



Count It!

Frequent inventory counts mean better customer service, sales, productivity

More inventory cycle counts mean better data integrity. That contributes to improved store and supply-chain performance—so more retailers are doing them.

A December *Chain Store Age* survey of a broad cross section of retailers found 10% more companies—78% of all respondents—are performing both physical inventories and cycle counts. And the number of retailers who say increased cycle counting is an emerging retail trend increased 13% over 2002.

Why would this discipline—often seen as time-consuming, annoying, and expensive—be so well-received?

Because it works. It translates into higher margin, greater inventory-investment return, more effective inventory management, and more efficient supply-chain performance.

Data-Knowledge-Action

Scott Hardy, BearingPoint retail/wholesale managing director, says the retail-consulting firm's recent research (*Retail Horizons: Benchmarks for 2003, Forecasts for 2004*) shows retailers are depending more on consumer sales data—not just to track what's selling, but to develop merchandising strategies that directly link to operations and replenishment.

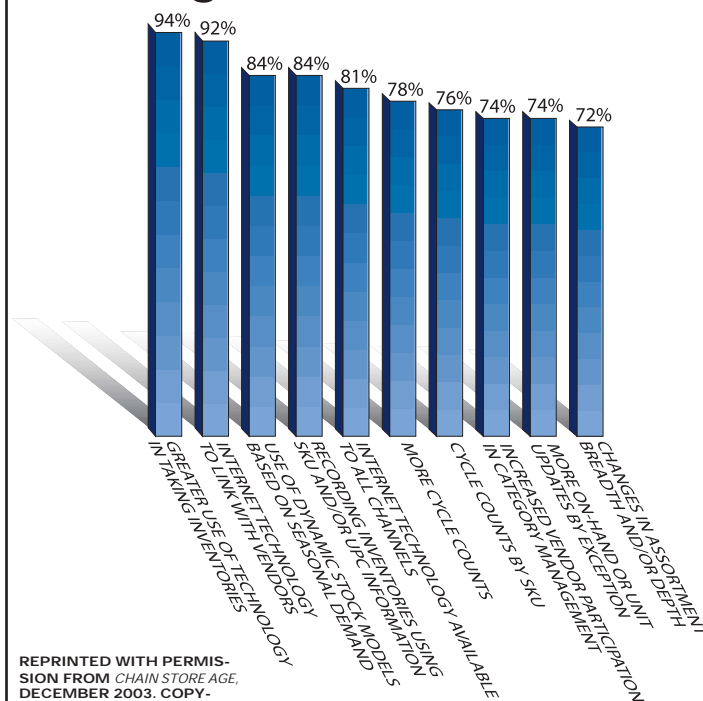
"Retailers are becoming serious about customer centricity," Hardy said at January's National Retail Federation convention. He says the ability to take overwhelming amounts of data, analyze it to gain knowledge, then act on that knowledge to better serve customers will be critical competitive factors.

Accurate inventory counts are key in that "data-knowledge-action" continuum. Knowing exactly what's on hand is essential in measuring demand and also affects product-mix planning, merchandising strategy, and most-efficient fulfillment, says Tim Blair, The Parable Group executive VP-general manager.

What's the Big Deal?

An age-old technique, cycle counting ensures optimum inventory accuracy. Inventory consultant Dave Piasecki says many >

Top 10 Emerging Inventory-Management Trends



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From the Retailer

Cycle counting is the difference between what's real, what's not

Mardel, the 19-store Oklahoma City-based independent, counts store inventory 51 times a year. Manually.

Mardel Operations VP Jason Green says retailers invest a lot on computers to track inventory and often ask: Why spend time checking what's on the shelf?

"If you spend money on computers and technology, but don't improve your in-stock level, does it do you any good?" he asks. "Cycle counts make the difference between what's real and what's not."

Cycle counting improves Mardel's inventory accuracy, which lets stores carry less inventory and react sooner to customer-sales trends.

Mardel stores average about 30,000

square feet and 45,000 SKUs. The company has installed a few POS systems, but Green says inventory philosophy isn't dependent on automated replenishment. "We're contrarians in that. We like that human intervention," he says. "The computer may be good to check against."

Accurate store counts mean that weekly orders to Mardel's distribution center accurately reflect stock conditions, Green says, and ensure accurate merchandise flow based on consumer demand.

Because of Mardel's just-in-time inventory emphasis, most SKUs have only one or two units stocked. If counts are off, ordering is off. "If we're out for

six months [and don't know it], how many sales did I lose?" he questions.

