

Inventory Management

Establish a cycle counting schedule to improve inventory accuracy

Maintaining an accurate inventory is crucial to a distribution center or warehouse operation. The traditional method of a yearly physical inventory may no longer be appropriate for many facilities. Instead, consider a cycle counting program for better inventory accuracy.

Cycle counting offers another advantage over a yearly physical inventory: If there are errors, less time has gone by, so it is possible to identify those problems and make corrections more quickly, says Hank Jordan III. Jordan, of the Center for Inventory Management, is an independent management consultant specializing in inventory management.

“You may find that errors happen at a certain time of the day,” says Jordan. “It may be a particular employee or computer program that is causing the discrepancies.” With the yearly physical inventory, there would be no way to identify those causes.

Begin with a small pilot program

To implement a cycle counting program, begin with a pilot program of 15 to 30 items representative of the total inventory in the warehouse. Count all the items every day.

“By working with those items over a few weeks time, you will probably uncover the majority of the reasons that inventory balances go wrong,” says Jordan. Once you have 100 percent accuracy, slowly bring the rest of the inventory into the process.

Don’t treat every item the same, says Jordan. Use tolerance levels, either dollar values or over/under percentages, to determine whether or not the error is significant. If it is not significant, don’t waste time investigating.

Avoid counting when possible

When implementing a cycle counting program, you need to determine when to count the inventory. “My objective in cycle counting is not to count at all,” says Jordan. “Counting is too tedious.”

Jordan says the best time to count inventory is when levels are low, including when you reorder, receive new inventory, or have a current balance of zero in the inventory system.

Waiting for inventory to reach low levels is a simple measure that does not cost a lot of money to implement, says Jordan. However, waiting for inventory to reach low levels is not always practical.

Jordan examines counting schedules for two methods of cycle counting: geographic and ranking.

“The geographic method is a wall-to-wall count in which each product is counted at least one time per year, some items are counted more frequently than others” he explains.

The ranking method counts those items with the most dollars moving through inventory more often than slower-moving items.

Cycle counting based on ranking

A rank-based cycle counting program is based on the Pareto principle that about 20 percent of the inventory accounts for 80 percent of sales.

Use tolerance levels, either dollar values or over/under percentages, to determine whether or not the error is significant.

Begin by ranking inventory according to the following criteria:

- “A” items are those responsible for the first 80 percent of sales.
- “B” items are responsible for the next 15 percent of sales.
- “C” items are responsible for the final five percent of sales.

One method of counting Jordan recommends is to count “A” items six times per year, “B” items three times, and “C” items twice a year. (To see how the cycle counting schedule breaks down, see box below.)

“In order for a rank-based cycle count program to be successful and accurate, it is imperative that all items are assigned the proper rank. So be sure that your stocked products are re-ranked—based on annual dollar usage—on a regular basis,” Jordan says.

Using the geographic cycle count

To develop a count schedule for a geographic program, first calculate the number of products you will need to count each day. For example, if a company has 10,000 products in its warehouse, counting each product four times results in 40,000 counts during the year. Dividing those 40,000 counts by 250 counting days shows that 160 products need to be counted each day.

“Start at one end of your warehouse, assign the first 160 products to ‘Day 1,’ the next 160 products to ‘Day 2,’ and so on,” says Jordan.

Base method on inventory system

Jordan warns that unless your inventory management system “can maintain multiple on-hand quantities for an item—i.e., the quantity in each of several bin locations—you should count all locations for an item on the day that item is scheduled,” including surplus and bulk storage locations.

Cycle counting schedule for “ABC” product ranking method

Independent management consultant Hank Jordan provides this example of a rank-based cycle counting schedule for a facility with 10,000 products.

The “A” items are responsible for the first 80 percent of sales, “B” for the next 15 percent, “C” for the final five percent. Based on Pareto’s 80/20 principle, that means that there are approximately 2,000 “A” items, 3,000 “B,” and 5,000 “C.”

“A” items should be counted six times per year, “B” items three times, and “C” items twice, making a grand total of 31,000 counts per year. With 250 working days a year, the schedule breaks down as follows:

Day 1–17: Count “A” items.

Day 18–42: Count “B” items.

Day 42–59: Count “A” items.

Day 59–74: Count first half of “C” items.

Day 75–91: Count “A” items.

Day 92–116: Count “B” items.

Day 117–133: Count “A” items.

Day 134–149: Count second half of “C” items.

Day 150–169: Count “A” items.

Day 170–197: Count “B” items.

Day 198–216: Count “A” items.

Day 217–250: Count “C” items.

If your system supports multiple on-hand quantities, treat each location as though it were a separate area, and make sure you accurately record how much of the item is in each bin.

“Cycle counting is one job in your company that never should be complete,” concludes Jordan. “There will always be products to count tomorrow.”

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