

Accurate Inventory: Count on It?

Precise inventory is important, but counting is NOT the best way to get it

by Fred Heintz

Everyone knows you need inventory accuracy to run an ERP system, but is that the *only* reason? Is inventory accuracy necessary if your company uses a Kanban system? First, let's look at what inventory accuracy actually is.

Inventory accuracy is a measurement of the company's inventory control, which is essential to successfully running a business. For one thing, inventory control is required by the accounting department for auditing purposes. Accurately stating the assets (including inventory) of the firm follows GAAP (Generally Accepted Accounting Principles) practices.

So we only need accurate inventory for the bean counters? While complying with regulatory rules

is important, accurate inventory is essential in many other ways. For planning purposes, whether the planning is done via full blown ERP or on the back of a napkin, knowing the amount of inventory is crucial to make sure production runs smoothly. Even using Kanban, having an accurate picture of *all* inventory is needed. Everyone has a story of the guy who has an extra tool, or part, or supply, stashed away in case he runs short.

How is inventory accuracy achieved? The normal method is cycle counting. Cycle counting involves cycling through items based on an ABC classification, so A items get counted every month or week, B items every quarter or

cont. on page 2

Changing times, changing paradigms

by Tom Dzialo

It's been 30 years since the New United Motor Manufacturing, Inc. (NUMMI) plant began operations in Fremont, California. At the time, it was unclear if it would succeed, as GM had previously closed the failing plant. NUMMI would be a joint venture with Toyota, and it would be the first plant on American soil to use a Japanese style of manufacturing cars. A paradigm change had begun!

After 30 years, millions of vehicles, and thousands of jobs, it's clearly been a success; in fact, success was clear from the start. Just one year after reopening, quality, productivity, absenteeism, grievances, and other performance measures were dramatically improved. This was accomplished with rehiring of essentially the same work force and a new management team. Although many things were the same, there was one thing that was different: the paradigm.

As Stephen Covey points out in his book *The 7 Habits of Highly Effective People*, "Paradigms are powerful because they create the lens through which we see the world. The power of a paradigm shift is the essential power of quantum change, whether that shift is an instantaneous or a slow and deliberate process."

A paradigm shift is a change so basic that it affects everything in your world. Think of a paradigm shift as a change from one way of thinking to another. How does this correlate with our previous example?

cont. on page 3





Inventory, cont. from page 1

month, and C items once a year or quarter. The crucial factor is doing a correct cycle count.

The key to a correct cycle count is determining why there is a difference between the count and the book inventory. If this step is not done, then the count might as well be thrown away. "Wait," you're thinking, "We've at least trued-up our inventory right?" Well, maybe for today, if you have good counters. The point is if the root cause is not found when the inventory is inaccurate, then you can be sure it will be inaccurate again by tomorrow.

Let's emphasize that again. Inventory accuracy is only a measure of inventory control. The company needs control of its inventory to be successful. While doing a count should true-up the book inventory, if you don't correct the reasons why it is inaccurate in the first place, it is a sure thing it will be inaccurate as soon as another movement for that item is done. Finding and correcting why inventory is inaccurate is the only legitimate reason to count inventory. While certain industries have regulatory and/or compliance needs to perform periodic physical inventories, these full wall-to-wall counts are usually of little value.

Does your company perform a complete physical inventory every year or more often? Do these counts correct or muddle the inventory picture? Unless the counters are the same people who work in the warehouse or store-room, odds are the book inventory will be less accurate after the inventory. Everyone has seen people in retail stores who come in and just count. They are quick and inexpensive, and very often inaccurate. Does pulling someone from outside the company, or out of the office area, to count really make sense? Do these people know the items like the warehouse workers do? Scanning a bar code and

Creativity: It's not just for the arts

by Jill Kennedy

"To think creatively, we must be able to look afresh at what we normally take for granted."

