

Achieving Inventory Accuracy

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Two Messages Today

- Data must be accurate
- Best way to audit records

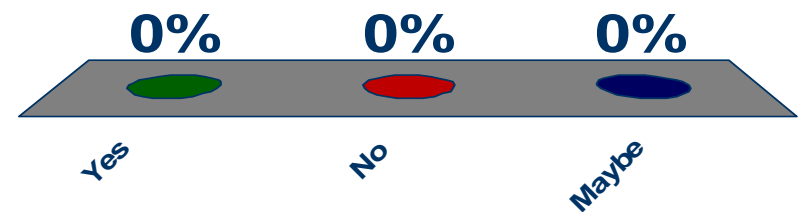
Is your company taking a periodic inventory?

- a. Yes
- b. No



Is your company doing cycle counts?

- a. Yes
- b. No
- c. Maybe



Data Integrity

- Customer data bases
- Suppliers data bases
- Bills of materials
- Inventory records

Data Integrity

- Lead time data
- Capacity data
- Information flows

Inventory Accuracy Calculations

Inventory Accuracy Calculations

Part <u>No.</u>	Shelf Inventory <u>Count</u>	<u>Record</u>
1	95	100
2	99	100
3	<u>101</u>	<u>100</u>
Total	295	300

**Accuracy = 295/300
Or 98.3 %**

Inventory Accuracy Calculations

<u>Part No.</u>	<u>Shelf Count</u>	<u>Inventory Record</u>	<u>Accuracy Calculation</u>
1	95	100	95 %
2	99	100	99 %
3	<u>101</u>	<u>100</u>	99 %
Total	295	300	

**Accuracy = Avg. of
the three
Or 97.7 %**

Inventory Accuracy Calculations

1. Financial (\$\$\$\$)
2. Planning (Units with tolerances)
3. Production (Units w/o tolerances)

Financial (\$\$\$)

Part No.	Unit Cost	Shelf Count	Inventory Record	Adjustment Unit	Adjustment \$\$\$
1	\$ 10	95	100	- 5	- 50
2	\$ 30	99	100	- 1	- 30
3	\$ 80	<u>101</u>	<u>100</u>	+ 1	+ <u>80</u>
Total		295	300		0

**No Financial
Adjustment
100 % Accurate**

Planning (Units w. Tolerances)

<u>No.</u>	<u>Tolerance</u>	<u>Shelf Count</u>	<u>Inventory Record</u>	<u>Within Tolerance</u>	<u>Outside Tolerance</u>
1	7 %	95	100	X	
2	3 %	99	100	X	
3	0 %	<u>101</u>	<u>100</u>		X
Total		295	300		

Accuracy = 2/3
Or 67 %

Production (Units)

Part <u>No.</u>	Shelf <u>Count</u>	Inventory <u>Record</u>	
1	95	100	Wrong
2	99	100	Wrong
3	<u>101</u>	<u>100</u>	Wrong
Total	295	300	

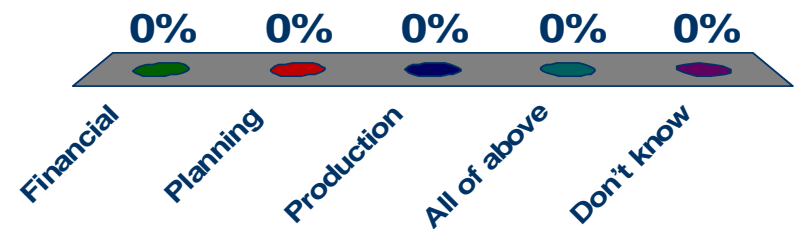
Accuracy = 0/3
Or 0 %

Sigma Levels

- Level
 - 6
 - 5
 - 4
 - 3
 - 2
 - 1
- Defects per Million
 - 3.4
 - 233
 - 6,210
 - 66,807
 - 308,537
 - 690,000

