Taking Stock of Your Inventory

Automated Technologies Boost
Productivity, Cut Expenses

Introduction

Whether you're looking for a printer cartridge or medical vial stored in the supply closet; searching for an installation part in a warehouse or seeking a box of the high-end sunglasses promoted in your boutique's latest newspaper ad, inventory management is a critical component of any small or midsize business. However, many business owners do not fully realize the costs associated with poor inventory management, or the potential opportunity for improvement.

Inventory management, after all, requires a delicate balance. You must carry enough stock to satisfy customer demands, yet overstocking can tie up valuable working capital, create inefficiencies and lead to write-offs of yesterday's fads. You don't want your maintenance staff sitting idly as they await delivery of repair parts, nor do you want your warehouse to resemble General Motors. Today's technology empowers you to focus on your business while simultaneously ensuring that you maintain the right amount of inventory, office supplies and repair parts without over- or under-investing.

Taking Inventory

Inventory organization alone is critical. Add up the minutes, even hours, employees spend searching for stock or supplies, and this effort becomes seriously expensive. If they cannot locate an item, employees often will order replacement inventory, incurring rush-shipping charges, and the additional expense of the redundant stock item. In the medical field alone, the average healthcare organization wastes more than $1 million in supplies each year, noted Linda Leekley, RN, and President of In the Know.
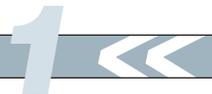
> *In the retail sector, inventory inaccuracies contributed nearly 15% – or $5.59 billion – in losses.*
>
> *– 2008 National Retail Security Survey Final Report*

Tabulate the tens of thousands of dollars a business can all-too-easily tie up in inventory, and it quickly becomes apparent that inventory consumes precious capital, becoming a huge drain on cash flow. In the retail sector, inventory inaccuracies due to administrative and paperwork errors contributed nearly 15% – or $5.59 billion – in losses, according to the 2008 National Retail Security Survey Final Report.

As a rule of thumb, yearly inventory carrying cost is between 25% and 35% of the average value of stocked inventory. Therefore, if your retail business stocks an average of $100,000 of inventory, your annual carrying cost is $25,000 to $35,000. At a 15% loss rate, your organization has just incurred an expense of $3,750 per year due to missing inventory.

Unfortunately, the costs don't end there. If retailers and distributors don't pay careful attention to their inventory, they also have to pay for storage for excess inventory, deal with obsolete inventory,

handle write-offs, cope with tax issues and depreciation, combat cash-flow and loan problems, and face unnecessary expenses.
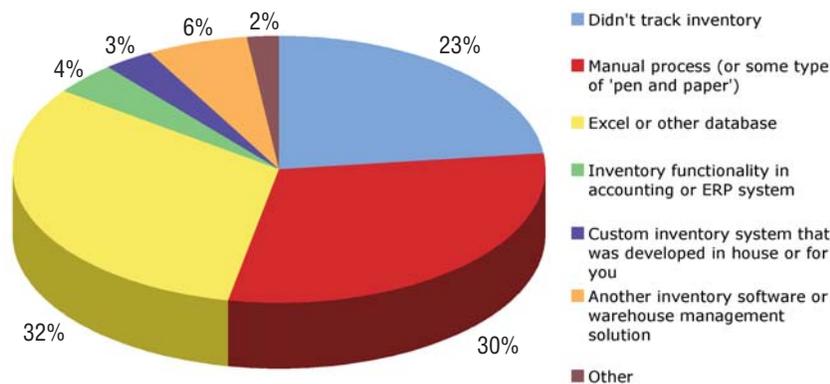
Consider, too, the negative impact on your customers as delays unfold. Unmet expectations may damage your company's reputation and, at worst, frustrated customers may turn to other suppliers to satisfy their requests. When you also take into account the tasks that go unaccomplished as employees scramble to find the toner, valves or sunglasses, it soon becomes clear why accurate inventory-tracking is so critical to your business' success.

