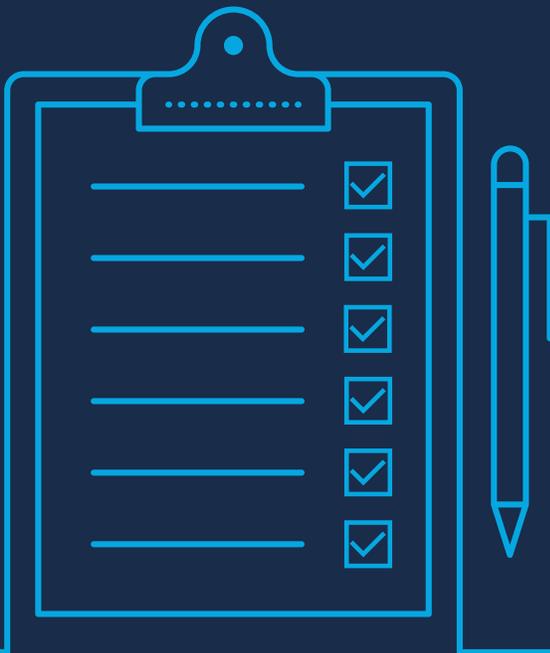




Unlocking Inventory's Potential

Fundamentals and Advanced Techniques of Inventory Management



MANAGING INVENTORY:
PHYSICAL INVENTORY AND CYCLE COUNTS



INTRODUCTION

This white paper is the first in a series of three. The series provides retail operators with ways of unlocking their forecourt and in-store inventory's potential by returning to fundamentals and exploring advanced inventory management techniques. We hope these white papers provide useful information to help retailers evaluate or reevaluate their inventory management programs while educating others within their organization about the importance of inventory management techniques and technology.

The information, lists, and tips contained in this series help retailers to avoid the common pitfalls of managing inventory. It also enables operations to see new opportunities which can revitalize an inventory management program. When done correctly, operations can be used as the secret ingredient, creating new value and setting a retailer apart from the competition.

Why is it important to review inventory management programs? Things change such as consumer tastes, expectations, competition, and regulations. Things can be mismanaged such as shrink, spoilage, planning, and communication. Errors are also all too common with deliveries, invoices, pricing, data entry, orders, and accounting. Read on to learn how a retailer can track and react to these forces.

Supplier errors can start at the warehouse and carry through to a retailer's financial reports, overstating the inventory on-hand. Per WERC, the typical Perfect Order Completion Index is between 91.1 and 98%. A perfect order is measured by being on time, complete, damage free, and having accurate documentation. (1,2)

WHEN TO USE INVENTORY COUNTS

Retailers do physical inventory counts to track inventory shrinkage and spoilage. These counts capture an entire store's inventory on a yearly, quarterly, or monthly basis. They are performed to set a baseline and to meet operational, accounting, and tax reporting requirements. Cycle counts and perpetual inventory systems break down inventory in groups which are then counted on a scheduled rotation. Cycle counts enable retailers to obtain more timely and accurate inventory information.

Convenience stores have an average of 1,400 transactions per day or almost 44,000 per month.⁽⁴⁾ With such a high volume, it is important to keep track of inventory to uncover theft, spoilage, and operational issues in a timely and accurate way.

WHEN TO USE CYCLE COUNTS

Since cycle counts focus on a category or group of items on a scheduled rotation, the information uncovered can help to manage high-risk inventory, such as lottery tickets and cigarettes, or for operational reasons. Once the cycle count tickets are processed within the perpetual inventory system, retailers can use the information to quickly uncover and resolve:

How much of a problem is shrink? The NRF reports US retailers lose over \$45.2 billion a year to shrinkage or 1.38%.⁽⁵⁾ Convenience stores average 0.9% in merchandise shrink and 1.2% in spoilage.⁽⁴⁾

- Shrinkage and spoilage
- Cashier POS scanning errors
- Vendor picking, delivery, or documentation errors
- Retailer data entry errors including inter-store stock transfer errors
- Changes in demand for inventory (overstocks, out-of-stocks)



