

Business Essentials: Cycle Counting

Use regular, accurate counts to solve problems and improve your business

by Fred Heintz

The key purpose of cycle counting is to identify items in error, thus triggering research, identification, and elimination of the cause of the errors. *APICS Dictionary, 12th edition*

Does your company conduct cycle counts, or are you looking to start? If you use them now, do those counts really trigger work to eliminate the cause of errors?

Cycle counting can be a powerful tool in obtaining and keeping an accurate inventory. The key to effective cycle counting is to follow up by doing the



research, identification, and elimination of the cause of errors. At Sixth Floor Consulting Group, we've seen too many facilities that only count and correct the book, but never put in the effort to correct the root cause of problems. While cycle counting is less expensive per count than a complete physical inventory, over the course of a year cycle counting should cost more than a single physical inventory. That is because additional resources should be devoted

to doing research to correct the root cause of any errors found.

The power in cycle counting is the ability to (fairly) quickly determine the cause of inaccurate inventory. As opposed to a yearly full physical inventory (where a year's worth of transactions would need to be reviewed to find the cause of an unmatched count), for a cycle count you only review the transactions since the last time the item was counted. While this might still be a lot of transactions, properly reconciling a cycle count can speed this up.

The first step to reconciling any inventory count is to determine the item's

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When the going gets tough, the tough get going!

by Tom Dzialo

The year is off to a difficult start, with economic conditions not seen in a long time. Plant closings and layoffs in the tens of thousands have been in the headlines weekly, it seems. U.S. jobless claims hit an all-time high.

We are almost all impacted by the current events, directly or indirectly. Difficult times call for difficult decisions, and organizations of all sizes and stripes are making them consciously or unconsciously.

Darwin's familiar theory, Survival of the Fittest, has evolved to Lean's Survival of the Quickest. Organizations are competing on speed, and those responding to customer demand quickest are succeeding.

While many organizations have responded in the traditional way, waiting and responding to poor financials with layoffs, others have responded more quickly to the marketplace, adjusting and adapting to customer demands.

Responsive companies, Lean companies, and continuously improving companies have employed different strategies to protect their investment in people, their most valued assets.

These strategies may include one or several of the following:

- Holding an internal "town hall" meeting to explain the current state of business. Ask for ideas and suggestions from everyone on staff. Challenging times call for creativity, and all ideas should be captured and considered.

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ABC class. As most readers are aware, you can use Pareto analysis to determine the 20% of items that constitutes 80% of the volume. With Excel, this now becomes a very easy analysis. Sorting your items by dollar volume, with running totals and percents, will usually give something like this:

| Item | FY Volume in \$ | Running % | Item | FY Volume in \$ | Running % |
|------|-----------------|-----------|------|-----------------|-----------|
| 1238 | 7700 | 0.209581 | 1237 | 380 | 0.929641 |
| 1250 | 7400 | 0.410996 | 1236 | 370 | 0.939711 |
| 1239 | 6500 | 0.587915 | 1234 | 350 | 0.949238 |
| 1245 | 5600 | 0.740338 | 1235 | 325 | 0.958084 |
| 1242 | 3250 | 0.828797 | 1248 | 315 | 0.966658 |
| 1241 | 1200 | 0.861459 | 1240 | 300 | 0.974823 |
| 1244 | 750 | 0.881873 | 1251 | 290 | 0.982716 |
| 1249 | 500 | 0.895482 | 1247 | 285 | 0.990474 |
| 1253 | 450 | 0.90773 | 1252 | 250 | 0.997278 |
| 1243 | 425 | 0.919298 | 1246 | 100 | 1 |

So, for the 20 SKUs shown (don't you wish life was this simple), four items represent 74% of the volume. At Sixth Floor, we have seen even more dramatic results than this.

Now that we know what the "A" items are, we need to set up rules for what is to be reconciled. Normally, companies will reconcile any difference for A items, allow a small difference (+/- 3%) on B items, and a larger difference on C items before reconciling. By allowing different triggers, the person reconciling is not looking at every small error. Instead, he or she is trying to find those which will have the largest impact on the business. This makes sense because B and C items tend to be those that use backflushing and/or standard loss rates. Small variances are expected. Unless these are large (above the trigger point), it is not worth the expense of researching the error.

Now that it has been determined a cycle count difference needs to be reconciled, how do we do it quickly? What we should look at depends on whether the error is a gain or a loss. If the count is greater than the book, the reconciliation needs to look at transactions that can cause the actual to be greater than the system. These are things like missing receipts, incorrect production issues (BOM problems), etc. The first check should be the transactions that come close to the amount in error. Unfortunately (unless you get lucky) there will be more than one transaction causing the error most of the time. The same thing would be done if the count was less than the book, except transactions that would cause the opposite effect would be researched.

Once the reason for the difference is discovered, the critical thing is to correct the root cause of the error. For example, if the error was caused by a missing receipt, it is not enough to key the receipt. The *reason* the receipt is missing needs to be discovered and corrected. For example, was it missing because:

- The Bill of Lading was lost? Design a process to assure paperwork gets to the receiving office.
- The item on the BOL wasn't the same as actually received? Work out a process to verify the actual item, and get it in the system. Then follow up with the vendor on correcting the BOL.
- The receiving office batches all receipts and keys them the next day? Get all receipts keyed in the same day.

