IDS a Constellation Software company

7 Proven Steps to Controlling Your Inventory Once and for All

A Do-it-Yourself Guide

Introduction

If you're reading this, there's a good chance you view your inventory as a love-hate relationship. You love the fact that the merchandise you carry makes you money, but hate the fact it's something you constantly have to monitor. Let's face it, you have other things in your business to focus on, and quite frankly would rather spend time on. So it tends to be one of the first things to take a backseat.

Well you're not alone!

The fact is, the majority of RV & Marine dealers neglect their inventory for various reasons– and it's costing them dearly. To put it in perspective, did you know that if you happen to misplace $100 worth of parts because you don't have organized bins, or accidentally damage $100 worth of parts because they got in the way, it could take as much as $1,000-$1,200 worth of sales to make up the loss, since the dollars you make come in net profit? Have you also considered how much extra you're paying in insurance and inventory taxes at the end of the year because you aren't keeping your stocking quantities lean? Most importantly, have you really tried to comprehend how much money you currently have tied up in over-stocked items, warranty and obsolete parts that you may never get back?

Well it's time to take control once and for all and this report will help you do just that! With help from Jeff Sheets, independent dealership consultant, and Jon Schreibfeder, president of Effective Inventory Management, Inc., we'll show you a 7-step path that will lead you to gaining control of one of the most important aspects of your business. By following these steps, you will effectively be able to assess your current situation and pinpoint what you need to do to turn your inventory into one of the most profitable aspects of your business!

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Step 1: Know what's on your shelves

Before you can begin to control your inventory, you must know exactly what is on your shelves. As dreadful and time consuming as it sounds, it's not as hard as you think – if you first implement a process that will enable you to easily perform the task.

Many dealers think purchasing dealer management software solves their problems because all their quantities are contained in the system. But where are you getting these quantities from in the first place? You can have the best dealer management system in the world, but it won't do you any good if the quantities you put in the computer aren't right. And even worse, if you do happen to have the wrong quantities in your software system, it will make your employees less likely to trust your system. This, in turn, can affect your customer service. If you tell a customer you have something in stock, but then go back to grab it and realize you're out, you've just hurt your creditability. Not only that, you just made a customer wait at your counter while your employee wasted minutes of everyone's time looking for something that isn't there. Therefore, it's extremely important that you and all of your employees understand the value of a physical inventory count.

Conducting a Physical Count

The end of the year is a great time to conduct a full physical inventory count. It's your slowest time of year, plus it puts you in great shape heading into the next year. Jon Schreibfeder, president of Effective Inventory Management, suggests you start planning your annual physical inventory process no later than 12 weeks before the count date. You should also avoid planning around holidays when you know employees will be occupied.

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Three methods for conducting an inventory count:

Bar-Code Readers: This is the most accurate method, however the most expensive given the fact that you need a bar code reader and your items/bins need to be labeled. You also need a software program that can register the counts. The benefit, however, is that your inventory levels are more accurate because human error is greatly reduced.

Count Cards: These are generally index cards that contain the individual product and bin location. The cards are placed on the shelves or bins before the count begins, so you can go through and count each bin in sequence. This process is relatively quick because the card that records the count is already in the bin. Schreibfeder recommends, however, that each counter also has a supply of blank cards to accurately record discovered or misplaced merchandise. The blank cards should also be printed on brightly colored card stock so parts that need to be moved to a proper location (after your count is completed) can be easily located after your physical count is finished.

Count Sheets: These are usually 8 ½" x 11" pieces of paper that list roughly 25 inventory items. Schreibfeder recommends that if you use count sheets, make sure the counters also take into account misplaced material and products not listed, rather than just focusing on only the items listed on their sheets.

Who should count the inventory?

You have to come up with a strategic plan of who is counting your inventory. If you use the bar code method, that can be handled by one person. If you use cards or sheets, Schreibfeder recommends you put together two-person counting teams. The teams should consist of an experienced employee, paired with someone with less knowledge. Let the experienced person count and the inexperienced person record. This method will also help your inexperienced employee become more familiar with your merchandise.

