



White Paper

Why Cycle Counting is the Industry's Best Kept Secret



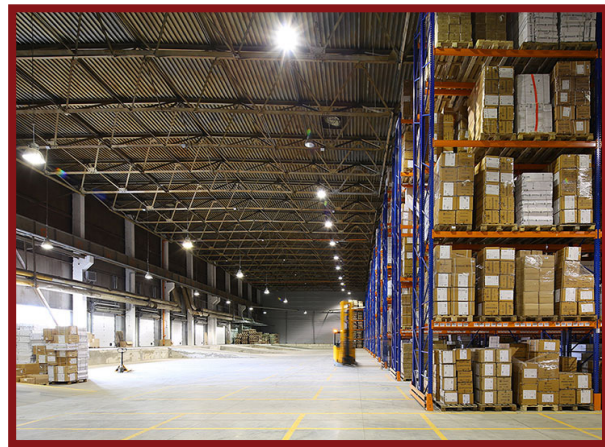
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Introduction

If you've been searching for a way to streamline your inventory systems and improve accuracy, you're in luck. Cycle counting has become one of the most well-developed methods of managing inventory for manufacturers, distributors and retailers alike. Cycle counting helps improve both productivity and efficiency within your organization by breaking your inventory into bite-sized, manageable pieces that you can keep up with day to day.

This ebook is designed to walk you through an introduction to cycle counting. We will explore what cycle counting is and how it works. We will also discuss important factors for effectively implementing a cycle counting system. You will learn about how to know if you're ready for cycle counting and reasons that you may not want to make the switch just yet. By the end of this guide, you will be well on your way to setting up your own cycle counting system.



CHAPTER 1

What is Cycle Counting?

How It Works

Cycle counting is an inventory management protocol which relies on continuous counting of inventory throughout the year. By grouping products according to their value and velocity and counting them monthly, bi-monthly, quarterly or annually, you will have a more accurate picture of your inventory at any given moment and get a more consistent view of inventory fluctuations over time. The biggest difference is that you assign a team to handle a random selection of counts every day of the year instead of shutting down the warehouse for however many days is necessary to do one large count. Your Warehouse Management System will track items according to their ABC category and will automatically dispatch counts to the team, typically on a daily basis. Thus, every item will be counted according to its own schedule, and the system will always make sure that all items have been counted at least a minimum number of times in a given period, usually a year.



Who Uses Cycle Counting?

Cycle counting is used by nearly all of the largest warehouses around the world. No matter what type of product is moving through the warehouse, the ability to assign different types of products to different categories makes it a versatile system that will work in any environment. Managers who have made the move to a cycle counting system will tell you that it saves time and provides better inventory accuracy count throughout the year than any other inventory management process.

CHAPTER 2

Cycle Counting as a Function of Your Warehouse

As you plan your new cycle counting program, you first need to realize that it is going to affect many aspects of your overall operation. It will become an integral part of your systems and processes, like a backbone that ties everything together. Why? Because without adequate inventory control, it is difficult to make decisions about any other aspect of your business.

WMS Integration

Your Warehouse Management System will enable you to adapt to your cycle counting program. It will handle dynamic dispatch of inventory counts, reconciliation of counting errors, inventory adjustments and more. The good news is that you've already been using your WMS, so you're familiar with how it works. The tools built into the WMS are already interfacing with all of the other tools you have available to you, so you won't need to worry about whether or not your cycle count will work with your other systems.



CHAPTER 2

Cycle Counting as a Function of Your Warehouse

Labor Costs and Expectations

Cycle counting may also have an effect on how you manage your labor and costs. While cycle counting will almost certainly save you time and money over a one-time physical inventory, you need to be prepared to train a team of workers who can complete your cycle counts regularly. You also need to make sure you have a manager available who can dedicate time to cycle counting and discrepancy management on an ongoing basis.

Finally, you need to set reasonable expectations for how your cycle counting system will help your organization. Make sure you know what your goals are and how you are going to reach them. Making the move to cycle counting is not easy, and it doesn't happen overnight. Plan on transitioning slowly and working your way up in speed and accuracy with time.



CHAPTER 3

How to Implement Cycle Counting

There are three main stages in the process of implementing cycle counting in any warehouse: the product, the people, and the platform. As you begin planning your transition, you will need to pause and study the different alternatives that can be used at each stage to build a completely functional cycle counting program.

The Product

This part of the implementation process is focused on how you will go about counting the actual products in your warehouse. There are several schools of thought about this.

First, you may want to count a random sample of products every day. Your Warehouse Management System will be responsible for selecting and dispatching these random counts. You may choose to keep all of your products in the pool at all times, effectively allowing for a truly random sample each and every day, or you may choose to remove products from the list after each count so that the software can only choose randomly from those products that have not yet been counted. This ensures a full warehouse count before the process starts again.

The more popular route is to use an ABC classification system to manage your counts. Using this method, your highest velocity and/or your highest value items are in the A category, while your lowest velocity items are in the C category. Your WMS will track product categories for you. The A list items will be counted more frequently, such as once a month or once a quarter, while the C list items are counted less frequently, perhaps only once a year. This system allows you to focus the most energy on the items that make the biggest difference in your warehouse.

CHAPTER 3

How to Implement Cycle Counting

The People

Once you've decided how you will manage your products, it is time to look at the people in the equation. Having a dedicated counting team is ideal as you get started. Not only do you need a team of counters, you also need a quality control team who will analyze discrepancies and conduct random recounts to verify the accuracy of your inventory and the effectiveness of individual counters.



