IDEAS>>>

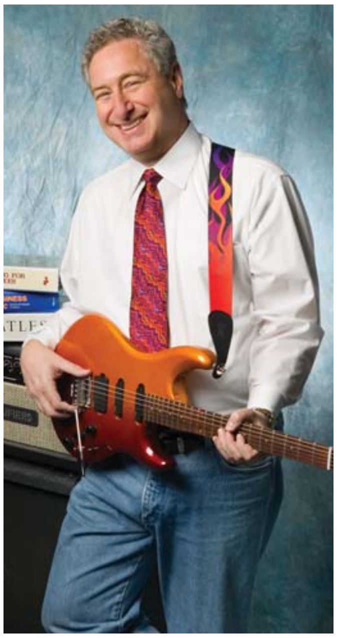
ASK ALAN | BY ALAN FRIEDMAN

Won't Get Fooled Again

I think it's safe to say that most music product retailers recognize the importance of inventory accuracy — that is, having the quantity of an item in your computer agree with what's actually in stock.

But retailers go wrong thinking that if they implement some cool, new technology, like inventory tracking software, bar coding or even RFID (Radio Frequency Identification), they've cured all of their inventory inaccuracy woes. Granted, new technologies can help reduce errors and improve a store's overall inventory management. But none of these technologies will completely eliminate accuracy errors, and a poor system can leave you worse off than before you'd spent all your time and hard-earned cash on it.

Before putting any new inventory management technology into effect, most music store owners need to take a step back and address some basics of inventory accuracy.



Getting in tune with the straight and narrow through inventory accuracy

As part of my continuing inventory management series, this article will deal with these basics and "best practices" of inventory accuracy. And in keeping with my recent "British Invasion" theme, I'll honor those four amazing musicians — Roger, Pete, Keith and John — who top my "who's who" list of who's great rock. You know who I'm talking about, don't you? Who? Yes, The Who! Whatever. I mean, whoever. Or is that whomever?

GETTING IN TUNE

My generation of music retailers isn't always in tune with the importance of inventory accuracy. They sometimes forget that lurking behind blue eyes is a quadropehnia of bad things that happen without inventory accuracy.

To start with, time is wasted. Having sales staff run back and forth to the stock room to see if an item is really in stock takes them away from more important work. In some cases (like when a retailer is "going mobile"), the staff can't even walk to the storage area because it's in a remote location.

If everyone is running around, they can't answer phone calls or help other customers who've come into your store, waiting to be helped.

And let's not forget about your customers' time being wasted on the phone while you check stock status. Do you really think they enjoy waiting on the phone listening to your 10-minute advertisement of how you're committed to customer service, when all they want to know is if an item is in stock?

Second, money is wasted. If inventory is lost somewhere in your store, whether through misplacement, theft or breakage, it now needs to be replaced. Replacement inventory is no longer an asset, it's an expense. Unexpected inventory shortages, called inventory "shrinkage" (or "shrink" for short), usually run 1–3 percent of annual sales, but can easily run 5 percent or higher for stores that have no handle on their inventory.

Worse still is the amount of additional sales that need to be achieved to make up for any inventory shrinkage.

Take the music retailer who does $1 million in annual sales and a 3-percent shrink; they're losing $30,000 ($1,000,000 multiplied by 3 percent, or 0.03) in lost or stolen inventory each year. If they're selling at a gross profit margin of 30 percent, they need to do an extra $100,000 in sales ($30,000 divided by 30 percent) just to make up money lost in inventory shrinkage. And that's without any additional selling costs (like sales commissions and advertising) they'll probably incur to achieve that extra $100,000 of sales.

Tommy, can you hear me? Can you see the real me? In reality, our million-dollar retailer needs to do closer to $150,000 in additional sales to make up their $30,000 shrink loss.

Third, and arguably the worst result of inventory inaccuracy, is disappointed customers. If you fail to deliver a product because your computer erroneously told you it was in stock, the only thing you're going to get, in addition to your lost revenues, is a frustrated customer.

If it happens often enough, you'll lose your reputation as a reliable source of product, which is great way to increase your competitor's sales. What makes this worse than wasted time or money is that even after you fix the bleeding of time and money, you often can't fix a lost customer. The song is over.