Fortunately, even small and midsize businesses can tap into today's technology to ensure they are cost-effectively managing their stock of products for resale, internal use, repair and temporary usage.

The State of Inventory Management in Business

Progressive businesses have used inventory warehouse management systems (WMS) for years – driving costs out of their supply chain, improving efficiency in their warehouses, and flowing increased profit to their bottom line. A study by Aberdeen Research indicated companies with a fully automated WMS system showed efficiency improvements well over 10%, with pick rates and shipping accuracy rates of 99%. Further, when labor is factored in, these best-in-class companies enjoyed reduced labor costs year-over-year compared to their peers, who incurred annual labor increases in excess of 5% each year.

How Small Businesses Commonly Track Inventory

2%
3%
4%
6%
23%
32%
30%

- Didn't track inventory
- Manual process (or some type of 'pen and paper')
- Excel or other database
- Inventory functionality in accounting or ERP system
- Custom inventory system that was developed in house or for you
- Another inventory software or warehouse management solution
- Other
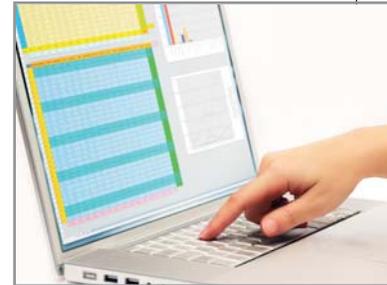
Source: Wasp customer survey June 2010

In spite of these benefits, many small businesses don't track inventory using an automated system, often perceiving such systems as unaffordable or unnecessarily complicated for basic inventory management. In a recent survey of small businesses by Wasp Barcode, more than 80% of their customers had not used any type of automated system prior to implementing an inventory tracking system. Interestingly, 23% didn't track inventory at all. Some tried to use inventory functionality in their accounting system. Thirty percent resorted to manual methods using pen and paper, and 32% turned to spreadsheets or general purpose database software.

While applications like spreadsheets are well-designed for their specific purposes and provide some initial visibility, they are inadequate to monitor the constant ebb and flow of office supplies, parts and materials or other inventory items.

This was the case for Process Control Outlet, a small industrial electronics reseller. Initially, the company used its accounting application to try and track the hundreds of industrial electronics items it sells. However, the software's limited inventory-management capabilities made it difficult for sales representatives to see what was in stock, leading to delays in fulfilling customer orders. Sales agents often resorted to manually verifying product availability in the warehouse, wasting valuable sales time and frustrating customers who were waiting for an answer.

For its part, Amarillo National Bank, a regional bank in west Texas, used two complex Excel spreadsheets to manage its inventory of pens, deposit slips, paper and other necessary items. One spreadsheet had 60 tabs; the second had about 40 tabs. It regularly took at least a full day each month to update the spreadsheet. Plus, errors were easily introduced, and took considerable time to reconcile. In the end, the difficulty and inefficiency of monthly updates to the file, combined with errors, resulted in tens of thousands of dollars in write offs each year.

Meanwhile, the Health Sciences Learning Center, a department of Pensacola State College, stockpiled supplies in closets scattered around the campus, resulting in a lot of expensive, unnecessary duplication. A spreadsheet accounting for the inventory items initially helped generate an accurate list of all the supplies stored throughout the campus, but was too unwieldy and time-consuming for ongoing transactions. Plus, they wanted to keep accurate cost of the ever-changing inventory, and the spreadsheet was not suited to this need.

It regularly took at least a full day each month for Amarillo National Bank to updated their inventory spreadsheets.

Built to Order

So what should inventory software do?

A quality inventory management system enables you to know, track and locate every item that enters your company's doors, whether you'll use it internally, lend it to a customer, use it to repair equipment or sell it outright. With its location capabilities, an inventory management solution gives detailed information on an item's locale. For example, a piece of inventory can be found in a site – such as a warehouse or supply room – and at a specific location within that site, like aisle 3, section A, shelf 1. Depending on your company's preference, the software can use additional means – including serial numbers, lot numbers, date codes or pallets – to further distinguish each item.