Preparing the stocking area

Cleaning your stocking area is an extremely important task that gives you the perfect opportunity to make sure that every nut, bolt, etc. is in its proper bin or location and not floating around somewhere else. If you start out with all of your items in the proper place, it's going to make your counts go much, much faster – and your quantities more accurate. This can also help you get in the habit of putting your parts in their correct place on a regular basis. In order to help develop this habit, Schreibfeder suggests you clean your stocking area no less than two weeks before the count begins.

Make sure you have all the necessary supplies needed to conduct your counts in an orderly fashion such as cards, clipboards, pencils, etc.

Executing the Count

Step 1. Break up your Counting into Small Groups

Schreibfeder recommends that the first step in getting ready to count is to break up your counting into small groups. This eliminates your employees from becoming too overwhelmed at the thought of having to count thousands of parts all at once.

Step 2. Create a map of your stocking area

This should include every shelf, bin, drawer, receiving dock, and return area. All of the products in your inventory must be counted for this to be worth your time, and a success.

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Step 3. Divide your stocking area into counting areas

Your counters should be assigned to geographic areas, not product lines. This is due to the fact that some parts located between major product lines could be missed. Schreibfeder also suggests that you consider counting surplus areas and slow-moving products before your scheduled count. If you know that some of your seasonal products aren't going to sell before your count, get that out of the way first, and make sure you mark the bins and shelves that are pre-counted. This will put a little less stress on your employees when the big count hits.

A couple other things you should implement into your pre-counting plan:

- Pull all parts out of inventory that are needed for your current service orders.
- Pull or ship everything on order.
- Don't move misplaced material while you count.
- Do not fill orders or receive material during the count process.

Step 4. It's now time to start counting!

When your counters are finished with a small section of bins, let your designated manager verify the counts. It's best to first start with your items that bring in the most money and are your fastest movers. Focus on these items first, because they are the items that are most likely to contain counting errors. As soon as the counts are verified, enter them into your dealer management system, or spreadsheet.

After your count is completed, you must print and review discrepancy reports in your dealer management system (if applicable).

You should also review your whole counting process and document your procedures. Meet with your employees and determine what worked, what didn't, and what you can change for future counts. This should make your next full physical inventory count run much smoother.

If you want to break up your counting in the future, you should consider the method of cycle-counting.

Cycle-Counting

If you're looking to ease the burden of conducting the demanding task of an annual inventory count, there's an alternative and that's cycle-counting. It's a method where you take counts of different areas of your inventory spread out over the course of the

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year. And the best part, it actually makes your inventory more accurate because you are paying attention to specific areas more often, rather than everything as a whole.

With cycle-counting, you aren't going to be able to take the time to count inventory items during your busiest times of the year, but there are probably eight solid months out of the year where this is feasible. The best way to conduct your cycle-counting is by using what Schreibfeder refers to as "The Ranking Method."

The Ranking Method implies that you count your inventory items with the larger number of dollars flowing through your inventory more often than your slower-moving products. Schreibfeder states that this ranking is based on Pareto's Law - 80% of the results of any process are produced by 20% of the contributing factors. So that means that roughly 20% of your inventory is responsible for 80% of your stock sales. Schreibfeder feels that you should break your inventory levels, or "rankings" like this:

- "A" rank items (those responsible for the top 80% of sales) count six times per year.
- "B" rank items (responsible for the next 15% of sales) count three times per year.
- "C" rank items (responsible for the next 4% of sales) count twice per year.
- "D" rank items (responsible for the last 1% of sales) and products with no sales count once per year.

An advantage of cycle-counting is that you can basically put the full task of inventory counting in the hands of your Parts Manager, something that Jeff Sheets, senior advisor for Bob Clements International, feels is beneficial for maintaining more accurate counts. If you put the Parts Manager in charge of maintaining counts and handling the parts, rather than techs or other employees, you have much more control. Initially, it may seem like a huge task to put your inventory solely on the shoulders of your Parts Manager, but we'll show you some ways to help make this task easier later on in this report.