KEY INVENTORY MANAGEMENT QUESTIONS TO CONSIDER

- How is merchandise inventory currently tracked?
- How often is inventory reconciled?
- Is a back-office system used and updated with inventory information?
- How are scan rates tracked to ensure compliance?
- Does the price book have PLUs set up without UPCs?
- How are invoices received and processed?
- How are managers trained to look for errors when accepting invoices, checking supplier costs and quantities?
- How are new UPCs captured from supplier invoices?
- How are parent-child relationships measured such as a carton of cigarettes versus a pack?
- How are items categorized and tracked?
- How are transfers between stores, if any, managed?
- How is spoilage tracked?
- How are retail prices updated?
- How are outstanding credits from suppliers tracked?
- If an existing price book exists, is the handheld device synced?



THE PHYSICAL INVENTORY COUNT PROCESS

STEPS TO TAKE BEFORE THE PHYSICAL INVENTORY COUNT

1. Plan your inventory for the day of the week when your inventory is at its lowest. This is usually the day before your main supplier's delivery date.
2. Consider hiring an outside company to do, at least, an initial item inventory count. This initial item-level inventory count is to create a baseline, starting point.
3. Discuss the inventory process in advance with the counters such as the ways to count, what to count first and what should be counted last.
4. Prepare count cards and place them in the areas that will be counted. Index cards work well as count cards.
5. Create a diagram of the store layout so that areas are counted the same way each time.
6. Create displays, keeping like products together, such as 12 packs of Coke, 12 packs of Diet Coke, etc., versus in separate rows and/or mixed throughout the store.
7. Organize, clean, and place UPCs in the inventory counter's line of sight. This applies to UPCs in your backroom, cooler, backstock, and other areas of the store.
8. Use cardboard insert in dump bins to separate like products for easier counting.
9. Ensure cashiers understand scanning best practices such as scanning items by their individual UPC. For example, since three Gatorade flavors each have their own unique UPC, they should be scanned separately, not as one flavor (UPC) for all three.
10. Cashiers should also be trained to properly process returns by refunding the item and then ringing in the new item. For example, if a cashier scans a Marlboro pack but the customer wants Marlboro Lights, the cashier should first refund the Marlboro pack, and then ring up the Marlboro Lights pack.

STEPS TO TAKE DURING AN INVENTORY COUNT

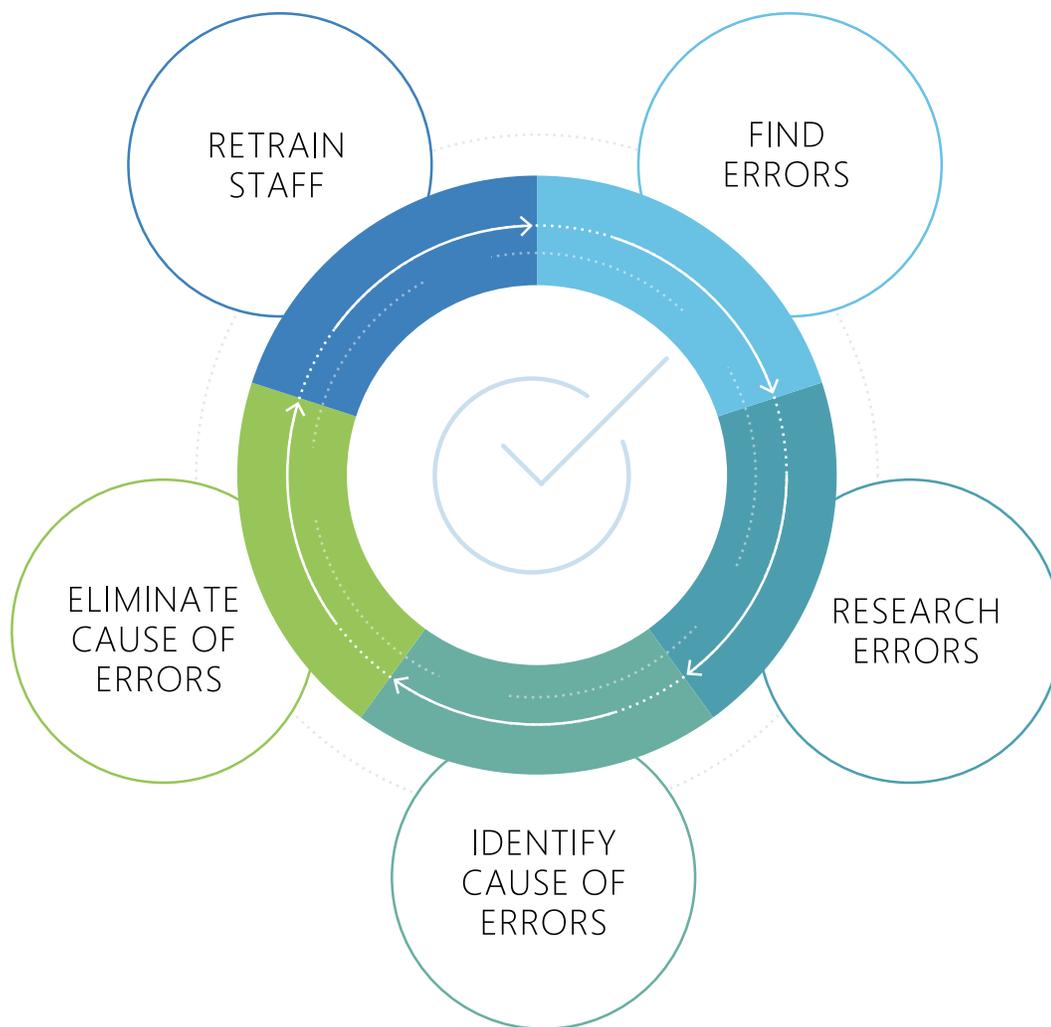
1. Close the shift right before the inventory count is started.
2. Open a new shift.
3. Count each section at a time, then place a count card in the section to flag the area as counted.
4. Use handheld scanners for the inventory count and sync the handheld devices after each section is counted. This helps to safeguard the data during the count if the scanner's battery dies or experiences a technical problem.
5. Do not move inventory during the count and/or stock shelves.
6. Close the shift when the inventory count is complete.

