

# INVENTORY CONTROL IS PERHAPS THE MOST POWERFUL TOOL YOU HAVE FOR CONTAINING YOUR WAREHOUSING COSTS!

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 donuts, we make sure someone orders enough pencils and markers; we get the post-it notes, 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, putaway 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 product to fill backorders 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% of your total warehouse labor. Losing one hour of labor because of an inaccurate inventory means money down the drain. Your annual physical costs how much? Pizza & Drinks (\$100), Miscellaneous Items-Pens/Pencils/Cards/Markers/Dots (\$100), Personnel Overtime for 50 people to count Saturday & 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% net profit before taxes. **That means it takes \$2500 in new sales to make up for \$100 in lost product. 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 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 with 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 salesmen desk or in their 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.

In the 12th 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% accurate. But 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% accurate, they have other items on their plate that they have to address. But what about the 20 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?

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, then 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.

## **Total Logistics Solutions, Inc.**

**Phone: (818) 353-2962**

Fax: (818) 353-6053

Email: [info@logisticsociety.com](mailto:info@logisticsociety.com)

Website: [www.logisticsociety.com](http://www.logisticsociety.com)

TLS produces a **Logistics Society News newsletter** quarterly. To subscribe, visit their website at [www.logisticsociety.com](http://www.logisticsociety.com)

**IDII Thanks TLS** for use of this white paper. For additional white papers, see [www.idii.com/wp/index.htm](http://www.idii.com/wp/index.htm) and subscribe to our FREE Software Newsletter at [www.idii.com/esn/index.htm](http://www.idii.com/esn/index.htm). Our website at IDII contains many educational items, including useful sites, research, and books focus on supply chain software. See the IDII website at [www.IDII.com](http://www.IDII.com)