It is Absolutely Crucial to have Accurate Stock Balances to Control and Manage Inventory.

Since 1985, we have worked with many, many distributors, selling many different type of products. Even though their locations and industries are different, we have found the solutions to their problems to be very similar. The internet, tough economy, lower margins and tough competition are making it difficult to stay in business and is forcing owners to change their thinking on how to best run their operation.

Following are 5 tips on the first steps to strategically gain control with accurate stock balances.

1 **Understanding the problem:** Distributors often spend hundreds of thousands of dollars on new computer systems to control their inventory, only to be disappointed with lower turnover and unhappy customers. Over time, we have discovered that most of the time, their problems have nothing to do with their software. This problem is because the available quantities do not match the actual quantities that are on the shelf.

Customers are frustrated when promised material is not actually available. Lost sales often result.

Overstocking of high sales volume items results to avoid stockouts.

Salespeople must manually check stock availability before committing to customers.

Items are either ordered too early resulting in lower turnovers or too late resulting in stockouts.

Computer software is very accurate with addition and subtraction so it's not the computer. The problem is from transactions never being entered into the computer. But don't give up, you just need a plan.

2 **Record all stock transactions:** Most computer systems record all transactions involving inventory. But what happens when:

You have a salesperson who cannot find available stock of green wire and orders blue wire because it's the same price?

A vendor shipment arrives without any paperwork?

Material is used within your company?

Assembly orders?

Bin to bin transfers?

Damaged material?

Throwing away dead stock?

A salesperson walks out with a customer "sample"?

A worker cannibalizes a part from a working item for a customer warranty?

As you can see, there are many situations that can allow items to seemingly disappear. Start by circulating a list among your employees, asking them for scenarios on how inventory can be changed without computer updates and also ask for solutions to handle each situation.

Another idea is to post a clipboard near every exit of your building with the columns Date, Item Number, Quantity, Reason, and Name. Then you can include in your Policy and Procedures Manual that any material removed without being properly recorded will be considered theft! Let everyone know that you are serious about accurate item counts.

3 **Use your best people in receiving:** We have found that many distributors place new employees in the warehouse to learn the business. We always recommend that new employees "shadow" experienced employees for at least 2-3 months until they are fully trained on both item recognition and placement. Be sure to emphasize reliability and attention to detail.

New employees are best used to pick orders for deliv-

ery to customers, under careful supervision. It's easy to check their work and correct their mistakes without much effort.

Only your best people should be in Receiving. It is the most critical function in your warehouse.

4 **Bar Coding:** Consider bar codes as the very best tool to maintain accurate stock balances. Bar code scanners work as keyboard input. You can enter item numbers by hand or you can use a bar code scanner to guarantee accuracy. Bar codes can be printed on both packing slips and receiving documents. You can also place bar codes on bins or each individual item. Many vendors now supply bar codes on their packing slips and for a small increased cost, they can barcode each item.

Bar code readers provide instant visual and audible confirmation of the correct item. Many computer software programs have Item Number Exchange that will instantly exchange the vendor's part number for your part number. When receiving, your employee can be on your receiving page in your computer software, scan the vendor part number and it will be replaced with your part number. If the part numbers don't match, you receive a harsh sound with an error code, indicating the part numbers do not match. Bar codes not only verify the correct item by eliminating many manual "keying" errors, but they also can help provide instant updates to the item database.

5 **Eliminate your annual physical inventory:** Move to a structured plan of Cycle Counting. Most distributors conduct an annual physical inventory, but are they really accurate? Even if they are 100% accurate, how long do the item counts stay accurate, a week, a month? We have discovered that annual physical inventories are a waste of time (and money). Cycle counting your inventory provides a much better method of keeping your stock balances accurate.

Cycle counting is the process of counting a few items, every day, throughout the year. It takes discipline to follow a plan where a certain number of products are counted every day.

There are three methods of cycle counting. You can select items: (1) Randomly, (2) Geographically or (3) Hit report ranking. Of the three methods, we have found the Hit report method to be the most reliable. The Hit report is sorted in descending order by the numbers of 'hits' an item is touched in a year's time.

Only 10-13% of a distributor's inventory results in 80% "touching" activity. Rank these items "A". On the next 15% hits, ranks these as "B". The last 5%, rank as "C". Determine the number of days to count the items in each rank. Now, you can schedule your cycle counts for the next year. Count your "A" items 6 times a year, your "B" items 3 times a year and your "C" items once or twice a year.

The counters should know the computer's on-hand quantity. They can count twice as many products in the scheduled time and will look in nearby areas for any discrepancies. And be sure to establish acceptable ranges for item counts. Don't go searching the warehouse for a 50 cent item.

Perform your cycle counts during the day, not necessarily at the end. Give the counter a "Count List" and a list of products that they need to count that day on brightly colored cards. Have the cards printed with "Cycle Count Today", the item number and the bin number. It also needs to have 4 columns with Time, Transaction Type, Order Number and Quantity. When the counter examines the bin, they will reconcile the on-hand balance with the card and update the Count List for data entry.

Cycle counting works! Most of the sucessful and highly profitable distributors have cycle counting programs to help maintain accurate stock balances.

Contact our office to discover more about Visions Distribution Software and how it can benefit your company:

Visions Distribution Software, LLC
Austin, Texas
Phone: +1 (877) 311-1037
Fax: +1 (866) 266-2128
sales@Go2Visions.com

You can chat with us at:
  Skype: Go2Visions
  AOL: Go2Visions
  Yahoo: Go2Visions

Visit our White Papers for more tips on inventory control and management