

InfoTrak

INFORMATION FOR BETTER DECISIONS

INVENTORY ACCURACY:

If you think poor inventory controls aren't costing you, you'd better think again...

When it comes to literature fulfillment, getting the right material, shipped to the right place, at the right time, is of critical importance. If you are part of the marketing program within your company, you understand that if material isn't where it's supposed to be within a critical timeframe, the sale and your company's credibility suffer. What many fail to realize is that close attention to inventory levels is what ultimately drives a company's ability to meet rigid time constraints and keep a marketing program within established budgetary parameters. In fact, accuracy in inventory is not merely *one* insignificant part of the literature fulfillment pie; it is, arguably, the *most* important part.

IMPACT OF INACCURATE INVENTORY

To many, when inventory levels are "close" to expectations, there is no cause for alarm. But this attitude is dangerous and there are many possible ramifications — all of them negative. A marketing support program based on inaccurate inventory information is a major cause of faulty planning and inaccurate budgeting:

- For example, suppose that you need to reprint an inventory item that has been identified on your inventory report as being at its established reorder point. If reprints are based on inventory data that is not factual, thousands of marketing dollars are potentially wasted on printing that (in reality) was never required. Perhaps more often the case, rush print charges occur for things that were never actually in danger of being depleted. Identifying reorder points at all becomes a relatively meaningless exercise since those numbers may, or may not, be based on real need.
- If your printed sales collateral isn't available to your field sales force, the sale and your company image are jeopardized. Once your sales people lose confidence in their ability to get the collateral that they need in a timely manner, they will do one of two things — both of them with negative consequences:
 - First, they will be less aggressive in their sales effort for fear of not having the collateral that they need, when they need it. Most certainly this negatively impacts the sales — and ultimately the bottom line — of your company.



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- And secondly, your sales force will probably order far more material than what they need in an effort to stockpile for future use.

A vicious cycle has been created which causes more insufficient supplies of inventory, more backorders and more frequent print runs. The net effect is a tremendous cost to your company and an unnecessary hit to your budget.

- Backorders are often seen as a mere inconvenience when they, in fact, represent something much more damaging. Every package that is shipped from your fulfillment location has a base rate attached to it. Additional weight in that same package represents only an incremental cost. When a backorder is created, a second shipment is required and the more expensive base rate is applied to that shipment rather than the incremental cost that could have been applied to the first package. At a minimal charge of \$2.50 per package, this cost is a consequence that can add enormous amounts of money to your freight costs each month. Not surprisingly, the biggest cause of backorders is inaccurate inventory reporting.
- Timely shipment of literature requests becomes a promise that is almost impossible to keep and delays become the norm rather than the exception. Regardless of the reason, inaccurate inventory data will inevitably cause fulfillment delays. Because your fulfillment operation is spending a significant amount of time looking for material that their system — whether electronic or manual — thinks it has, meeting timely shipment of orders isn't likely. The result? A black eye in the marketplace, low morale among your sales representatives and spiraling costs.

Your time is valuable and using that time to manage a broken process is a cost that can never be recovered. More importantly, it's time that could be spent creating revenues rather than expense.

HOW INVENTORY INACCURACIES OCCUR

Inaccurate inventory counts are the end result of poor control over all fulfillment processes. If precise inventory levels were merely a matter of taking better counts of incoming literature, fixing the problem would be easy. But the fix is not an easy one because the causes are varied and complex:

- A common phrase in today's computer-driven world is "garbage in; garbage out." If inaccurate and meaningless information goes into a data tracking system of any kind, then the information that's derived from that system will be inaccurate and meaningless. Nowhere is that more evident than in the receiving department of a collateral fulfillment operation. This is truly the place where inventory accuracy starts, and if

the procedures of this department are sloppy and imprecise, then every process from that point forward will be imprecise. Too often, a receiving operation will rely solely on the count indicated on the printer's packing slip presented at the time of the materials' arrival. Seldom, if ever, are these counts accurate. Did, for example, the printer indicate the ordered print run on the packing slip, or did he include a $\pm 10\%$ overrun? Do each of the cartons delivered contain exactly the same count of material? *Chances are they don't, and if your fulfillment house doesn't take the necessary time to verify the counts on all incoming material, the wrong quantity will be placed into inventory and the system — whether it be manual or electronic — will believe that it has material that it really doesn't have.*

- In an ideal world, manually pulling orders should be a simple and accurate process. In reality, pullers can make small mistakes by over or under-pulling in small, almost negligible percentages. It stands to reason then, that when an active inventory item is "hit" many times during any given day, the resulting impact on inventory can be significant. If those discrepancies go undetected, over time, the result will be rush print jobs caused by "surprises" and an increased number of backorders. These discrepancies can be minimized, however, as the result of an ongoing and highly focused physical inventory procedure. If your fulfillment vendor does not have a procedure in place for systematically auditing inventory counts, chances are very good that large discrepancies will exist between inventory levels being reported and actual quantities on-hand. A couple of extra pieces here, a few short there, left undetected or uncorrected, will lead to serious inventory problems. If small discrepancies occur every day, doesn't it make sense to make the necessary inventory adjustments every day? When an order puller goes to an inventory location and finds a quantity of material that is different than that being reported by the computer, it's imperative that the item be locked so that immediate adjustments to the inventory can be made before additional orders are pulled. *If that's not happening, than your inventory is destined to be a continuing source of frustration — a frustration that you don't need.*
- Does your fulfillment house store more than one stock number in a single location? If they do, you are likely to experience order errors and serious inventory issues as a result. To obtain the best pricing possible, many companies use a few select printers to print most of their marketing collateral. Have you noticed that almost all of the material that they ship to your fulfillment supplier is packed in cartons that, except for size, are exactly the same? If your vendor then receives and stores this mixed collateral in a single location, how can you even begin to hope for accuracy in the pulling process? It's only a matter of time before items are confused and material is shipped incorrectly. *When orders are wrong, inaccurate inventory and increased costs will naturally follow.*

- In any fulfillment operation, regardless of size, return of shipped orders occurs. People move and addresses change; it's a part of doing business. But what happens when orders of your material are for some reason returned to your vendor? When the material is placed back into a warehouse location, is a physical adjustment made to the entire inventory for that item? *If that's not happening, then your inventory counts are probably not accurate.*

HOW TO KNOW IF YOU HAVE AN INVENTORY PROBLEM?

