracked through the inventory management system, you're able to run reports to analyze how your products are being used. With product classifications, you can easily filter your products so you can analyze them in multiple ways, giving you a better understanding of your business, opportunities and future needs.

Bringing Together Inventory Management and Accounting With NetSuite

NetSuite's inventory management system gives you a single, real-time view of inventory. It can help track inventory in multiple locations, determine reorder points, manage safety stock and cycle counts to efficiently manage inventory levels and availability.

> NetSuite's inventory management functionality minimizes manual processes by automatically tracking inventory levels throughout the inventory life cycle, and provides the insights and reporting needed to make data-driven decisions and clear visibility into any inventory liabilities, like excess or slow-moving stock.

Automating workflows of core processes simplifies complex tasks, helps ensure records are always up to date and eliminates manual, time-consuming processes. For technicians on the road, this means inventory records are updated as parts are used throughout the day.

Because NetSuite inventory management is built natively on the NetSuite ERP platform, you can ensure procurement, planning, inventory and accounting systems are using and updating the same data records. When updates are made to the inventory record it automatically updates financial reports, procurement and orders in real time.

Moreover, you no longer have to be in the office to access your data, make updates or run reports. As a cloud-based system, NetSuite doesn't require on-premises servers, simplifying anywhere, anytime access for customers either via browser or a mobile app.

- System of record. NetSuite's item master is robust and lets you store a product's information, in its entirety, in a single place, ensuring consistency in messaging, pricing and availability across channels as updates are made. It decreases the manual time and effort of making product updates in multiple places.
- Improve inventory control. Enhance inventory visibility with tracking to manage every stage of the lifecycle and control costs. With added inventory controls, businesses can effectively track inventory usage and shrinkage and better manage their inventory costs.
- Multi-location visibility. Maximize inventory sell through and minimize out of stocks. With visibility into stock across all locations, including service vehicles, you can proactively monitor stock levels and sell through, transferring inventory between locations as necessary to ensure inventory availability and minimize obsolete inventory. Having the right inventory on hand can avoid project delays that are costly and can impact customer satisfaction.
- Increase inventory visibility. Maintain the right amount of inventory to keep up with anticipated orders while keeping excess stock to a minimum is critical to customer satisfaction and profitability. Use historical data, average lead time and number of inventory days' of supply to dynamically manage item reorder points and maintain preferred stock levels.
- Accounting efficiencies. When inventory and accounting are managed with the same solution, you get real-time metrics for your business. With a single, unified system, as inventory updates are made in the inventory record, they're reflected in real time in the accounting record. This ensures you're able to provide internal and external stakeholders with timely, accurate financial statements at any time.

Just because your business doesn't sell a physical product doesn't mean you don't have inventory. Effectively managing that inventory improves profitability and ensures products are available when and where you need them, so you can focus on what you do best.