Likewise, these solutions should track the quantity on-hand, sold and on-order. If you order in bulk, the software should automatically break-down the order into smaller quantities or units of measure (UOM).

An inventory management system should give you visibility into your inventory's location, what's moving, and what's stagnant, allowing you to make informed decisions about purchasing, marketing, and advertising. In turn, this helps make your business more profitable and allows you to better serve your customers.

What Technology to Use

One of the best and most affordable ways to track inventory is using a barcode-based inventory system. A barcode is simply a graphical representation of a number or text string. The white spaces and black lines represent the underlying data. Using barcodes virtually eliminates human data entry errors when adding, removing, and counting inventory. Scanning an item and/or location with a barcode scanner or mobile computer is fast, easy, and efficient, and ensures that data is always accurate. Barcodes are an ideal way for small businesses to improve inventory efficiency and migrate from manual or spreadsheet approaches without incurring the expense or complexity of a Radio Frequency Identification (RFID)-based system.

Using barcodes, inventory control software tracks by an item number. While this is generally a number you create for an inventory item, it also can be the item's existing product or UPC number. The software also can track inventory items by serial number, lot number, date code, and pallet. Items can be monitored on a PC or mobile device.

The software should generate customized purchase and pick orders, support multiple suppliers for each item, and track non-inventory items like supplies. In addition, leading inventory software providers let you assemble and disassemble components and raw materials to create finished goods for inventory, and enable you to receive alerts for past-due checked-out items, low-inventory and expiring items. Inventory solutions should empower your business to be proactive, current and accurate.

Inventory systems may use wireless networks to provide real-time data on your organization's inventory. Often, the cost and complication of implementing wireless infrastructure is daunting to some businesses. As an alternative, inventory systems that update data by physically connecting to your PC eliminate this layer of cost and complexity, while still delivering accurate stock data. In some cases, inventory software is sold as an all-in-one, integrated solution complete with mobile

computer, barcode printer and software. This eliminates the need for integrating and testing separate vendors' products, a sometimes time-consuming and confusing proposition. In the retail environment, you may choose an inventory solution that incorporates point of sale (POS) functionality.

The Supply Chain

Because of its spreadsheet-based inventory system, Amarillo National Bank was forced to write off tens of thousands of dollars each year, since it could not account for inventory supply items and bill its internal departments in a timely and accurate fashion. Driven to reduce costs – and by the demands of accounting and human resources – the financial institution researched its options before selecting a barcode-based inventory software solution.

Amarillo National Bank saves 16 hours a month – or $12,000 per year – using a barcode-based inventory software solution.

The bank immediately discarded its manual spreadsheets and set minimum ordering levels to automatically trigger purchase orders. When the bank receives items into inventory, it scans them using a barcode scanner and checks them against the original purchase order, virtually eliminating input errors and ensuring accurate knowledge of the inventory on-hand.

The bank saves about 16 hours a month – or $12,000 per year – that can be devoted to higher-value tasks, estimated Cody Cadenhead, assistant purchasing agent at Amarillo National Bank. And the accounting personnel have saved dozens of hours billing the branch offices, he said.

"Write-offs have dropped from tens of thousands of dollars to just a few hundred dollars per year," Cadenhead added.

Within the medical field, the Health Sciences Learning Center at Pensacola State College opted for a barcode-based software application that included a mobile computer because of the solution's intuitiveness and user-friendliness, said Christa Ruber, supervisor. The integrated technology helped the department slash inventory by 65%; it optimized its inventory levels, stocking just 1,750 items in two centralized supply rooms instead of 5,000-plus items in closets around the campus, said Ruber. The money saved by reducing inventory was a welcome outcome given the shrinking budget the school faced, she noted.