"The movement of goods throughout the entire supply chain is severely impacted by improper information," Green says. "Somebody has to pay the price for that. Ultimately, it's the consumer [who may or may not choose to pay it], but it's also the retailer, the publisher—it's everybody involved paying the price."

Green says there's a true need to drive down supply-chain costs and be good stewards of God's resources. "If a publisher gives good terms and dating, it doesn't make it the best option for anyone if our customers aren't buying the product," Green says.

< companies count inventory just to satisfy nagging accountants. "You should be counting to optimize your business operations and achieve high levels of customer service," he says in his book *Inventory Accuracy: People, Processes, & Technology* (Ops Publishing).

CBA Training & Development Manager Mike Hockett agrees, pointing out inventory accuracy is crucial to knowing what and when to order; measuring inventory and financial performance; and serving customers professionally with resources, knowledge, and credibility.

Increasingly, inventory accuracy also is essential for retailer-supplier collaboration.

Inventory and the Supply Chain

Melissa Lundie, The Parable Group's business intelligence department manager, says, "If the stores' operational management of inventory isn't good, then many of the other parts of the supply chain won't work."

A Parable-led supply-chain study discovered ways to reduce costs of getting product to stores—and helped identify cycle counting as an industry need. No one but the retailer can do it

and do it right, she says.

"Accurate inventory is critical for vendor-managed inventory, category management, industry forecasting, product development and manufacture, and other disciplines," she says. "One way or another, you must know the actual count on hand of an SKU to use these programs."

She says the entire supply chain needs to know how many products are available—or not—to properly manage inventory levels throughout the chain. That impacts not just what's going to stores, but also what returns to suppliers. Accurate inventory counts can reduce the volume and costs of returns.

She says cycle counting gives retailers and suppliers accurate data to analyze situations and develop effective solutions to increase sales through marketing and promotions, markdowns, returns, or other options.

"On-hand data is the beginning of the data stream," Lundie says. "If forecasting data is bad because of that, it just multiplies the effects throughout the planning and replenishment process. It will get exponentially worse as data goes up the stream. Cycle counts is where it really starts."

—ERIC GRIMM is CBA's retail technology strategist.

Cycle-Counting Culture: Make It Happen in Your Store

Employees are a determining factor in developing accurate, effective inventory cycle counting. Don't approach this haphazardly.

Beth Barrett, an independent human-resources consultant and former VP of The Container Store, says inventory training is part of employee training at The Container Store, a rapidly growing, profitable store recognized by *Fortune* magazine for two years as the best company to work for.

"Inventory accuracy is completely synonymous with great customer service," Barrett says. High in-stock rates fulfill customer expectations, and inventory data can

pinpoint product trends and sales velocities.

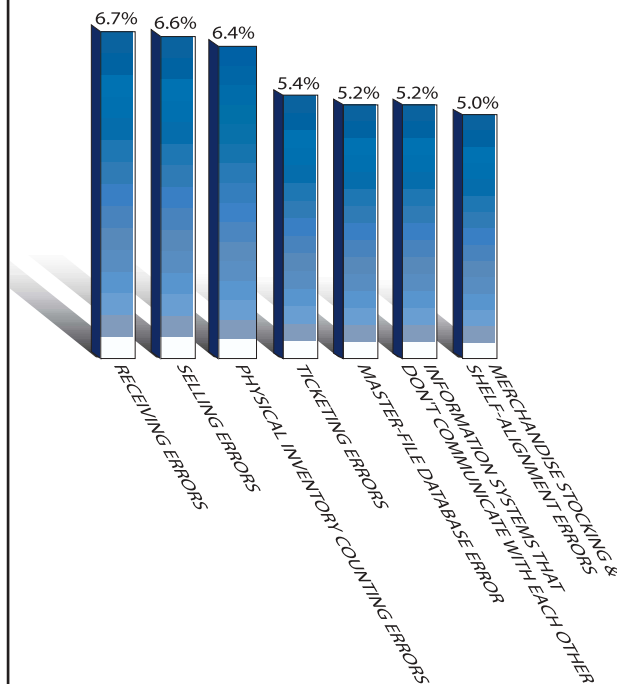
"A salesperson who's not only well-trained but has a sense of ownership in the business will care about this," she says. "If your employees don't care about keying in three different SKUs for similar items, your inventory could be off 60%."

