

# THE ONLY WORKING APPROACH TO INVENTORY RECORD RELIABILITY

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## Introduction

Over the months there have appeared various articles on Inventory Record Accuracy. These have suffered from various problems. One is in advocating the deliberate counting out of stock items when we all know that all errors will be in one direction (and that not the one which would appear as a shortage) and outside the percentage allowed for the item (X/0 is LARGE). Another common error is omitting the most important step; but if we told you that you wouldn't read the whole article, would you?

## Step 1

Step 1 is the important one embedded in the title. What we are talking about isn't 'having all our records accurate' but 'having sufficient of our records reliable enough to base plans on'. These are philosophically different objectives — and the second is woolly enough to keep an army of consultants 'discussing'.

OK, we all know some recommended numbers, such as 95% of Inventory Records need to be accurate to support MRP II. In this the authors themselves use different figures as standard targets but the numbers are actually of less importance than the following:

- 95% of WHAT?
- WHEN do they need to be accurate?
- HOW accurate?

In order, the answers are:

- 95% of the Inventory Records when subdivided by Aisle-Row-Rack or whatever, by Quarantine state, by shelflife, by potency, by Lot Identity, by whatever you breakdown your stock records!
- At all times to facilitate perpetual Inventory/Cycle Counting!
- to within the measuring error of whatever is the Unit of Measure! If you measure in drums, you expect there to be the right number although not all containing the same amount!

One company we know uses the same material in Kilos, Grammes, and Milligrammes. They have three separate item codes, partly because the measuring error of kilos is a number of Grammes and, likewise, the measuring error of Grammes is a number of Milligrammes. You will have got the idea by now; so the only thing to add is that some allowance should be made in the permissible error for how much material is to be held normally, the normal order size and how much excess you can hold and pay for without knowing about it! (WHAT? none to be paid for without knowing about it — are you some kind of closet Auditor or Accountant? Don't you know that keeping Reliable Records of any information is a special skill and needs a little elbow room?).

As a possible comfort, companies starting out on their journey toward MRP can perhaps set a more relaxed target in this area. As stock levels are presumably high at the outset (these generally provide the justification for spend) errors may not be as important. However, as the 'fat' is eliminated things must be tightened up!

## Step 2

Step 2 is the aforementioned Perpetual Inventory/Cycle Counting. "OK", you say, "we know about PI/CC — next step?"

"Please, hold hard", say we, "there may be more to it than you think". Given the earlier Definition of Objectives

from step 1, we need to rethink PI/CC. It will be seen after a little thought (and more reading, especially step 3) that the major objective is the gathering of data about two basic things:

the level of reliability in the records for the satisfaction of the auditors and avoidance of the hell of the Annual Stocktake, and

## WHAT ERRORS HAVE BEEN MADE!

Some minor objectives are to spread the load of counting over the year, to have some staff who are expert in counting, in identifying Items, in identifying what they are counted as, in defining where they are, etc.

## Step 3

Step 3 is the passing of the second set of information to the IMPORTANT function of the Error Cause Chasers. The other set of information is merely kept and collated as the record of the level of Record Reliability. The data as to what errors have been made taken, analysed and investigated (and re-investigated) until it is known firmly where the procedures broke down or were broken. If they broke down, it is important to correct the procedure(s). If they were broken, it is important to re-educate whoever broke them. Eventually, it may be necessary to 'promote' the culprit out of the responsible position or even out of the Company. The correction of the actual error itself is rather secondary; the urgency of this depending on the item in



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error. (Is this the first or second time that we have made it obvious that we are writing about more than Stock records?).

To anyone contemplating PI one word of caution must be offered. Do not underestimate the resources required in the error cause chasing. Counting is easy (or at least it should be) but reconciliation in the dynamic world of moving materials is certainly not! There is no point in setting out to count so many items per week if you don't have the right quantity and quality of people in place to do the detective work later.

#### Step 4

Step 4 is often the hardest to take. We all know that we want to eliminate annual stocktaking as it is expensive and disruptive. We also know that it doesn't provide accurate records for more than a passing moment and that its biggest drawback is that cause identification (and consequent procedure correction) is impossible. Further, we appreciate that in finding one item in error and the cause of this error during PI (perhaps a batch of issues not processed) we can correct not only that item but all others in the same situation. There is, however, another reason.

In large stocktakes we get the numbers wrong! We use wrong people to count; with the best planning in the world we still fail to allow for one or two 'funnies' which turn up on the day; we never have the time to carry out more than the most rudimentary checks on the most significant variances found, . . . and so on.

Step 4 is therefore to agree that annual stocktaking is dead, at least in so far as they may be used to update records. A recent case study showed signs of real improvement in terms of the number of errors found by the ongoing PI activity (after the requisite resources were imported to the reconciliation function) but the "final"

large scale check (the one to be used to confirm that henceforth PI would be King) found as many errors as it ever had! The results were then used for a mass, inadequately audited, update. When contrasted with the 'council of witches' required to sanction post-PI adjustments this seems barely comprehensible.

Needless to say, the result was chaos. The PI results indicated a return to major discrepancies arising. In nearly all cases these checks, properly carried out and reconciled pointed to a reversal of the adjustment made post-stocktaking. The moral is clear: if you must have further large stocktakes for confidence don't for goodness' sake use the results to touch the stock records!

#### Step 5

Step 5 is the simple one of managing the operation and watching the Record Reliability rise past the minimum acceptable level.

This methodology is, of course, applicable to Stock Records, Item control data, BOM relationships, Works Orders, Routing Details, etc.

#### About the Authors

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