LMA CONSULTING GROUP Inc.
Transforming People + Process = Profit

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Inventory Accuracy

Although a bedrock topic, inventory accuracy is often overlooked in operations strategy discussions as it becomes an assumption or something that just should occur. However, I am constantly reminded of its vital importance and impact on bottom line business results as it frequently arises in client assessments as critical to achieving the company's desired end results.

In my 20+ years of experience as an entrepreneur, business consultant and business executive, I've found it not only essential in traditional manufacturing and distribution businesses but also in those where it previously was thought to be nonessential. Thus, I thought answering a few key questions was in order: 1) Why focus on inventory? 2) What is the #1 key to improvement? 3) How do we track?

1. **Why focus on inventory?** - It's interesting how often inventory accuracy is relegated to a clerk or analyst yet it can have a profound impact on your business. Does customer service matter? How about profit? Operational efficiency? Of course!

   In a presentation, "Inventory Management Tips & Techniques for COO's" that I gave for ExecSense, the world's largest publisher of webinars to C-Level executives in over 34 countries, I discussed the 3 C's - costs, cash flow and customer service. Inventory accuracy will affect all three. But wait, there's more - how about audit concerns? Have you thought about the importance of inventory accuracy in this light lately?

2. **What is the #1 key to improvement? -** Ready for the secret to success? Process disciplines. Now we see why many executives aren't that interested in making it a strategic initiative? ......talk about boring! As a VP of Operations who had to present to a Board of Directors, I can tell you it isn't perceived as nearly as exciting a topic as the latest sales conquests or R&D successes yet it is just as essential - if you don't know where to find your inventory, you will not have customers. Now that can become interesting!

   Implementing process disciplines can be equated to instilling culture change. And, this boils down to two key factors: accuracy and timing. When you receive product, do you also receive it in the system at the same time? Or do you wait until the next day? Or even several days later if you cannot resolve a discrepancy? Have you accidently entered it in the wrong unit of measure? The infamous $1 million dollar mistake...

   How do you handle customer returns? Can you determine what is usable vs. non-usable inventory by looking in your system? Do your planners include non-usable inventory in MPS/MRP? What is in your hold area? Everyone thinks it's minor yet I've yet to find a hold area that wasn't a key cause of inventory inaccuracy. We could go on and on but these types of questions will make or break your ability to meet customer needs, run an efficient operation and to generate respectable financials.

3. **How do we track?** - Metrics and tracking mechanisms are always important, and inventory accuracy is no different. Do you perform an annual physical inventory? Do you cycle count? Or perhaps both? This is where audit requirements can come into play. Just think - if you could improve inventory accuracy to the level such that cycle counting would suffice, wouldn't that be a win to avoid a physical inventory? And, more importantly, physical inventories are rarely as accurate as cycle counts.

   The keys to cycle counting include: 1) Start with the right mindset. Cycle counting is NOT counting and adjusting. It must include research and root cause analysis and resolution. 2) Set priorities - in essence, if you utilize an ABC type method, you'll count the most valuable and critical items more often (A) than the lower value, infrequent ones (C). 3) Consider not only dollar value gains and losses but also location accuracy - after all, if you cannot find an item when you need it, service will be impacted.

   Inventory accuracy is cornerstone to manufacturers, distributors, retailers etc. In today's new normal business environment, we must be faster and better than the competition to succeed. Thus, it is not only a key element but can make or break your business.

Lisa's Tips: Organizational Change

As one of the top topics I typically help clients to strategize and implement, I thought it was worth taking a look at a few tips:

- **Fit with strategy** - Change for the sake of change without looking at fit with the company's strategy is useless yet occurs frequently. Focus efforts on what really matters.
- **Do we fear change?** - No! People don't fear change; they fear the journey to the future.
- **Explain the whys** - Who doesn't respond better when they understand why they are doing something - and, even better, explain why he/she is integral to where the company is headed. Suddenly, you have interested participants.
- **Communicate** - I've found that you cannot under-communicate re: organizational change. One way to ensure your teams understand the journey is to keep them in the loop. Communicate what you know. Be upfront and tell them when you cannot communicate. Trust will follow.
- **Listen** - It sounds obvious but rarely occurs. What's more important to successful organizational change than to listen to your people? Even if what they are saying doesn't seem important, it is important to them or they wouldn't bring it up. Take the time to make sure they know you care about their feedback.

Recommended Reading

"Profit through People Blog" by Lisa Anderson - Take a look at my rejuvenated blog. Interested in supply chain innovation? How to accelerate cash flow? How to elevate customer service? We'll address these topics and many others related to operations strategy and organizational change.

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