- George Kneller

Creativity brings to mind art museums, theatre productions, artistic sculptures, and music, but there is also room for creativity in the workplace. Developing new products, designing more efficient processing techniques, and reducing costs are all by-products of creative thinking. More than ever, creativity can be key in growing your business.

Creative thinking does not depend on how old or young people are, or their level of education or even

their experience. It can, however, be dulled or encouraged by their environment.

Creative thinking comes naturally for some, while others need a little prodding. With the right management skills, however, you will be surprised at who might come up with something original and advantageous to the company.

Develop a process that everyone can access (perhaps as simple as a central email address) where anyone can send a suggestion. Set up a cross-functional team that meets on a scheduled basis to go through all of the ideas. Make sure that each

cont. on page 4

punching in a quantity does not guarantee an accurate count. Someone who knows if items are in the wrong area, or who know pallet patterns, or whether the package is a 50 count or 100 count, etc., are the people who need to count.

Now that we've determined who should count, why not do complete physical inventories? Again, why should you count if you don't correct the root cause of the inaccuracies? No one has the time to research all inaccuracies after a complete physical inventory.

Are your customers willing to pay for your company's inventory accuracy? No, and there is no reason to expect them to; however, indirectly they *are* paying as every count costs money. Taking a physical inventory is wasteful. Unless required for regulatory purposes, every company should be looking to eliminate complete physical inventories.

Does that mean no counting should be done? No. Counts should be used to determine inventory accuracy, which shows the level of inventory

control in the facility. The accounting/auditing departments should be demanding a true cycle counting process to prove, track, and improve your company's inventory control. This means counting, comparing the count to the book, and determining and correcting any processes that lead to count errors. True cycle counting not only shows your inventory accuracy, it improves it. For example, if a cycle count is done every day, and it shows inventory is off because receipts aren't keyed until the following afternoon, then it makes no sense to count if the process isn't changed to get receipts input earlier.

Inventory accuracy is important to business. It measures the control a company has over its inventory processes. It is amazing to think a company would allow a toolmaker to eyeball a measure instead of using a micrometer. In the same way, allowing inventory transactions to sit on someone's desk until they have time should also be unacceptable. Like any business process, inventory control is essential to making a company a profitable, successful venture. ■



Paradigms, cont. from page 1

When the new management team came into the picture at NUMMI, they had a new way of doing things. The old paradigm on how to manufacture cars was obviously a failure, so the new management team had to think differently. They turned to a central pillar of Japanese style of manufacturing, High Employee Involvement.

When management started to involve employees, they simultaneously put in place a new paradigm. By focusing on involving employees in day-to-day processes, NUMMI instituted a new culture and way of thinking. The employees were included more in the business and felt more appreciated, and therefore they wanted to work for the company. These practices were reinforced as the right way to conduct business, and, as a result, NUMMI put in place a healthy paradigm, grew, and became profitable.

This example shows how important paradigms are in instituting changes in employee involvement. If old ways of thinking are in place that cause low involvement, they must be redesigned. People in your company

need to look beyond the fact that this is how managers have “always done things” and be able to establish new procedures to increase involvement by all employees.

Keeping employees involved is crucial to morale. Instead of keeping people in the dark, when managers share information with employees, those employees feel like they belong. When people feel like they belong, they start to enjoy coming to work. Morale starts to increase. Like in the NUMMI case, this lowers absences and grievances because people are happy with their jobs.

High involvement of management with employees also increases productivity. When people enjoy what they do, they put forth more effort. Involving people not only gives them the knowledge to actually try to accomplish more, but when people are more knowledgeable, they also feel more comfortable taking on new tasks.

Employee involvement also brings out the potential in employees. When someone feels like they belong and that they matter, they will work

harder for an organization. Bringing out this potential can make the business more streamlined as well as more innovative. People who feel like their opinions matter will start giving suggestions for ways that practices can be improved — because they know people are listening to them.

