



Inventory Control Revealed!

How to Avoid Critical Inventory Mistakes

In today's economy, costs are rising everywhere. From raw materials and labor to energy and oil, higher prices are rippling through to production and shipping costs and ultimately cutting into everyone's bottom line.

For companies that make or sell physical products, inventory control is an essential element to reducing operating costs and preserving profits. For manufacturers and distributors, it is increasingly important for plants, factories and warehouses to be running at peak performance and have the right products available at the right time. In order to meet this challenge, companies need to develop effective inventory control and management practices.

Has your company experienced any or all of the following problems?

- **Not sure what's in stock**
You'll experience declines in customer service and customer satisfaction if your on-hand quantity does not match what is actually in the warehouse
- **Excess inventory**
Having too many of some products leads to decreased turnover and costly write-offs
- **Stock shortages**
When you run out of product, you lose customers and leverage when you are working with suppliers

Can you afford not to keep accurate records or control of your inventory? Increased inventory carrying costs, higher premium freight charges, unhappy customers, diminished asset utilization, decreased supplier performance and more all eat into your company's profits. In order to improve profitability, manufacturing and distribution companies need to maintain optimum inventory levels and minimize the total cost of inventory.

What is Inventory Control?

Inventory control is the effective management of inventory that is already in your warehouse, stockroom or store. That inventory of raw materials and/or finished goods is one of your most valuable assets and may total millions of dollars, even for smaller companies. In order to protect that asset, it is critical to understand the quantity, location, condition, status and history of items in your inventory.

Inventory control software is an excellent solution for companies looking to track and actively manage inventory more effectively. With an automated solution in place, your company will:

- Improve accuracy and eliminate time-consuming manual procedures
- Avoid costly write-offs, stock shortages and unhappy customers
- Reduce labor costs
- Increase customer service levels

Losses due to data integrity issues, misappropriation and theft can be eliminated. The ability to quickly process and track inventory enables companies to achieve better control of inventory and labor costs. In addition, inventory management solutions can help your warehouse meet ISO certification and other quality requirements.¹

Accounting-centric manufacturing systems

When your inventory control system is integrated with the company's financial system, you can realize additional benefits. Also known as "accounting-centric" manufacturing, this system performs all the functions needed to manage inventory control, purchasing and production activities and can accurately incorporate the accounting activities and implications into overall business management.

An "accounting-centric" manufacturing system provides accurate inventory balances which help you determine when to order products, what quantity and identify the best supply source. You'll be able to make better decisions across the company from production planning, shipping and delivery to long-range strategic plans based on inventory trends. With the ability to effectively monitor and plan inventory levels, you'll be able to meet or exceed customers' expectations of product availability and maximize your company's profit.

How to Avoid Critical Inventory Mistakes

It's difficult to maintain optimum inventory levels in your warehouse without proper inventory control and active management. Here are three common inventory mistakes, how to avoid them, and how your organization can benefit from an accounting-centric manufacturing system.

Mistake #1: You told a customer you have items in stock and can ship them right away – but your inventory records are wrong

Solution: Keep customer commitments and superb customer service with accurate inventory records

This is a mistake that no company wants to make. When you make a commitment to a customer, you have to follow through in order for your business to thrive. If your inventory records are inaccurate, customers will not be able to trust your company in future orders and may not return at all. You'll experience declines in customer service and customer satisfaction if your on-hand quantity does not match what is actually in the warehouse.

Keeping accurate inventory records ensures proper order processing, shipping, completed orders and satisfied customers. Your employees will be able to provide the ultimate customer service experience. You will reduce costs with fewer customer returns, which incur additional shipping charges and administrative overhead to accept returned materials into the warehouse.

Mistake #2: Having too much or too little stock on hand

¹ "Manufacturing Inventory Software," Eric Morris, Ezinearticles.com, July 2006

Solution: Maintain optimum inventory levels with an inventory control system integrated with your company's financial system

As we've discussed, the goal of inventory control is to minimize the total cost of inventory. If you have overstocks, you have items that you've bought or produced taking up space in your warehouse and perhaps becoming obsolete. If you experience stock shortages, you could lose customers to the competition. You also lose leverage when negotiating with vendors – with rush jobs needed to restock your inventory, you may incur premium charges for production and shipping.

An accounting-centric manufacturing system helps you avoid this critical inventory mistake. The system actively manages inventory levels and provides reports to management so that financial implications can be considered. Management can gain an understanding of turn rates so you can forecast and replenish items in a timely, cost-effective manner. Important features of accounting-centric manufacturing systems include accounts payable and receivable, point of sale, sales order, purchase order, quotations, shipping, receiving and inventory data analysis.²

Mistake #3: Inventory records aren't as accurate as they should be

Solution: Cycle counting and continuous inventory management

With an automated solution in place, you'll reduce the need to conduct frequent physical counts. However, in order to keep your inventory records as accurate as possible, your company will still need to set up physical and procedural controls over items and periodic physical counts. This process is called cycle counting³.

The purpose of cycle counting is to discover sources and reasons for inventory errors, eliminate them and to adjust inventory records accordingly. With cycle counting, you will need to determine the "class" of items in your inventory and set up physical counts in a recurring pattern based on classification.

Physical counts are meant to reconcile the inventory in the system and make adjustments to the inventory asset. When integrated with financial systems, write-off transactions can be automatically generated if needed.

Cycle counting

Not all assets are created equal. With cycle counting, you separate inventory items into different classes to provide varying levels of control so you can eliminate costly inventory errors.

Class	Description	Counting frequency
A-class	High-cost items with long procurement lead-times or are difficult to obtain	Monthly
B-class	Mid-priced items	Quarterly
C-class	Low-cost items that are easy to get	Yearly

² "Inventory Management," Eric Morris, Ezinearticles.com, July 2006

³ "Inventory Management: Gaining Control of Inventory with Cycle Counting," Steve Novak, PPRManagementServices.com

Accurate Inventory Records: The Key to Success and Profitability

Keeping accurate inventory records provides numerous benefits and cost savings across the organization. Employees are better able to provide excellent customer service with increased confidence in inventory records and experience increased job satisfaction. With insight into what items are moving and what's gathering dust, you'll be able to negotiate better deals with vendors and suppliers and keep optimum inventory levels. And, keeping order commitments will ensure happy customers and increased revenues.

When you gain control of your inventory, you'll know what you have in stock, when to restock, increase customer service levels, improve operations, reduce costs and ultimately experience a positive effect on your bottom line.

About Planet Earth Projects

Planet Earth Projects has been helping mid-sized companies match software solutions to business goals since 1996. Our team of seasoned professionals brings decades of experience in business management, consulting, and software development to bear on your business challenges. We take time to truly understand your operations and financials, so we can support your current and future business objectives with the right technology strategy. We specialize in helping the top of the supply chain (manufacturing and distribution) compete more profitably. It is our goal to help you grow your business, expand into new markets, and outsmart your competition with a technological edge.