Barcode-based software helped Pensacola State College optimize its inventory levels, slashing inventory by 65%

Just Fix It

Companies in the repair business also must keep careful track of the various pieces and components flowing in and out of their doors.

When Ace A/C & Heating realized its spreadsheet-based inventory management simply wasn't up to the job, it bought a barcode-based mobile solution. The midsize business uses the technology to manage its parts inventory, create reorder reports, review inventory reports to track item sales history, and keep an accurate count of items in stock. In the past, Ace technicians – who earn about $40 per hour – wasted around 20 hours each week obtaining parts that were not in the warehouse.

With the barcode-based system, Ace saves about $800 per week, or more than $40,000 per year. In addition, Ace now can schedule service calls – and earn money – during the 20 hours technicians used to travel to and from the supply depot. The return on investment arrived in less than a month.

"The product paid for itself in three weeks," said Gary Kincheloe, owner of Ace.

Ace A/C & Heating saves more than $40,000 per year with the barcode–based system

Precision Drilling, which maintains and services 226 drilling rigs, 229 service rigs and 28 snubbing units at its Technical Support Center, had considered using the inventory module for SAP's R/3 enterprise resource planning software, but it was overly complex. Yet the department needed a tool to track the often-expensive components used to repair the rigs. When it selected a barcode-based inventory solution, it eliminated unnecessary replacement of parts that can cost up to $6,000 each; slashed reliance on overnight and second-day shipping for replacement parts, and is able to track failure rates, maintenance schedules and save time previously spent locating parts, said Lee Letawsky, parts technician and purchaser.

If a manufacturer recalls a part or there is a problem with a replacement-component, companies that track replacement parts by serial number can easily locate these questionable parts. Companies can rapidly search each piece's transaction history to determine when it was installed, who installed it, and which supplier provided the part. This protects the business and its clients, further improving customer service and cementing the client-seller relationship.

On the Market

Mention inventory, and most people immediately think of retail. And inventory is one of retailers' biggest assets – and expenses. Advanced inventory management or inventory optimization is second only to product quality in importance to retailers, researcher IDC found.

So it's not surprising that retailers and distributors need quality solutions to track their inventory. Mistakes cost money and time: $60 billion worldwide may be lost due to stock-outs driven by issues rooted in retail floor inventory management, VDC Research Group found.

Rod Works needed a POS and inventory-control system for its four retail stores, two clearance outlets, warehouse, and headquarters. It opted for an integrated solution that delivered automated inventory tracking, e-mail invoices, and report generation, and worked with vendor-generated barcodes. By leveraging integration between the POS system and warehouse database, Rod Works automatically knew which items needed restocking in its stores so popular goods didn't remain on warehouse shelves instead of shop shelves. This allowed the retailer to quickly restock hot-selling items or free-up valuable shelf-space for faster moving products.

"As a result, we have realized a 65% reduction in the man-hours used for picking items for stores," said Aaron Brackett, retail director for Rod Works.

Likewise, the Sunglasses Shop got a return on its POS and inventory solution faster than expected, said Daniel Puddick, director of the high-end retailer. Regular audits helped to eliminate stock errors and the improved records and enhanced reporting have allowed the store to boost sales 200%.

"I was hoping the system would pay for itself in a year, but realistically, it had more than paid for itself in just two months," he said.

Conclusion

You've invested in the products and equipment stored throughout your company and its warehouses, and it also makes sense to invest in the resources to accurately and efficiently monitor, analyze and swiftly locate these items. Today's inventory technologies allow you to track stock in your company – while also improving cash flow, enhancing customer satisfaction, boosting productivity and saving a lot of money.

Contacting Wasp Barcode Technologies

Wasp Barcode Technologies
1400 10th St.
Plano, TX 75074

Phone: **866.547.9277**
Fax: **214.547.4101**
Web: **www.waspbarcode.com**