



## Cycle Count vs. Physical Inventory

By: Jeff Waller, President of Waller & Associates

Arriving at a consensus on the method of inventory management in your distribution center network is not a simple process. There are many factors to consider before making a final decision. This blog post is designed to offer discussion points and topics to consider in the decision making process. These are not meant to be specific to an industry or sector. Rather, they are general characteristics commonly found with cycle counting and physical inventories.

### Physical Inventory

#### Pros

- Get a reasonably accurate count, adequate for inventory financial reporting purposes (the accountants like it)
- Usually only performed on an annual (most common) or biannual basis
- Periodic inventories (usually monthly) can be productive for smaller facilities that warehouse less than 3,000 SKU's
- Accounts for all physical locations in the warehouse, not just the locations showing a system inventory balance

#### Cons

- Typically requires a lot of time and manpower
- Does not provide real-time inventory accuracy
- Does not promote inventory discrepancy investigation in a timely manner
- Often there are advance preparations such as tags and forms to pull together
- Actual counting requires freeing a large number of personnel for a long period of time in every inventory location
- Interruptions to operations results in capacity and customer service issues
- Typically, clerical staff enters hand-written information into the appropriate system which is prone to errors
- Physical inventories are rarely accurate

### Cycle Count

#### Pros

- Improved, real-time inventory accuracy
- Aids continuous improvement through timely root cause investigation of inventory discrepancies before they impact operations
- Reduces stock-outs and excessive inventory levels
- Promotes ABC inventory classification which results in high velocity, high value and critical items being counted more often
- Does not require operations to be interrupted to count

### Cons

- Typically requires periodic accuracy audits for accounting verification purposes, using objective sampling techniques
- Requires dedicated inventory control personnel in larger facilities
- Very difficult to manage without adequate technology

I hope these discussion points assist you in the decision making process. If you other ideas or thought, please feel free to comment on this post.

### **About Jeff**

Jeff is a seasoned executive with over 27 years of Supply Chain experience in the Distribution, Transportation and Logistics fields. Jeff's extensive experience includes working with such giants as WalMart, Lowe's, Pier One Imports, and International Paper helping them streamline operations and reduce costs. He led the Global Supply Chain Services practice at Big 4 Firm, Ernst & Young where he helped companies improve supply chain processes in Retail, Industrial Products, Pharmaceutical, Manufacturing, Government Contracting, Apparel, and Grocery on three continents. He was a founding member of GroceryWorks.com (now Safeway.com) and was responsible for designing the end-to-end supply chain. His experience also includes designing and implementing various supply chain execution software such as WMS, TMS, Voice Recognition and reporting systems.

### **About Waller & Associates**

From your very first call, you'll notice something different about Waller & Associates. Our level of service.

Our Mission: Waller & Associates was founded in 2008 by Jeff Waller with the mission of helping clients identify opportunities to improve their distribution processes and facilitate the changes required to gain those improvements.

The simple fact is, we love what we do. We love solving problems and serving our clients. And that means a level of engagement that's rare in our business. Our day-to-day watchwords are responsiveness and accountability, but our long-term goal is something more: to become a trusted supply chain partner that supports the evolution of your business and offers innovations that drive your success.

Our team delivers real world solutions and knowledge gained from many years of hands-on operations experience working with today's innovators in supply chain management. We bring the right people, armed with insights in business logistics, to improve distribution effectiveness.

### **Contact Jeff Waller**

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