

Find Gold by Controlling Inventory

5.6.13

Parts come in from lots of directions – picked up at stores, delivered to client sites, delivered to our shop. Parts also go out the door lots of ways: stocking up trucks, installed at client sites, sit around before we use them to build products in the shop. I'm sure things get lost and thrown away. We could be bleeding lots of money. Help!

Thoughts of the Day: Set up a system to check inventory in and out. Automate the connection between check in/out and accounting. Set up obvious inspection systems and reporting, so that everyone knows you're watching. Set a goal to reduce inventory costs.

Every time a part goes somewhere other than into a customer invoice, it means the company makes less money than it could. Wasting money because there are not enough controls in place is crazy. You might as well pull some dollars out of your pocket and burn them.

Start with a system to check inventory in and out. Look at all vendor parts invoices from the last quarter. This will help you see how parts flow into the company.

Set up control systems. Issue a purchase order for each part that gets bought, whether by someone in the field, the office, or the shop floor. On the purchase order require notation as to purpose of the order: for a specific customer, for inventory on a truck, or for shop inventory. Also require the name of the person placing the order. Issue purchase orders in sequence: treat them like another check register. If people in the field need to place orders, give them a pad of sequentially numbered P.O.'s.

Make people record lost and broken parts. When something gets thrown out, it has to be reported on a form, detailing who threw it away and why. Use these forms to record any inventory that is no longer sitting around available for use. Make this the basis for inventory write offs in the accounting system.

Check inventory in and out with automated systems. Bar code every part, and give it a specific location in the shop. It's easier to find parts if they're always in the same location, and easier to eyeball stock that is low if shelves are marked and inventory quantity is visible.

Make sure that what flows in from vendors, and gets checked out by employees, also gets reported to accounting. This is where an automated bar coding system can pay significant dividends. Give every part a number and scan it in and out of inventory. Put handheld scanners on the trucks and at job sites. Reporting how parts are used will

increase your ability to properly charge clients. You'll also be better able to evaluate the price and profitability of the goods you're producing if all inventory is accounted for. Get help from the makers of your accounting system; any good accounting system maker understands the need to track inventory.

Make it obvious that you're tracking inventory. Put cameras up, and let people know you're using them. Report weekly on inventory status. Do regular cycle counts to identify problems before they become massive. Do annual full inventory counts. Set up charts to report on inventory issues: waste, missing parts, lost dollars, excess use in the field or the shop, etc. Cut down on losses by making people more aware, by reducing opportunity for waste.

Involve everyone in the company in inventory cost reduction. Teach people about the importance of tracking inventory in and out, controlling waste, etc. Relate it to job retention: the more waste is reduced, the less pressure to cut jobs in down cycles. Relate inventory cost reduction upside to opportunity for people to participate in the profits, as well. Have a company picnic to celebrate hitting an improvement milestone. Set up a bonus for the first group to achieve a goal.

Run the numbers. Figure out what a 10% reduction in inventory would mean to your bottom line. That number should give you incentive to work on the project.

Looking for a good book? Smart Inventory Solutions: Improving the Management of Engineering Materials and Spare Parts, by Phillip Slater.

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