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# Is a Cycle Count Program a Good Idea for Maintaining Your Inventory?

Consider the following scenario:

A lower middle-market distributor, with significant inventories held in three separate warehouses, has ongoing inventory systems in order to keep track of its complex inventories. At the end of each year, all locations halt shipping and receiving for one day while inventories are fully counted in order to update financial records.

As a trusted advisor to many middle-market distributors, what opportunities for efficiency and improvement do we see?

## Cycle Counts

Full physical counts, with presence of reliable-ongoing inventory systems, are burdensome and costly, and as a result are being phased out by leading distributors. Best practices in inventory management suggest that cycle counts should be strongly considered. If implemented and maintained properly, cycle counts enable companies immediate access to timely and accurate information regarding their inventories, which in turn helps companies to make better management decisions and improve the results of their operations.

Here are a few benefits of cycle counts:

1. Cycle counts limit the amount of operational disruptions, as there is no need to stop shipping and receiving while cycle counts are conducted.

2. Customer satisfaction around the holiday season will improve given lack of delay in shipping due to physical counts.

3. Cycle counts prevent material “surprises” – as counts are conducted, issues and root causes are identified and treated.

4. Implementing regular (ideally, on a daily basis) cycle counts allows for consistent and ongoing team training, which results in having a group of skilled individuals who are well versed in conducting those counts, identifying discrepancies and finding solutions.

5. Cycle counts can be tailored to focus on high-volume and high-dollar inventory amounts that are critical to business success.

6. High accuracy levels could eventually result in reduction in stock levels and working capital release.

7. Cycle counts maximize supply chain efficiency by allowing a company to know exactly how much to stock for customer demand, thereby reducing costs and increasing customer satisfaction.

Only effective cycle counts (those that produce variances of less than 3-5%), and cycle counts where all items are counted at least once during the year, could be considered as a substitute for a full physical count. In addition, before a cycle count program is implemented, a full physical count should be conducted to ensure companies start with accurate inventory numbers. The entire management team, including sales, finance and operations should be involved in reviewing initial cycle count processes in order to collect additional feedback. In addition, the management team should be consistently engaged in reviewing cycle counts as well as addressing any discrepancies.

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Many considerations come into play when considering the development of implementing an effective cycle count program, including defining proper parameters for item selection and frequency for an item being counted, setting acceptable thresholds for passing on differences, establishing appropriate processes and oversight over discrepancy resolution, etc.

At DZH Phillips, we can help you implement and maintain an effective cycle count system. Accounting systems, Enterprise Resource Planning (ERP), Warehouse Management Systems (EMS) and cycle counts procedures go hand in hand. Therefore, an in-depth analysis of the current accounting systems, ERP and WMS is needed prior to implementing a cycle count program to make sure the company maximizes efficiency and profits.

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