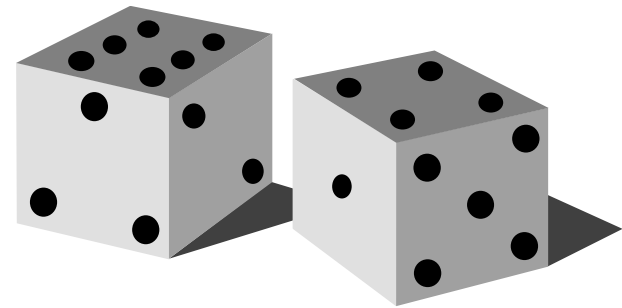
Which method of measurement does your company use?

- a. Financial
- b. Planning
- c. Production
- d. All of above
- e. Don't know



Auditing the Records

- The annual physical will adjust the records
- Cycle counting will correct the problems!

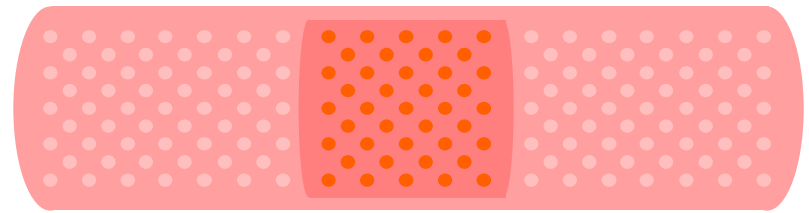


Why take a Physical Inventory?

FINANCIAL!

Physical Inventory

- Expensive
- Time consuming
- Exhausting
- Creates more inaccuracies



Cycle Counting

The Solution!

Cycle Counting

- Sample counts
- Every day
- Investigate as to cause
- Trained personnel
- Corrective action implemented



Cycle Counting Methods

1. Count and adjust
2. Quick fix
3. Long lasting accuracy

1. Count and Adjust

- Popular, but not effective
- Does not correct the record
- Does not identify problems
- Does not replace the need for a physical inventory