Chances are that if you have a problem with inventory accuracy, you are very aware of it. The ongoing stress and financial burden that it causes has become an unpleasant part of your daily work environment. Sometimes, though, you can be unaware that a problem exists until it becomes too large of an issue to fix quickly and without major ramifications. However, if you know what to look for, there are signs that indicate a current problem or serious inventory issues on the horizon.

- How often do you get calls of crisis from your fulfillment supplier or sales representatives indicating insufficient inventory of a popular literature item? Sometimes there are legitimate reasons for stock being low. But if the calls are unexpected and occurring with a growing regularity, there is a strong possibility that you are looking at a potential problem. One or two rush printing requests a year because of inventory surprises are probably no cause for alarm. But if such instances are happening more often than that, you may have a lurking inventory problem that is costing your company valuable dollars and resources.
- Do you receive inventory reports on a regular basis? If you do, do you have confidence that the inventory levels being reported are accurate? If you are being told more often that you have different on-hand quantities than what the inventory report is showing, you have a problem. If your inventory reports don't come regularly, perhaps there is reason for investigation. If inventory reports aren't occurring regularly, perhaps it is an indication that inventory accuracy is not a high priority — a real cause for concern.
- Are your backorders increasing for inexplicable reasons? Sometimes backorders are caused by internal issues. But if they are caused by insufficient inventory levels that are deemed “surprises,” it is not only costly, but it's indicative of a very real inventory accuracy issue.

WHAT YOU CAN DO TO CORRECT AN INVENTORY ACCURACY PROBLEM

Inconsistently accurate inventory levels are not pleasant. When problems occur, it's a difficult situation for you, your supplier and your sales force. Fortunately, there are several steps that you can take to control the problem, make your life easier and cut unexpected costs:

- ***Begin by asking your current supplier to fully explain the processes that he employs for receiving your material into inventory.***

If he doesn't already do so, require that he put those processes in writing so that everyone within his company adopts the procedures as part of a standard operating process. If the receiving department is not operating within strict and published guidelines, the receiving process will be haphazard, at best.

- ***Understand your vendor's procedure for pulling orders and what chain of events occur when there are count discrepancies during that process.***

Again, require that all procedures be documented and strictly enforced so that the same process is followed by everyone who touches your printed material. Your vendor has the right to run his company as he deems best, but the marketing collateral that he ships is your collateral and you have invested hundreds of thousands of dollars in the development and printing of this material. In many instances, your vested interest is as large, if not larger, than his. You need to make sure that he is as concerned about your literature as you are!

- ***Finally, and perhaps most importantly, require your supplier to perform regular inventory audits.***

Just as your company engages in regular financial audits to make sure that the financial side of the business is running as it should, you should require regular collateral audits to gather inventory and operational performance data. This will insure that your marketing literature program is healthy and running smoothly. The bottom line is that, unless you have the utmost confidence in the inventory reports being supplied to you, they become relatively meaningless and useless as a management tool. Visit your vendor at least two times a year to physically compare the counts on his supplied inventory reports with the material that's actually in location. A solid audit procedure can be complex, but if performed correctly, it will insure the integrity of your inventory and help shield you from costly surprises. Following are some things that a good audit should determine:

1. Are all processes in the fulfillment operation — receiving, order pulling, and adjustments — in writing?

2. Are there orders in “committed” but not “pulled” status? How long have they been there? Why have they not been pulled? If the inventory has been committed to the order, yet the order hasn’t been pulled, you have inventory in limbo. Over time, this can lead to grossly misrepresented inventory levels.
3. Are there orders in “pulled” but not “shipped” status? How many are there and why haven’t they been shipped?
4. Are there receivings that are still considered “open”? If material has been placed into location yet the transaction has not been closed, your inventory reports will not include those items.
5. Are there stock numbers on hold? Is there a legitimate reason why? Items on hold, depending on the system, will not show up as available inventory. You need to know this since you will be making printing decisions based on the available data.
6. Is your vendor receiving a number of order returns? How are they being handled?
7. Spot-check several pallets in location. Are multiple items being stored in the same location? Does each box on that skid have the same number of pieces? If they don’t, your counts are wrong.
8. Request a report showing the counts of each item in inventory, by location. Go to these locations and make sure that the item that should be there is actually the one in the location. Then, physically count the material to make sure that the quantity matches what the report is showing. Is it generally higher than reported (indicating that orders are being shorted) or lower than reported (indicating that more material is being shipped than requested)? Either way, if location quantities differ from reported quantities, you have an inventory accuracy issue.

Ongoing inventory problems are costly and annoying. You have a huge time, effort and dollar investment in your marketing collateral and it’s critically important that the fulfillment program runs smoothly. It needs to be dependable. Sales and your reputation — and the reputation of your company — depend on material being where it needs to be, when it needs to be there. Act today by taking the necessary steps to eliminate inventory problems so that you have control of your collateral fulfillment program, and *it* doesn’t have control of you. 🌀