Oriental and first training are crucial times to set expectations about employees' roles in ensuring accurate inventory and >

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Major Obstacles to Maintaining Inventory Integrity



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Misplaced Trust

The more accurate your inventory, the more confidence you and your staff will have in knowing they can find something, says Jay Weygandt of Logos Christian Bookstore (Springfield, OH). He stresses that your computer system must accurately reflect actual on-hand counts.

"It gets to be a [store] culture thing if everyone thinks the computer count is off," Weygandt says. "Then you have frontliners turning customers away because you can't find items, or you do a special order, which wastes time and money."

If you assume your computer is right, that directs you to look closer and harder for items. If you think you have something in stock and don't, you tend to delete items off the system because you think they're not

selling well. "It totally messes up your analysis of what's selling and what's not, and you get bogus information to make decisions on," Weygandt says.

His store recently implemented a wireless PDA system to synchronize cycle counts into his Bookstore Manager POS system, so Weygandt says he'll do cycle counts more often than three times a year.

"Sometimes retailers get so overwhelmed with things to do it's easy to let some things slide," he says. "Cycle counts can be one of them. What happens when you're out of discipline with that, though,

is it wastes so much time in other parts of your operation."

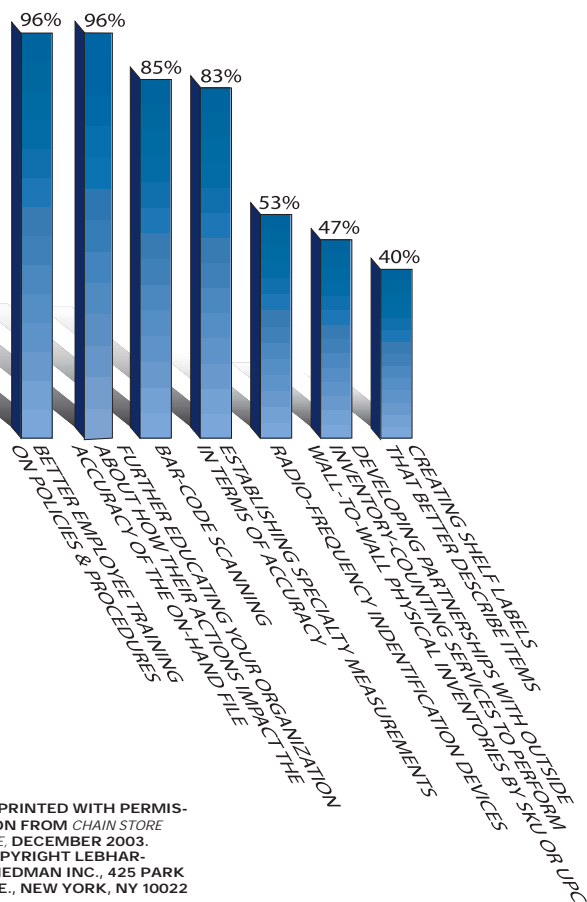
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The cost and time for frequent cycle counts could definitely be worth it, but each retailer must decide what's personally reasonable and most efficient, he says.

The Parable Group Executive VP-General Manager Tim Blair says

Parable has encouraged members to do cycle counts for two years. He says industry core-inventory initiatives and efforts to encourage highest in-stock rates on best sellers is grounded in cycle counting—knowing what's really on the shelf at any given time.

Effective Ways to Eliminate Obstacles



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< teaching them why inventory management is so important to the store's success, she says.

Inventory consultant Dave Piasecki says handing out a written procedure isn't employee training. He says inventory training should have clearly defined procedures, and employees should both understand and then demonstrate them.

Other Piasecki recommendations (see www.inventoryops.com):

> **Dedicate positions for managing inventory.**

This helps ensure you have the right people responsible for inventory quality and processes.

> **Control employee turnover.**

New employees make two to five times as many mistakes as one-year employees.

A big problem in retail, but retaining employees means fewer errors. Piasecki says new employees generally make two to five times as many mistakes as one-year employees.

> **Be prepared to reassign or dismiss employees.**

Don't underestimate the damage that can result from one staffer's errors. Make every effort to help employees improve their performance—but if they can't do it, get them away from your inventory.

> **Don't be afraid to put checks in place.**

Some areas are highly prone to errors; ensuring accuracy now can save you work later.

> **Know your inventory system.**

The more you know about your systems and technology, the better able you'll be to optimize staff and technology operations—and translate data into high performance.