There will always be problems with missing paperwork or incorrect keying, but if that last item is not fixed, it is not even worth doing cycle counts. When receipts are not keyed in until the day after they are received, it will always cause a cycle count issue. Cycle counting is only valid for companies trying to have a real time inventory system.

Cycle counting is the only way to properly measure inventory accuracy, and its real value is in helping companies achieve inventory accuracy. The count needs to not only correct the book inventory, it also needs to correct the inventory process to assure accuracy. ■



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- Getting back to basics. Review and work on getting the fundamentals right. Create a plan that gets all of those things done that were never possible when things were too busy. This is an excellent time to begin using the 5-S Workplace Organization technique.
- Use the slowdown in customer demand and excess available capacity to start your Lean Journey. Doing Lean right means learning how to continuously find and eliminate waste from your operations so you can grow your business.
- Invest in educating and training your most valuable assets, your people. It can be in the form of cross training with your existing staff or using outside resources to teach and train new skills. Use this slow period as the time to accelerate your organization's learning. Use PDCA to deliver results quickly.
- Local organizations and professional societies offer low-cost opportunities to learn new skills. Travel expenses are minimized and networking opportunities abound with current or potential local customers. Join with your supply chain partners to help mitigate expenses and strengthen partnerships and performance.
- Check out funding opportunities available to you from local, state, or federal sources. There are funding opportunities available outside of the recent spate of bailout funding. Tax credits exist for R&D investments, and Lean may qualify too. Utilities offer a variety of funding options for energy conservation measures including, lighting, air compressors, and even Lean.
- If your rainy day fund doesn't

allow the above, and cuts cannot be avoided, consider a temporary reduction in hours or pay for all. Rotating furloughs are another option to avoid losing tenured employees and the skills and knowledge they've acquired.

Several different education and training workshops including Cycle Counting, Lean Office, and Lean Accounting are featured in this newsletter. These and other events appear on the Calendar section of our website.

Information and links to funding opportunities also appear on our website. Check out the Resources page for further information and links.

The Sixth Floor Consulting Team, including our business partners, are committed to your success. Please contact us with questions or comments. ■

Move your organization forward with these learning opportunities in February

Does your company have a cycle counting program? Does it really correct the causes of inventory errors, or does it just correct the book inventory?

Fred Heintz of Sixth Floor Consulting Group, in conjunction with the Hartford APICS chapter, will be conducting a Cycle Counting Workshop on **Friday, February 13**, from 8:00 am until 12 noon. The workshop will be held at the CCSU ITBD center in New Britain, Connecticut.

A complete wall-to-wall count of inventory is a very expensive proposition, and companies need to make sure that investment is not wasted. This important workshop will discuss the factors that go into making your physical inventory a success.

Topics to be covered include:

- Benefits of Cycle Counting
- Deciding what to count and when
- Reconciling differences
- Reporting results
- Performance checking

Using APICS prepared coursework in addition to practical demonstrations, participants will learn what it takes to have

a successful cycle counting process. To register, see the Calendar of Events on the Hartford APICS website at www.apics-hartford.org.

Fred Shamburg, president of Leanovations, will be conducting a "Lean Office" Workshop on **Friday, February 20**, from 8:00 am until 4:00 pm. This workshop will also be held at the CCSU ITBD center in New Britain.

Topics to be covered include:

- What is Lean and why is it important
- Key Concepts of Lean
- Applying Lean basics in the office
- Office process simulations
- Standard work

Using a hands-on and interactive approach, participants will learn why Lean is important in the office. This is a great opportunity for a company to bring a team and learn Lean together.

To register, go to www.leanovations.com and click on the Workshops link.



Mark your calendar ...

Cycle Counting Workshop

Finding and fixing the causes of inventory errors

February 13, 8:00am - 12:00 noon

Presented by Fred Heintz CPIM CIRM and
Sixth Floor Consulting Group, Inc., associate
Where: CCSU ITBD Conference Center

1-Day Lean Office Workshop

Discuss the use of Value Stream/Process

Mapping with office processes

February 20, 8:00am - 4:00pm

Presented by Fred Shamburg, President of Leano-
vations, a National Shingo Prize examiner, and a
partner of Sixth Floor Consulting Group, Inc.
Where: CCSU ITBD Conference Center

1-Day Lean Basics Overview

Learn the basics of Lean

March 9, 8:00am - 4:00pm

Presented by Fred Shamburg, President of Leano-
vations, a National Shingo Prize examiner, and a
partner of Sixth Floor Consulting Group, Inc.
Where: CCSU ITBD Conference Center

Lean Accounting

Why Lean Accounting?

March 11, 5:00pm - 9:00pm

Presented by Brian Maskell CFPIM, President of BMA
Inc., and a recognized leader in the area of Lean
Accounting
Where: Courtyard Marriot, Cromwell, Connecticut

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