So you've finally taken the first step and made the commitment to counting your inventory. You've probably discovered that there are several items that are either obsolete or have not moved at all and are taking up space. What should you do to salvage some of the costs you spent on these parts?

Tip

"The Ranking Method":

Count your inventory items with the larger number of dollars flowing through your inventory more often than your slower-moving products.

Step 2: Get rid of your dead inventory

If you're going to get serious about any one aspect of your inventory, getting rid of dead and slow-moving items must be a top priority.

Think about it, you paid for every item that is stocked on your shelves and the only way you're going to get any of it back is to sell it. Otherwise you've just thrown hundreds, maybe even thousands of dollars away. Dollars that could be put toward other areas of your business! The bad news is that you're not always going to be able to get your money back on some of these items. The good news is that there are many ways you can get these items out of your business, and at least gain back some of what you paid.

The first step is determining which items are dead and slow-moving. If you've taken counts, you've probably seen parts that you bought years ago but have never sold. Add those to the list. If you have an industry-specific dealer management system, you can run reports that will flat out tell you what your worst sellers are. Once you've identified these items, you have options:

- Offer your counter-people an incentive to sell the product. Jon Schreibfeder has seen this work well with some of his dealers. If you give your counter-people an extra reason to sell the product, you could be amazed at what they can produce. Again, you may not make a profit, but at least all is not lost.

- Check with your manufacturer and see if they will give you a percentage for the parts. Manufacturers will generally allow you to do this at least once per year. If you take this route, make sure you've identified as many of these parts as possible. Sometimes you may not get money back, but rather store credit. For example, if you return $100 worth of parts, some manufacturers will give you a $100 credit. Regardless, it's something! Make it a point to do a part return every year and make sure you have policies set up with your manufacturers.

- Start an Ebay account and sell your parts there. Jeff Sheets has seen a lot of dealers do this with great success. Just because you have parts that aren't working for your business anymore, doesn't mean that someone else won't take it. Look at it as a type of garage sale. One person's junk is another person's treasure!

- See if a competitor, or a business that carries products similar to yours, will buy the merchandise from you. It may sound crazy, but if there is a need for it some place else, you're still getting compensated for it. Plus, you've just gotten those dead items out of your business.

Tip

Offer your counter-people an incentive to sell the items that are dead and slow-moving.

How to stock new products

As important as you think a new product may be, don't base your purchasing decisions off of a gut feeling. You need to make some concrete decisions before you even consider adding new parts into your inventory and Schreibfeder recommends you look at the following items:

- Don't let surplus of new inventory turn into your next batch of dead inventory!
- Is there any way you can negotiate a return of unsold items with your vendor if it's a product you're taking a gamble on?

In addition, Sheets recommends not to make an item a new stocked part of your inventory unless you receive three demands in 70 days. For example, if three people ask for a particular carburetor in 70 days, don't order three and stock them all on your shelf. If there have been three demands, order one and make it a stocked item. If the demand grows, you can always add more later.

Bottom line, make sure you know what you're getting yourself into before you decide to stock a new part and up the quantities you order.

Tip

If three people ask for a particular carburetor in 70 days, order one and make it a stocked item. If the demand grows, you can always add more later.

Step 3: Organize your inventory in a way that makes sense

With your entire inventory accounted for, now is the perfect time to organize it in a way that makes sense.

Jeff Sheets has dealt with many dealerships that have had problems with organization. He says too often dealers tend to organize their parts by vendor and vendor type. This can cause huge disruptions because as time goes on and part numbers change, you start to see some of your fastest-moving parts end up at a location as far away from your counter as possible. This kills your efficiency with all the time that's wasted going back and forth to get parts.

His solution to this problem is to establish bin locations. It takes time to set up initially, but the time that you'll save down the road easily makes it worthwhile because it allows freedom of movement in your parts department.

The key to setting up bins is to make them as clutter-free as possible. They are space-dependent. Either you use shelves or, an even better choice, a LISTA cabinet. This is something Sheets highly recommends.