Many companies choose to set up a control group count before they launch the full cycle counting process. During the control group test, your counting team will count a small group of products over and over for a period of time. This process will highlight inefficiencies in your process as well as accuracy errors. It gives you the opportunity to tweak your process or coach your counting team members before unleashing them on the full warehouse.

You will also need to designate a leader for your cycle counting program. This does not necessarily have to be their full-time task, but there does need to be a strong point of contact that all counting team members can turn to for assistance.

CHAPTER 3

How to Implement Cycle Counting

The Program

Finally, it is time to consider all other aspects of your cycle counting program as a whole. For instance, the frequency of your cycle count is an important topic.

- Over what period of time will you count every item that you stock? Most auditors and lenders require that all parts get counted at least once per year.
- What will your system be for investigating discrepancies and making adjustments?
- How quickly will these matters be handled?
- How big does an error have to be before it merits an investigation?

Answering these questions will fill in any gaps in your cycle counting strategy.



CHAPTER 4

Long Term Benefits of Cycle Counting

There are countless benefits that come from using a cycle counting system instead of performing annual physical inventories. A well-executed cycle counting strategy will certainly save you time and money at every turn, but it will also give you invaluable information about your organization.

Inventory Accuracy

One of the biggest problems with annual physical inventories is the large data gap that happens in the months in between counts. This allows for large discrepancies to go unchecked for six to twelve months, eventually making it impossible to track down the root causes that created the problems. With cycle counting, your most active inventory is counted at least once per quarter, and your most valuable items can be counted even more frequently, if desired. This minimizes shrinkage and gives your team better control over order placements and replenishment. It also pays off in the form of better customer service because your customers will never be left waiting for an item that should have been in stock.



CHAPTER 4

Long Term Benefits of Cycle Counting

Labor Savings

It may not be obvious, but having a dedicated cycle counting team is usually less expensive than paying overtime for your entire staff to pull off an annual physical inventory. Since your warehouse stays in inventory-ready condition year round with cycle counting, you won't have to worry about the additional cost of cleanup and preparation. You certainly won't have to pay a third party to come in and do the inventory for you.

Cost of Shutdowns

Finally, one of the biggest benefits of cycle counting is that counting your inventory becomes an integrated part of your process. It is no longer a disruptive event that sidelines your entire warehouse or keeps shipments from going out on time. Keeping your warehouse rolling right along with your counting means that your customers will continue to get the service they've come to know and love.



CHAPTER 5

Other Considerations

When is it the Right Time to Begin Cycle Counting?

The general consensus is that the sooner you begin cycle counting, the better. However, there are some key ingredients that must be available to make the system work. For instance, your Warehouse Management System needs to be in place and functioning well before you begin. If you have a brand-new WMS and your team is still struggling with simple tasks, you may want to stage your cycle counting program a little further out. In addition, you need to have a management team that is fully on board with the new system.



Starting a cycle counting program will require additional resources and support for a period of time, and your whole team needs to be committed to making the program succeed. Oftentimes, companies try to cut corners when implementing a cycle counting program and then give up a few months later because they weren't seeing the results they wanted. The transition to a self-sustaining cycle count program takes time and energy up front to save you time and money in the end.

CHAPTER 5

Other Considerations

Challenges Associated with Cycle Counting

The biggest challenges associated with cycle counting are the personnel and the technology. If your WMS is capable of handling all of your cycle counting needs, then you should have few worries about the technology. Nevertheless, you need to be prepared to dedicate human resources to your counting team. Selecting and training a team for this purpose takes time. Many companies rely heavily on third-party trainers to make this possible.

The timeline of your transition may also be a challenge. You cannot switch to cycle counting overnight. Most likely your team will begin running sample counts on a small area of your warehouse during the training period and then roll out the program to other areas once all of the kinks are worked out. You need to allow for several months to make this transition, depending on the size and scope of your counts.



Conclusion

Cycle counting is changing the way companies do business one warehouse at a time. These programs have proven successful in warehouses of all shapes and sizes, and they can certainly make an impact in your warehouse as well. The most important thing to remember is that you don't need to try launching a cycle counting program on your own. You can work closely with a consultant or another trusted vendor like your WMS provider who can help guide you through the most effective practices and help train your team on how a cycle count is supposed to work. The good news is that companies who invest in cycle counting and stick with it for the long haul end up earning big returns in the form of reduced shrinkage and better customer service.

About Archon Interactive

Archon Interactive is a software development company focused on Warehouse Management Systems and Warehouse Control Systems. Our solutions range from simple equipment control applications to our full-blown, enterprise grade warehouse management system, WaveTrak WMS®. Our customers usually see significant productivity improvements in a short period of time while having much greater visibility into their operations. Because we can develop customized solutions, we are able to target particular parts of a warehouse operation in order to provide the greatest improvements for the least amount of cost. We are not constrained by the ERP or MRP in place and have integrated with everything from huge systems from the major global ERP vendors to archaic systems that were developed in-house many years ago. We formally started in the warehouse systems space in 2005, and since then we have built solutions for companies ranging from small distributors to 3PL providers to global 1000 manufacturers. To learn more about how we can help you solve your most pressing operational issues, please visit us at www.archon-interactive.com.