These are just some of the benefits of higher employee involvement. Implementing practices like these leads to the formation of habits, which lead to new paradigms. In the case of NUMMI, management realized the habits that they wanted to instill in their managers. When they did this, they created a paradigm that led the company to great things. So the question arises: Does your business contain in its practices a paradigm that is as healthy as it could be? And if not, are you the one who is bold enough to start the change to help your company?

To improve, something must change. Change is a requirement wherever there is to be an improvement. Making change like that at NUMMI is not impossible. That is not to say it will be easy! ■

Book Review

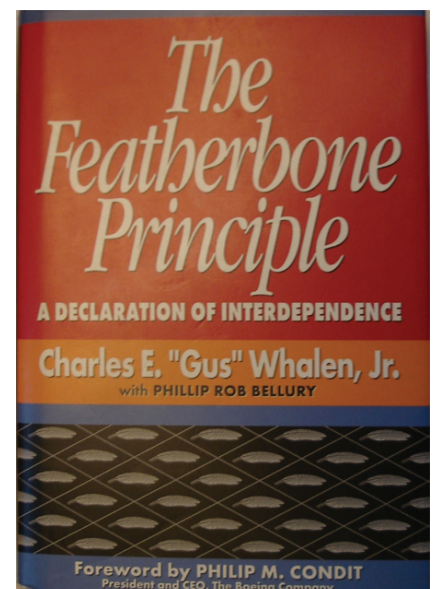
The Featherbone Principle: A Declaration of Interdependence

by Tom Dzialo

This book tells the story and evolution of The Warren Featherbone Company. It is an engaging read about a family business and the challenges, principles, and lessons learned over its hundred plus years. What makes the story so compelling is how the generations confronted the challenges.

As the title implies, collaboration and teamwork were essential ingredients in the company's success. Change, innovation, and supply chain management were embraced well before becoming popular buzz words.

Charles “Gus” Whalen, Jr., an entrepreneur, innovator, change agent, and popular speaker at national and international events, was previously chief executive officer of Alexis PlaySafe, Inc., part of the Warren Featherbone Company. He is an active proponent of local manufacturing as a major source of wealth creation, and through the Warren Featherbone Foundation, he has initiated Georgia's Manufacturing Appreciation Week, which is being adopted by other states across the country. ■





Creativity, cont. from page 2

email gets a response, to let people know that their input was taken into consideration. A response will encourage people to continue making suggestions.

Rotate people into different positions. Most people do their jobs the same way every day because that is how they were taught. Fresh eyes might see an easier or better way to do some of the tasks. They may ask some 'why' questions that prompt creative discussion and potentially lead to a better process.

Get involved in your employees' work. Listening to them will allow your workers to open up and feel that their ideas are of value to the company. Some employees might already be doing something on their own that makes them more productive, but

are insecure about passing that on to others. If management is more involved, they will be more comfortable about speaking up.

Brainstorming is a term that's been around since the 1930's. Done in the right way, it can be very productive. Set a defined challenge, gather a cross-functional group of employees, and provide a relaxed atmosphere. It's best to set a time limit and/or a number of ideas. Don't allow criticism and assure the group that no idea is a bad idea. Start the session and unleash the creative thinking!

Create a working environment that is open to new ideas. Micromanaging can stifle your people's imagination. Instead, encouraging them to "think outside the box" will have a positive impact.

Most people like to be recognized for

their ideas. For those ideas that are implemented, set up an award system. It can be monetary or as simple as a certificate. This will also encourage colleagues to get in on the act.

The need for creativity, from developing new products to innovating new ways of working, is key in growing the company, especially in these difficult economic times. Only those companies that can bring better value to their customers will grow. Only by tapping into your employee's creative solutions can you deliver more value to your customers. Use the inherent creativity in the organization to drive better value to your customer, better returns for the shareholders, and better working conditions for the employees. ■

Sixth Floor Consulting Group, Inc.

41 Arnoldale Road

West Hartford, CT 06119

(860) 233-7411

www.sixthfloorconsulting.com