LISTA cabinets easily allow you to arrange parts by location. For example, your spark plugs are placed in Unit A, Shelf 1, Position A and so on. This way you're trying to identify a position rather than a part. This gives you more flexibility.

If you have shelves, don't overstock them. Carrying 75 parts on a 3-foot shelf is not organization. For a shelf that size, you should have roughly 15 parts. You want to be able to see your parts as easily as possible.

In regards to which parts go where is concerned, Sheets recommends sorting by manufacturer rather than vendor. For example, if you carry Kohler engines, keep all your Kohler parts together. There is, however, an exception for organizing by manufacturer and that's your fastest moving parts.

Sheets tells his clients to make a special section dedicated to your fastest-moving parts for things such as belts, plugs, etc. and keep it the closest to your parts guys. In addition, if there are certain kits that you go through on a steady basis, you can even group those together.

By taking the time to organize your parts in an orderly fashion, you've just made your Parts Manager's job a lot less stressful. But that's not all you can do.

Tip

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Step 4: Offer an incentive plan for your Parts Manager and keep as few hands on your inventory as possible

We mentioned before that the main reason you probably aren't keeping good tabs on your inventory is because it's too time consuming and not something that you want to commit to. Owners are salespeople. They don't want to do the administrative aspect of the business. That's why you've got to put your trust into someone with more expertise, and that's your Parts Manager.

Your Parts Manager has one of the most demanding jobs of your business. If you're getting serious about implementing an effective inventory control plan, they need to be heavily involved. In fact, they should be in full control of your parts.

Jeff Sheets says the key to good parts management is to have as few people dealing with your parts as possible. Do not let your service techs handle your parts because they can be the biggest culprits when it comes to inventory quantities being off. Their job is to fix units, not tally where they got the parts. So they are very susceptible to pulling something off the shelf and not accounting where it came from. This can cause major trouble in your stocking quantities.

Since you have accurate inventory counts and are organized, put the part movement in the hands of your Parts Manager. Let them be the one to handle the parts for the service techs. Not only will it help your inventory levels, it will also turn into more billable hours for your techs because they won't have to leave their area and waste time looking for parts.

Since you are putting so much responsibility on the shoulders of your Parts Manager, you should also consider implementing an incentive plan for doing good work. For example, you could set percentage goals in accuracy. If they keep the inventory 95% accurate over a set period of time, offer them a bonus. This holds them accountable and drives them to keep your quantity levels and parts movement a tightly-run ship.

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Step 5: Set an inventory turn goal

Tip

If you have an inventory turn goal of 4, then only 25% of your inventory should be on your shelf at one time.

As a business owner, your whole livelihood is based around goals. You probably wouldn't be running a business right now if you didn't have them. So why wouldn't you have concrete goals for your inventory?

Jeff Sheets says a problem he often sees is that dealers don't take a goal-oriented approach to what they want to get out of their inventory.

If you have expectations for how much of your inventory you want to sell in a year, then shouldn't you have expectations for how much money you want tied up in inventory and how you're going to turn it into a profit as quickly as possible? Keeping your inventory lean can cause you to see a tremendous difference in your bottom line. But it takes some discipline. You need to set goals for how you're keeping your items moving so it's not money tied up on your shelf. You need to have an inventory turn goal.

An inventory turn is defined as the number of times inventory is replenished in a year; generally calculated by dividing the average inventory level (or current inventory level) into the annual inventory usage (annual cost of goods sold).

It's common for dealers to have an inventory turn of 1 or 2, but Sheets believes you should set 4 as a goal. If you have an inventory turn goal of 4, then only 25% of your inventory should be on your shelf at one time. If your inventory turn is typically 2, that means you would already have 25% more in your bank account rather than stocked up on your shelf.

Although 4 may seem high to you, it never hurts to shoot high. That's why it's a goal. It is important, however, to choose a turn number that does make sense for your business. One thing to remember, if you decide to shoot higher than 4, you may run the risk of running into stock-out problems. So take some time and come up with an aggressive level that makes sense for your business.

