

Cycle Counting— Maximizing Your POS System

Remember GIGO?

Remember one of the original computer buzz phrases – GIGO? It’s an acronym for “garbage in – garbage out”. We don’t hear that term as often as we used to years ago, but it is still applicable today. In language we all understand, it simply means that the information found in a computer system is only as good as the information that is put into the computer. Therefore, if inaccurate data goes in (garbage in), then inaccurate data out will be the results (garbage out). For retailers using POS systems, this statement has special importance for several reasons. Have you ever been in the embarrassing position of having informed a customer that an item is in stock and when they arrive at the store to pick it up, you can’t find it on the shelf? Yet the computer says you have two on hand. Or what happens when a relatively quick bestseller shows plenty of copies on hand, but in fact, you are out of stock. You are missing sales opportunities and disappointing your customers. In today’s highly competitive retail marketplace, selection and service are two distinctives in which Christian retailers can differentiate themselves from the big boxes and national chain trade retailers carrying Christian products. However we will

be unable to excel in these two areas of distinct advantage unless we can be assured that we have and maintain accurate data in our POS systems.

In previous articles in this series on Maximizing Your POS System, we have concentrated on using sales analysis best practices tools. These tools have included a wide range of reports, all based on the sales and on-hand data that exists in your system. Without accurate data all the analysis and reports we review are of no value. In working with several stores recently on analyzing their inventory, this fact has painfully come to the forefront. In the instance of one store, the computer system was showing almost double the actual inventory value that was physically on the shelves. Needless to say, the data available in this system had little or no true value to the retailer.

Cycle Counting – Assuring POS Data Integrity

How can we overcome this troubling problem and be assured that what we see in our POS system is what we have on the shelf? The answer is cycle counting – a systematic way of taking inventory continually throughout the year. The cycle counting process breaks your inventory into systematic sections. These sections are then inventoried on a scheduled basis throughout the year. More active sections are inventoried several times a year while other slower sections are counted only

once, depending on which method of cycle counting you select.

I can hear the groans already “it’s too difficult to take a physical inventory once a year, now you want me to take inventory year around and more than once on some items!” It’s actually a lot easier than it sounds and the rewards are many. Let’s see how it can be done.

Before we look at the benefits of cycle counting and how to get a process implemented in your store, first we need to take a look at how easily your POS systems on-hand quantities can get out of kilter. This should help you understand the need and value of Cycle Counting. Currently, inventory management is a very labor intensive task which requires large amount of handling by folks like us - human beings who on occasion, make mistakes! This may change in future years with a new electronic bar code technology called EPC, but for now we are stuck with it. Just think of the processes and opportunities in which on-hand quantity of stock items can be exposed to errors – from receiving, to shelving (or mis-shelving), to customer handling and misplacement, double shelving, theft, employee borrowing, mislabeling, etc. It’s no wonder we need physical inventories at the end of each year to assure accurate counts. Many retail industries are now using cycle counting to overcome inventory obstacles and improve customer satisfaction and inventory management practices.

Cycle Counting Methods

There are basically two methods a store can use to set up physical inventory cycle counting. Both methods require that the stores stock be divided into small sections that can be inventoried on a scheduled daily basis.

One method divides the stores stock into physical areas or sections. Many stores select this method because the store is already physically divided by the use of departments, sections and shelving areas. This is currently the most popular method used by Christian retailers.

The second method divides the store into sections by sales rankings of the product. Some POS systems allow their users to rank individual items based on sales history and assign an A, B, C or D sales classification to each item. In this case 80% of your sales, which compromise 20% of your stock would be considered “A” items and may be counted up to 6 times a year while “D” items, the slowest selling, are counted only once. In this article we will concentrate on the first method, as it most common in our marketplace.

Regardless of which method you choose, it is essential that a Cycle Count Team Leader be assigned. This person is responsible to establish, implement and then measure and monitor the cycle count process on a regularly scheduled basis. The reporting practice will assure that the cycle counting

process is in place and being effectively implemented. This step is very important in establishing a successful program.

Setting Up Physical Sections

We will describe in detail the most popular cycle count method mentioned above. This method divides a store into sections identified by department, subject categories and shelves. The cycle count team leader needs to determine which sections and shelves need to be counted more frequently. These are identified by popularity through POS system reports. As an example, certain subject categories in the Christian Living book section would need to be counted more frequently because of their higher volume sales versus for instance, title in the reference section. The higher volume areas should be counted 4 times a year with the slowest areas being counted only once or twice. All in all, the counts should average to four counts a year. To find out what has to be done on a daily basis, we need to make calculations based on the total number of items to be inventoried.

Determining a Cycle Counting Strategy

Let's say that in our store there are a total of 8,000 sku's that require physical inventory. Our goal in this cycle counting practice would be to inventory all of these items 4 times a year, which would be 32,000 total counts ($8,000 \times 4 = 32,000$). If your store is open 6 days a week, that would total 312

days to perform cycle counting practices. By dividing the total number of sku's needing to be counted each year - 32,000 in this case - by the total days available (312), we find that we must count only 103 sku's a day. Now we are down to a manageable number again.

Now, using your POS system reports, determine the number of items in each department and subject category. Next, based on additional reports ranking the popularity of subject categories, develop a daily plan for inventory counting. Inventory the more popular areas at least four times a year. You may wish to spend a specified time each month or each quarter doing the best selling categories first and then move to the slower categories.

Daily Cycle Counting Practices

Once you have determined your count strategy, print out reports from your POS system to facilitate taking physical inventory in the specified subject category sections and departments. Reports should be printed in the same SKU item order as product will be found on the self. Be sure to include On Hand Quantities, On Order quantities, information related to multiple locations or any other inventory information that will assist the inventory taker in making decisions. Contact your POS vendor for possible suggested reports.

Technology is also helping to make the important role of cycle counting automated. Many POS system have adopted the use of

portable or wireless devices to assist in the cycle counting process. Check with your POS vendor for availability of these devices.

Once counts have been established, they need to be compared to existing OH quantities and exceptions noted. Each exception needs to be checked for accuracy. Just changing the system OH quantity is not the answer. There could be many reasons as to why the counts vary. Before changing an OH quantity, make sure the proper research and audit has been conducted. Conducting audits to find why inventory counts are off can often uncover a store procedure or staff misunderstanding that may be causing the error to occur on a continual basis. Finding an error closer to the time that it is committed will significantly reduce the number of errors that could be committed in the future.

You have probably discovered by now that there are several additional advantages of cycle counting over the traditional once a year physical inventory. The daily inventory process also facilitates a systematic cleaning and review of products throughout the store. Many times, products are misplaced by staff members or by customers and are never found until a physical inventory is taken.

The best time to start implementing the cycle counting practice is immediately after a complete physical inventory has been taken. Doing so will help to reduce the time it takes to conduct corrective audits on counts that do not match. Be prepared to spend a little more time at the beginning of the cycle counting

process as you learn the ropes of your POS system and the cycle counting practice itself. In short order, you will find it all becomes second nature and you will have a new found level of trust in your data and the reports you use to manage your store.

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Bob's expanded experience level brings balance and additional insight to the Christian products marketplace. He is currently developing seminar workshop curriculum for Ingram Book Group, Spring Arbor and the American Booksellers Association.

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