2. Quick Fix

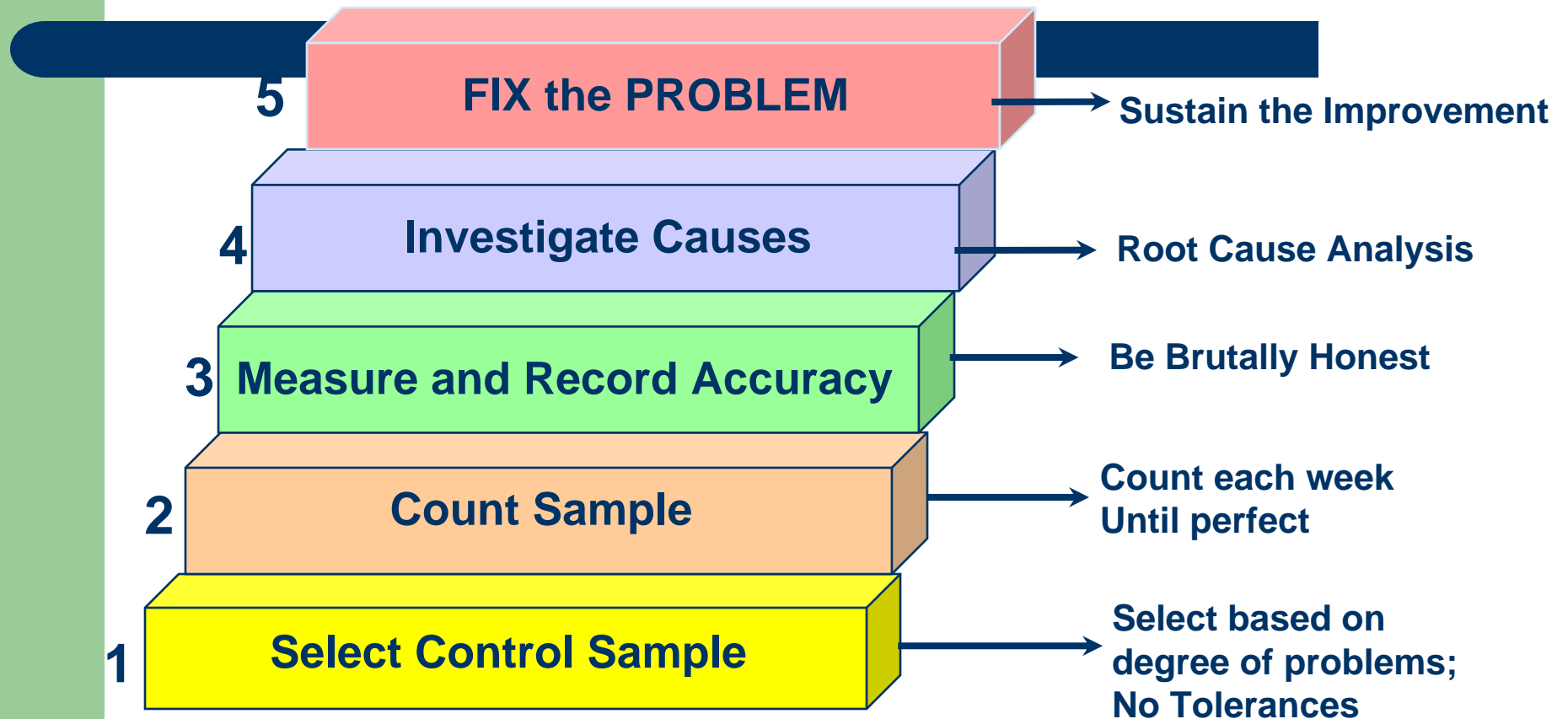
- Report honestly
- Don't use random generators
- Select with a bias for improvement
- Cycle Counting Done Right

Cycle Counting Done Right!

- A specific approach to fix serious accuracy problems
- A 5 - step method



The 5 Step Quick Fix Process



Quick Fix Method Summary

- If record accuracy is below 95%
- Control sample
- Count on a periodic and frequent basis
- Measure & investigate as to cause
- Performed by trained personnel
- Corrective action implemented
- Does not replace physical inventories




3. Long Lasting Accurate Inventory Records

- Accuracy maintenance
- Count frequency determined
 - “A” = 12
 - “B” = 4
 - “C” = 2
- Does replace the annual physical inventory!

ABC Classification

- 20% of the items = 80% of the value
- 30% of the items = 15% of the value
- 50% of the items = 5% of the value

Cycle Counting Frequency

- “A” = 12  4
- “B” = 4  2
- “C” = 2  1

Cycle Counting vs. Physical Inventory

Cycle Counting

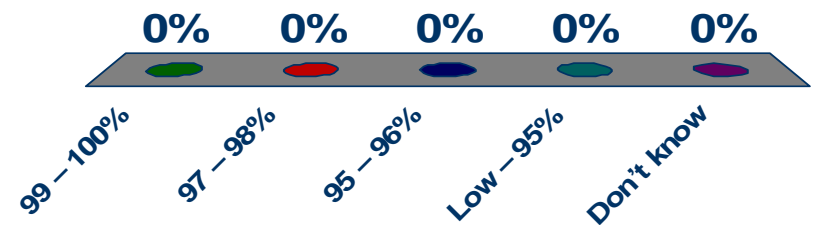
- Investigates the causes and fixes them
- Requires continuous effort
- Requires trained personnel

Physical Inventory

- Does not do a cause analysis
- Is exhaustive when done, but over a short time
- Everybody is involved

What's your Company's Inventory Accuracy?

- a. 99 – 100%
- b. 97 – 98%
- c. 95 – 96%
- d. Low – 95%
- e. Don't know



The End

- Thank You!

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