



The Competitive Edge Since 1986.

Inventory Control Is Perhaps the Most Powerful Tool You Have for Containing Your Warehousing Costs

Inaccurate Inventory Costs Plenty

What asset do you have that is more valuable than your people? Inventory! Without it what business would your company be in?

Year after year we try to get a handle on this thing called inventory. We select the weekend, we order lunch, we discuss who will be responsible for bringing in the doughnuts, we make sure someone orders enough pencils and markers, we get the post-it notes and the dots, and listen to our people give us any number of excuses as to why they can't make it. Then, we talk about the inventory! Is it just me, or is there a lot of preparation that goes into the weekend and not a lot of preparation that goes into why we have to be at work that weekend in the first place?

Think about it, what does having an inaccurate inventory cost your company? First answer this question, what does an inaccurate inventory affect? Your profit margins, your turns, your fill rates, your service levels, and customer satisfaction, to name a few. But most importantly it affects the productivity of your warehouse operations. Your people spend an average of an hour a day searching for inventory that has been misplaced, received incorrectly, put away wrong, stolen, or put on a return in error. Your customer service department is constantly going to the warehouse to check and see if what the system says is in the bin is actually in the bin. Maybe they should be paid by the mile? Your purchasing department is constantly searching for products to fill back orders for items that were just received but now cannot be found. How many times have you heard, "The computer said we have it, but when we looked in the bin it wasn't there?" How much is an inaccurate inventory costing you? It's costing you thousands if not millions of dollars!

Order picking usually accounts for about 50 percent of your total warehouse labor. Losing one hour of labor because of an inaccurate inventory means money down the drain. Your annual physical costs are how much? Pizza and drinks (\$100), miscellaneous items—pens/pencils/cards/markers/dots (\$100), personnel overtime for fifty people to count Saturday and Sunday at \$10 per hour (\$12,000). Does everyone included in your inventory make \$10 per hour? Think about this: assume your company earns a 4 percent net profit before taxes. **That means it takes \$2500 in new sales to make up for \$100 in lost products. If your warehouse loses \$100 per week, the sales department needs an additional \$130,000 in new sales each year just to break even.** Again I ask, how much is having an inaccurate inventory costing your company? You select the number!

Value of Lost Material	Net Profit Before Tax	
	4%	1%
\$50	\$1,250	\$5,000
\$100	\$2,500	\$10,000
\$1000	\$25,000	\$100,000
\$10000	\$250,000	\$1,000,000



The Competitive Edge Since 1986.

Controlling Inventory

The control of your inventory is vital to the continued success of your company. When a purchasing agent or buyer procures product for the warehouse, they are tying up current dollars in the hopes of future profits. I know what is being said now, "You are a distributor or manufacturer, that is how your company makes its money." But what happens when your receiving department receives the recently purchased product? Some go out for an order, some get damaged, some are given away as samples (without any documentation to update your system), some are sitting on a salesperson's desk or in his car trunk, and some your warehouse simply cannot find. The profits you were expecting have now dwindled with each "some", or should I say sum, that is not in the bin to fulfill your customer orders.

To quote the twelfth annual *Giants of Shipping* logistics survey by James Cooke (executive editor of **Logistics Management**), published on September 1, 2003: "When asked to rate the performance of their business units over the past year, most respondents said that accounts receivables, return on assets, and cash-to-cash cycle times met or exceeded corporate targets. Only general profitability and return on investment were reported as having failed to meet company objectives."

Your warehouse is causing your profitability to erode because they cannot process orders efficiently with an inaccurate inventory. What is accuracy you may ask? If you count 100 widgets on Saturday and cannot find 20 of them on Monday morning, that item is only 80 percent accurate. By the time your inventory control personnel get around to searching for them, later that afternoon, a purchase order for 2000 has been received. The order is filled and everyone is happy. Besides, since that item is now 99 percent accurate, they have other items on their plate that they have to address. What about the twenty widgets that have not been found? General profitability and return on your investment, the inventory itself, and the dollars invested to count it, will again fail to meet the company's objectives. How accurate is your inventory?

Conclusion

Your company's success is not only dependent on sales, but also on your company's ability to say, "Yes we have that item in stock." The problem is inventory control is usually an after thought. After the customer orders it, and you don't have it, you begin thinking about it.

"We know little more about distribution today, than Napoleon's contemporaries knew about the interior of Africa" - Peter Drucker. If this is not true, then why do economic downturns affect us so? Why doesn't our profitability swing through the roof when the economy comes back, after the downsizing, or should I say "dumb-sizing", because we ultimately affect everything except the one thing that needs affecting, the accuracy of our inventory. Now is the time we learned about the interior of that dark continent, "**your warehouse**," and begin doing something about it.

About the Author

René Jones was the founder and president of Total Logistics Solutions, Inc. (<http://www.logisticsociety.com/>). He is now taking on a new role as president and *chief executive officer* (CEO) of AHN Corporation (<http://www.ahninc.com/>). With over eighteen years of experience in training, warehousing, and logistics, he has used his knowledge to assist and turnaround small and large companies alike, making them more efficient and profitable. He has been published in several industry magazines and is the author of, *This Place Sucks (What Your Warehouse People Think About Your Company)* and *Warehouse 101 (A Complete Guide to Operating Your Warehouse)*.

René can be reached by phone at (1) (818) 353-2962 or by email at rene.jones@ahninc.com