

Inventory Management

Data Integrity - The Physical Inventory Issue of Today...and Tomorrow

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The physical inventory of merchandise in the store is each retailer's primary asset. How that asset is managed will likely determine the success of the retailer. This has always been the case. However, the explosion of technology in retailing has amplified both the benefits of physical inventory asset management and the down-side of inaccurate inventory information.

Historically, inventory information was developed at each store for financial reporting purposes, and was not kept at the unit or line item level of detail. Now many retailers are controlling their physical inventory by SKU or UPC item number. The SKU masterfile maintains a quantity on-hand for every item. This quantity on-hand controls and initiates the programs for automatic replenishment and much of the store's merchandising activity.

Inventory integrity is the accuracy of each item's quantity on-hand in the store masterfile. This quantity on-hand is initially determined by a physical count of the entire store at the SKU or UPC level. It is maintained between inventories by adding goods as they are received, subtracting items as they are sold and properly identifying and recording returns, markdowns and damaged goods. Periodically, another physical inventory count is performed to update the on-hand file for each item.

The masterfile quantity on-hand for each item drives the automatic replenishment process at the store. The benefits of programs such as Automatic Replenishment, Just-In-Time Replenishment and Quick Response are well known and include:

1. Reduced inventory in the store.
2. Improved cash flow - not spent on excess inventory.

3. Reduced store labor - not handling excess inventory.
4. Reduced store labor - price ticket removal.
5. Correct item pricing - price look-up.
6. Reduced/eliminated out-of-stock of items.
7. Improved in-stock of merchandise.
8. More competitive pricing.
9. Improved customer satisfaction - items are available.
10. Increase sales to the customer

Tomorrow's successful retailers will demand these benefits.

If the retailer's masterfile quantity on-hand data is accurately maintained, the benefits are assured. If the quantity on-hand is not accurate, the system will automatically order more of items already instock and not order enough of items in short supply. The result is fewer benefits, and in fact worse merchandise and sales conditions than originally existed.

Because of this heightened importance of creating and maintaining this on-hand masterfile, many retailers are forming partnerships with manufacturers and third-party inventory services to increase the accuracy of the physical count, and to improve the maintenance of the on-hand file between inventories.

These partnerships are also including representatives from many functional departments within the retailer's organization such as store operations, internal audit, loss prevention, and inventory accounting. These partnering teams investigate the factors that impact on-hand data integrity and develop

procedures, programs and actions to assure the benefits noted above are achieved.

These partnering teams are looking at ways to impact the main causes of inventory data mistakes which include:

1. Selling errors - two different but similar looking items are being sold by twice scanning the barcode of only one item. This selling error causes the on-hands to be understated for the item scanned and overstated for the item not scanned.
2. Receiving errors - items that appear similar when they arrive at the store are grouped to a single SKU or UPC and cause an understatement and overstatement in the on-hand file.
3. Merchandise stocking and shelf alignment errors - each item has a "home" location on the shelf, peg or display. A shelf label identifies the location and provides a description to help stock and align the items on the shelf. When items are misaligned or mixed together, there exists an increased chance of inventory counting error for the item.
4. Masterfile data base errors - the masterfile may not contain all of the SKU or UPC numbers for merchandise located in the store. When selling, receiving or counting items not found in the masterfile, the use of a generic SKU number to speed the flow will result in an on-hand error.
5. Physical inventory counting errors - the inventory counter groups two similar looking items and combines them to a single SKU or UPC. This usually happens because of misalignment and/or mixed product on the shelf peg or display.

These partnering teams are also looking at ways to eliminate these inventory related errors. The selling and receiving mistakes are eliminated by educating store associates on how their actions impact the accuracy of the on-hand file. This education and awareness

will enhance the discipline of store personnel to maintain an accurate on-hand system, every day of the year.

The merchandise stocking and shelf alignment errors are being addressed by creating shelf labels that include a better description of the item so it is easier to identify where the item should be stocked. These shelf labels may include the item's style number or other identifier.

An even greater opportunity to impact the alignment problem exists by partnering with the manufacturers to package their product with bright color differences for different items. When items are differentiated by bright colors, it is easy for stocking associates to see the item that is misaligned and stock it to its home location.

Store personnel who are doing pre-inventory straightening can easily see the items which are out-of-place and can properly align the same goods on each shelf peg or display. Retailers are working with manufacturers to color differentiate their products to aid in proper stock alignment and in identifying similar but different items at the check out. This partnership between the retailer and manufacturers will enhance the on-hand data integrity and assist the third-party service doing the physical inventory count in the correct separation of multiple items.

The remaining causes of inventory data errors of the on-hand file are related to the periodic physical inventory or count of merchandise in the store. The primary way to correct the on-hand masterfile is to perform a wall to wall physical inventory and count each item by its SKU or UPC number. Many retailers have developed partnerships with outside inventory counting services to perform their physical counts. These services provide a third-party independence that is especially beneficial for chains that cover a wide geographic area. It is possible for store employees to manipulate inventory results; the outside service is motivated to count only the merchandise that is actually in the store.

Recent surveys of retailers have found that 70+% of chain retailers in the United States utilize an outside counting service for all or part of their physical inventory program. Our experience is that more retailers are converting to using an outside service, especially as the demand for SKU or UPC level inventories has increased. The independent inventory counting services have developed special purpose handheld data terminals and in-store PC's that run unique software. These inventory-specific counting and exception reporting systems are designed to help the inventory counter do a more accurate job, and to identify missing and incorrect data in the store masterfile.

The service can afford to make the capital investment in these systems as their associates utilize it for many different retailers throughout the year. This full utilization of the equipment also translates into a more accurate physical count since the third-party service associates are highly trained and experienced. Counting inventory is their retail job.

In summary, the benefits of an accurate automatic replenishment system are significant now and will likely become even more important to all successful retailers in the future. The key to achieving the benefits of reduced inventory, better in-stock position, reduced costs, and increased sales is a store masterfile that maintains an accurate quantity on-hand for every item. The accuracy and integrity of this on-hand quantity is impacted by the training, awareness and discipline of store associates; by the packaging, color coding and marking of product by the manufacturers; and by the counting accuracy of the associates and third-party professional inventory service that performs a periodic physical SKU/UPC inventory. The accomplishment of this task lends itself to a partnering team effort between the functional departments within the retailer, the manufacturers who package and bar code the product, and the independent inventory counting service that maintains the people, equipment and software to enhance the counting process. This TEAM, working together, will assure data integrity.



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