



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

CYCLE COUNTING: PENICILLIN FOR DISTRIBUTORS

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For many distributors, controlling errors is a never-ending problem. Errors cost distributors nightmares in terms of poor customer service, unpaid receivables, lack of trust in the computer system data and, most of all, hard cash. I encourage all distributors to calculate the cost of an order (when processed correctly) the first time it comes through their operation. In most cases, that cost runs between \$35 and \$45 per order. That includes taking the order, picking, packing, shipping, billing and getting paid. Some distributors' costs run higher and some lower; but over the years, I have found this range to be fairly practical. That is, if we did it right the first time. When we do the same order again, due to error, another \$40 is spent to get it right, eating into any potential gross margin anticipated in taking the order the first time.

Some distributors try to counteract errors by having every order checked before it is shipped out of the warehouse. Some even have it checked twice. One of the most common causes of errors comes in the picking process – it should not be a scavenger hunt for the picker. **Good warehouse layouts – clearly marked aisles, bins, racks and warehouse space – can help immensely.** Beyond that, trusting the data in the computer system is another major issue that can cause problems. This costs time and money, and error rates seldom decline as rapidly as anticipated. Frequently, blame for the error gets bantered around the organization for days, weeks and months before it is resolved. However, in most cases, the error is fixed on the customer side right away -- we issue them a credit and get them the right product.

Year-in, year-out one function that seems to address the most common errors is cycle counting. It is a rather simple process that takes time and dedication by the distributor. Cycle counting simply says that every Monday, Tuesday, Wednesday and Thursday you will count a few products in your warehouse. The goal is to determine what the computer system says you have in stock, actually is in the warehouse. If done right, it can also help you get products into the proper locations on a very regular basis. Think how nice that would be!

Cycle counting is a wonderful way to expose errors in the warehouse before they become errors to your customers. Cycle counting is a wonderful way to consistently inspect your overall warehouse operations. We always hope things are being done correctly back there; but, usually never find out how well they are being done until we do that very painful annual physical inventory. How many times have you pulled your hair out trying to figure how all those things got there, how so many things are missing – or, just what is this stuff anyway? Cycle counting can be done in a variety of ways. It is not something

you decide to do haphazardly. Take time to plan for the inception of cycle counting. Use your computer system to help plan and prepare daily count sheets. **If you are not doing cycle counting now, look to your software to determine if you already have some cycle counting functionality.**

The best way, and the most time consuming way to do cycle counting, is to count everything in your warehouse, starting at point A counting to point Z, at least four times a year. What you are doing is counting everything on a quarterly basis. You are also tying your counts to your computer database in such a way that the system data and warehouse quantities are the same. Having this level of data accuracy would be a huge benefit and weapon in addressing error rates. Data accuracy would also prevent personnel from having to go out and look at the inventory on every order, before giving the customer assurance that it is in stock. Just think of the time saved – not to mention the overall gain in efficiency.

Counting everything in the warehouse four times a year might be overkill. How often do you think you should count dead stock? I would argue counting dead stock four times a year is a waste of time, space and cash. Even the “C” items might not need to be counted four times a year. Cycle counting is by far the best method to address data accuracy issues -- the approach can be modified, while still yielding desired results. You know what you have, the shape it is in and the location.

Another method of cycle counting is to count items with the highest dollars invested. For example, if you had diamond-tipped drill bits costing \$300 a piece, make sure records on those items are accurate. There is no magic in determining which items are counted most often; however, looking at inventory records and costs can be your guide. **You should still count everything in your warehouse at least twice a year, giving higher priority to those items with the highest dollar value.**

Another modification to the four times a year count is to count the fastest moving items more often than the slow movers. This again gives you a high degree of accuracy in your computer system, with emphasis on those items you order, receive, put away, pick and ship most often. These are items that often comprise the greater portion of your sales activities. You cannot afford to have an order taker not trusting the system – going back time after time to see if these items are in stock. If you have not done cycle counting before, I suggest taking time to talk to a distributor who has implemented it as part of the daily routine. You will hear a list of positive effects on the overall operation, as well as some of the rules to be followed.

One of the most important rules is getting all the paper flow to stop before counting. The goal is to determine an end-of-day/cutoff time for taking orders filled that day. For example, you might say “end-of-day” is 4 P.M., for all orders to be picked and shipped that day. Orders taken after 4 P.M. should be considered next day’s business and processed first thing in the morning. This gives your personnel at least an hour to get all the orders taken before 4 P.M., picked and shipped before heading home. It also allows all the paper flow associated with the orders to be handled properly and put into the

computer system. Once all of the daily paperwork has been handled properly, you can then think about cycle counting. Hopefully, when the paper flow stops, your system/warehouse records should be close in accuracy.

Next, you need to find someone who is reliable to do the counting. Use your most experienced person who possesses a wealth of product knowledge; and, trust this person to do a good job, because he/she will be in the warehouse alone. Your computer system should automatically print out a cycle count sheet daily, based on the methods of cycle counting selected. The counter takes the sheet and counts from shelf to shelf, verifying the quantity printed on the cycle count sheet. Yes, you heard me right! I am giving the counter the number that should be in the warehouse. The reason is simple. Many distributors have a primary, secondary and overflow location for products. When a product comes up for counting, all locations need to be counted. Start first at the primary location, move to the secondary location and then all overflow locations – the goal being to find all the products you are counting. I suggest that at the primary location, place simple labels directing personnel to the secondary location. At the secondary location, put simple labels indicating the overflow location. You get the picture? Remember, you must count it all, no matter where in the warehouse it is physically located.

Many distributors use cycle counting as a method of restocking primary locations while counting. When the counter reaches the primary location and sees the quantity is low, they restock it from the secondary location. This works very effectively. Along with restocking the primary location, the counter should be taking misplaced items and putting them where they belong. They are, in effect, cleaning up the bins and locations while counting. **Our goal is to achieve 100% accuracy between our computer records and our warehouse stock quantities.**

Once the counter verifies the actual stock count, move to the next item on the count sheet. If there are discrepancies after looking in every location, simply mark down what was found and move on. The next morning, work with others in determining if something was missed, taking one more shot at getting it right. If everyone is convinced all efforts have been exhausted, then adjust your computer system data to reflect the actual stock quantities. Hopefully, the next time that item is counted, you will not have to make other adjustments. If you find every time you count certain items you are making adjustments, I suggest the problem occurs most often at receiving and shelving locations.

You have roughly 200 days per year to count. By taking the 200 days into the number of items, multiplied by the number of times you want to count that item per year, you get a daily stock item count sheet. For example, for 10,000 items counted four times per year, you are looking at 40,000 counts. The 40,000 counts, divided by 200 days of counting, yields a

daily item count of 200. That might sound high, but look at what is accomplished in terms of accuracy and related reduction in cost of errors. **The number of items counted is determined by the cycle counting method you have selected.**

There are many reasons why distributors don't cycle count. Whatever the reason, I suggest you at least give cycle counting a shot. You can always continue with the painful annual physical inventory, but when cycle counting is done right, you can eliminate this painful experience entirely. As you can see, an orderly warehouse layout and locator system is needed. You need to be dedicated to enforcing an end-of-day cutoff time. Control who goes into the warehouse. Establish goals for cycle count accuracy. Most of all, at least try it! It is as powerful as a good shot of penicillin in attacking a virus. **The virus in inventory management is identified by errors, lack of trust in the system data and monies spent to make customers happy – the second time around!**