THE PHYSICAL INVENTORY COUNT PROCESS

STEPS TO TAKE AFTER AN INVENTORY COUNT

1. Print out the items missed report.
2. The supervisor, manager, and counters should all review inventory discrepancies together and sign off before inventory is processed.
3. Process the count as a Full Inventory in the back-office system.
4. Find, research, and identify the cause of the error(s).
5. Eliminate the cause of the error(s).
6. Correct parent-child relationship and pack size errors. Retrain staff to avoid future errors.

THE PHYSICAL INVENTORY COUNT WORKFLOW



RESOURCES

- “Metrics, Benchmarking & Best Practices: Increasing DC Productivity & Efficiency”, WERC, January 8, 2015, http://www.werc.org/assets/1/workflow_staging/AssetManager/3761.PDF
- “Standard Definitions Developed by WERC, MESA, SCE”, WERC, April 9, 2008, http://www.werc.org/assets/1/workflow_staging/Publications/742.PDF
- “Internal Revenue Manual - 4.43.1 Retail Industry (Cont. 2)”, Internal Revenue Service, July 23, 2009, https://www.irs.gov/irm/part4/irm_04-043-001-cont02.html
- “National Retail Security Survey 2016”, NRF, June 2016, <https://nrf.com/resources/retail-library/national-retail-security-survey-2016>
- “The NACS State of the Industry Report of 2015 Data”, NACS, June 2016, <http://www.nacsonline.com/Research>

ABOUT PETROSOFT



Petrosoft’s founder is a retail operator and engineer who initially developed a cloud-based back-office software solution in 2002. Today, the company provides a platform, integration options, software, hardware, and services.

The company’s out-of-the-box and custom integration options, technology, and services are designed to take advantage of advances in technology, leverage legacy systems, leverage industry partnerships, address changes in consumer demand, and enable seamless connections within today’s retail ecosystem.

The company’s technology is positioned to deliver a measurable return (ROI) to retailers since it is focused on where sales and profits are realized, within day-to-day operations. The company continually strives to create innovative solutions, enabling retail operators to manage their on-site and back-office operations more efficiently. Retailers can use these solutions to decrease risk, leverage legacy, data, and systems, as well as to optimize inventory, productivity, sales, profits, and margins.