With a turn goal in place, it's now time to monitor your quantities so this goal has a chance of being attained.

Step 6: Set Min/Max Levels

Setting up minimum and maximum ordering levels for your parts is going to provide you with the most headway in maintaining inventory control.

By setting these levels, you're putting parameters on your parts so that you don't go too far over or under in ordering a certain item. Therefore, it's extremely important to go through your sales history over the last year and set seasonal levels that prevent you from becoming too overstocked or under-stocked.

Obviously there will be certain times of the year where you'll want minimal quantities of certain items, because you know they won't sell. Jeff Sheets recommends that you have no more than 30% of your peak inventory stocked during the slow season. Once August hits, you should start working those stocking quantities down. This way you'll have the ability to buy the right parts at the right time and take advantage of manufacturer discounts.

Once your busy season hits, you'll want to make sure you have plenty of parts on hand to keep the productivity moving. It might be easy to get carried away with ordering too many for your busy season. But the great thing is, when your quantities start to get low you have time to react and order more. If you have industry-specific dealer management software, it becomes even easier. Your software keeps track of the levels you put in for each part. When the levels become low, the software will automatically request an order recommendation based off the levels you set.

Just like taking counts of inventory, you also need to analyze your min/max settings on a continual basis. If you don't analyze your sales history and change your levels on at least a yearly basis, you run the huge risk of overstocking an old part a couple years down the road that isn't selling like it did previously.

With your min/max settings in place, it's time to end our journey and plan for the future!

Tip

Have no more than 30% of your peak inventory stocked during the slow season.

Step 7: Plan for the future

Now that you have your guidelines set, it's time to keep the process moving and plan for the future. Again, one of the biggest problems Jeff Sheets sees is that dealers are reluctant to plan ahead or have goals when it comes inventory. If you just put all this work into counting, getting rid of dead items, organizing, working with your Parts Manager, setting turn goals and min/max levels, then you must keep moving forward!

The most important thing in planning for the future is to constantly check the past. You must look and analyze your sales history and season trends and this is where having an industry-specific dealer management software in place is vital. There are numerous reports you can run that will help you with every aspect of your inventory control, so you can plan ahead. Even if you're a 20-year veteran of a particular business and think you know the trends like the back of your hand, you'll never be in full control without sales history reports.

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You can also look to your customers to help you plan ahead. Each time they purchase something from you, they are casting a vote for the merchandise you carry. Make sure you take these votes seriously and plan ahead to stock the merchandise that's most popular, not just based on what you like.

While you're checking these votes, don't overlook the importance of lost sales. This is an area where most dealerships struggle simply because the employees don't want to take the time to record a lost sale. Make an effort to track this! You never know where you could come across a product that's in popular demand that you don't carry. The last thing you want to do is send your customers to the competition.

Another thing to remember is don't plan ahead for an entire year all at once, plan ahead 90 or 60 days. This is the best way in ensuring you're not going to get carried away with quantities. Working in a seasonal business, you know things can change from month to month. You can go from an extremely rainy period, to severe drought. Therefore, you need to break it up and look at these trends.

For More Information

If you would like to learn more about any of the companies who contributed to this inventory report, and receive additional information, you may utilize the following outlets:

Integrated Dealer Systems

Integrated Dealer Systems is recognized as the leading provider of dealer management software for RV, Marine and Trailer dealers. With nearly 30 years of proven experience, IDS has helped some of North America's best dealers manage their business more efficiently while boosting profits.

Web: www.ids-astra.com

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Jeff Sheets

Dealership consultant Jeff Sheets has worked extensively with dealerships throughout North America helping them attain the personal freedom and financial wealth all owners strive to achieve.

Effective Inventory Management, Inc.

Effective Inventory Management, Inc., is dedicated to helping manufacturers, distributors, and large retailers get the most out of their investment in stock inventory. For over 20 years, President Jon Schreibfeder has helped over two thousand firms improve their productivity and profitability through better inventory management. For additional information, please contact:

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