Now that you can see for miles the importance of inventory accuracy, how do you convince your employees that it's important?

Three ways, my pinball wizard. First, teach them why inventory accuracy is an essential element to your company's success and that their professional futures depend on it. Second, implement tools and "best practices" to achieve inventory accuracy. Last, provide economic incentives for maintaining inventory accuracy so employees won't just fiddle about.

WHO'S (OR WHAT'S) NEXT?

Having the right attitude is the first step to inventory accuracy. Just like carrying quality products and striving for incredible customer service, inventory accuracy must be promoted throughout the store as everyone's responsibility.

The kids will be alright if this attitude starts at the top, with management clearly defining all processes that affect inventory. Given that even the most accurate employee will make errors, management should look for opportunities for errors to occur and implement changes to eliminate or reduce them.

Next, document the procedures you want your employees to follow to maintain inventory integrity. Address all of the physical aspects of your inventory, from its order to its arrival to its storage to its eventual sale. Your written documentation should include everything that each employee needs to know to perform his or her inventory-related tasks.

For example, if your shipping and receiving clerk's responsibility is to notify the owner of any discrepancies between what was ordered and what arrived, that should be stated in the clerk's job description, even though there will be additional procedures for dealing with these discrepancies.

Remember, these written procedures are not a wish list; you should be prepared to enforce their compliance. Accordingly, make sure to take your time to get them right the first time by involving knowledgeable staff in documenting the "correct" procedures.

Once you've finished the documentation, start training staff. Handing out a written procedures manual doesn't constitute training. Set a training schedule so you can thoroughly go through all of these procedures with employees. Make it clear that what's in the procedures document is the only way to perform these tasks. If you did your job correctly in properly defining the processes and documenting the procedures, you shouldn't run into many surprises during the training.

Once implemented, start monitoring employee compliance with your "only way" to do it. Any actions from employees that don't comply with the written procedures should be addressed right away. Allowing employees to do it "their way" will only make it impossible to enforce compliance on other issues and create confusion and frustration among the employees trying to follow the rules.

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If an employee does, in fact, come up with a better procedure, consider it for the next scheduled revision (perhaps at six-month intervals), at which point his or her way would become the new "only way."

Also, try to set minimum inventory accuracy standards, such as "Our store's inventory shrinkage will not exceed 1.5 percent per year." The best way to measure a store's performance against these standards is by conducting a physical count of the store's inventory.

Whether you set standards or not, you should always track inventory accuracy and communicate it on a timely basis to your staff. By doing so, you'll undoubtedly see immediate reductions in errors, even if standards aren't established.

We all want to be accurate; the problem is we all think we're being accurate, and it's always the other guy who's making the mistakes. Hold your staff accountable for following the inventory-handling procedures. You'd be amazed how fast inventory can get screwed up when one person doesn't follow the rules.

Last, make sure you count your inventory and make sure you count it often. You probably think if you implement the steps outlined above then it's safe to assume your inventory is relatively accurate. Not true, Sister Disco. The only way to determine the accuracy of your inventory is to physically count it.

Also, physical inventories that are only taken at the end of the company's fiscal year (usually at your accountant's request for financial and tax reporting purposes) do little to ensure inventory accuracy. You need to count your inventory on a continuous basis if you want to maintain high levels of accuracy. These periodic counts (called "cycle counts") are one of the best ways to identify problem areas on a timely basis and promote an environment conducive to continuous improvement.

This is such an important topic that I plan on covering it in much greater detail in the next follow-up article, along with implementing the right tools and incentives to achieve and maintain inventory accuracy.

I'M FREE

You better, you better, you bet you don't have to get on a magic bus to achieve inventory accuracy, Baba O'Reilly. By following these simple steps, you'll achieve the bargain of higher levels of inventory integrity.

And remember, this is not something that should be rushed into another tricky day. The quick-fix approach may be more damaging in the long run since the success of this plan requires a cooperative effort by several people within your organization.

So forget the squeeze box by putting up an eminence front. Let your inventory accuracy love reign o'er me. **MI**

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