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OPTIMIZE YOUR INVENTORY VIA CYCLE COUNTING.

Cycle counting is based on the principle that not all inventory deserves the same level of attention or control effort. At its core cycle counting demands that all products be classified according to their importance to the organization and assign a higher and stricter control level on the most important products (those with higher rotation, or those that account for the highest sales).

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An inventory cycle count is a method of stock counting where you count a part of your inventory in a continuous cycle.

The count can be done daily, weekly, or monthly and there is no disruption to your business.

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By Rafael Vela

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There is only one thing worse than having too much inventory and that is not having enough.

When you run out of inventory sales go down, customer perspective of your business suffers significantly, your customers go somewhere else to satisfy their needs, you may be affecting a production line or disrupting a scheduled maintenance. **Running out of inventory is <u>always</u> expensive.**

The other side of the coin, having too much inventory, also brings a few issues that impact the wellbeing of any company. When you have too much inventory you are tying up financial resources in inventory surely missing on other opportunities (opportunity cost), chances to increase slow moving or dead inventory levels go up, you may be mismanaging available storage space which in turn causes improper inventory management practices, the risk of obsolescence increases, pilferage is hard to detect, and just the cost of holding inventory is hitting your bottom line very hard. **Having too much inventory is also awfully expensive.**

It is important for any modern business to figure out how much inventory it really needs.

So, how to track your inventory and determine the ideal level? In defining the best way to track your inventory I always recommend cycle counts as opposed to absolute inventory counting which usually involves a lockdown of operations so that you can scan and count an entire facility for stock. This can be quite a challenge and impacts business for the period of lockdown.

I find cycle counting to track inventory very straightforward, simple, and efficient assuming you did your pre-cycle counting homework properly.

In cycle counting you count your inventory periodically, usually several times a year depending on how you classify your inventory. To enjoy the full benefits of a cycle count first you must:

1. Classify (ABC) your products based on movement frequency. For instance
    a. **P**roducts **A** have a high turnover and move once or more every month or every two months.
    b. Products **B** move once or twice every 4 months
    c. Products **C** move once a year.

    The criteria used to an ABC classification depends pretty much on each company's needs, type of products, etc.

    Some companies classify their products based on sales, something like this:
    a. Items that account for 80% of sales are classified as **A.** Usually 20% of the items in the warehouse.
    b. Items that represent 15% of all sales are classified as **B.** Normally 30% of warehouse items fall into this category.
    c. **I**tems corresponding to 5% of sales are classified as **C**. Around 50% of your products in the warehouse will go here.

2. Determine the number of counts per classification. You may want to count products **A** every month or every other month, products **B** every quarter or semester, products **C** once a year. How many counts you want to perform depends on several factors:

    a. Number of SKUs per classification.
    b. Number of resources available to execute the counting.
    c. Demand planning and S&OP requirements
    d. Etc.
3. Make sure to establish for each product a ***reorder point*** and a ***reorder quantity*****.**
4. Ensure that all product movement is registered immediately in whatever inventory system you are using. Same day registry is recommended.
5. Determine your desired customer service level. The higher this service level is, the more inventory your company will require. Always remember, a 95% service level means that your company wants to have in storage and readily available 95% of its customers' requirements. Increasing this level will undoubtedly increase inventory levels.
6. Know your warehouse location system. You need to know always where in your warehouse the products are stored, or cycle counting becomes a true nightmare.

Some of the most significant benefits of inventory cycle counting include:

- It allows to maintain a 100% match between system records and physical inventory.
- It enables the detection of problems almost immediately which in turn allows you to solve issues right away. This as opposed to annual total inventories, usually at the end of the fiscal year, where once you find a discrepancy you need to review records of movements that happened many months before to determine the origin of the problem.
- Constitutes the blood of any sound demand planning program
- Exposes bad practices
- Helps identify potential obsolescence
- Points out inventory theft
- Indicates slow and dead inventory on the early stages of the process
- Uncovers theft and fraud issues
- Helps determine the health of the material reception / dispatch system registration process
- Gives you inventory turnover (of all the inventory in general and of each product in particular)
- Allows you to form efficient S&OP teams
- Facilitates forecast on storage space, equipment, personnel requirements for inventory management
- And much more

Managing inventory effectively is a critical part of keeping costs down while still meeting your customers' needs and when you optimize cycle stock and stock levels, you can have a big impact on the profitability and the performance of your entire supply chain.

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