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IT MATTERS

by Tom Dziersk

Have ERP, Have Inventory Control? Not Necessarily

Many companies invest in the latest enterprise resource planning (ERP) systems, but still find themselves lacking total control over inventory. How can that be? Here are five reasons companies often lose control of inventory despite having an updated ERP system – and five solutions for regaining that control.

1. Frequent discrepancies that lead to expediting fees.

Problem: After doing periodic physical inventory, companies often find that what's on hand doesn't match the numbers in the ERP. Companies pay expediting fees for negative inventory to fulfill promises, and positive inventory variances carry inventory that could be sold. As a result, time-sensitive products can go stale.

Cause: Undisciplined inbound processing, non-compliant/non-standardized labels, inadequate returns processing, and lack of reconciliation among data exchanges all contribute to inventory discrepancies.

Solution: Sophisticated, integrated software can irrefutably reconcile inventory records with physical inventory through label compliance protocols and inviolable, "rules-based" matching of the pack-

ing slip, invoice, warehouse receipt, and/or authorized purchase order.

2. Inadequate inbound processing.

Problem: If an inbound shipment is incorrectly scanned or counted, the inaccuracy follows throughout the product fulfillment cycle. Symptoms of inbound problems include regular missing inventory write-offs, recurring expedited shipping fees, and split invoices or split shipments due to a promise-to-fulfill of phantom inventory.

Cause: Inadequate inbound processing and lack of purchase order collaboration, lack of visibility to supplier shipment status, inability to check PO status and update quantities, lack of package-level tracking via Package Tracking Number (PTN) or Global Trade Item Number (GTIN).

Solution: Implement software that enables automated advanced shipping notification (ASN), and is integrated to the receiving dock. Gaining visibility to suppliers' outbound shipping status and control mechanisms to account for changing PO status is also imperative, along with Internet-enabled package-level tracking.

Lastly, institute automatic matching of packing slip/warehouse receipt and

authorized purchase order before recording a receipt.

3. Label systems are non-compliant or irreconcilable with customers.

Problem: Capturing data on labels guarantees the data on that label will be recorded into your ERP system – but the data could be wrong. The label scanned, for example, might represent the pallet, but not the entire shipment; it may represent the entire shipment but was scanned multiple times; or could have an unreadable format.

Cause: Label compliance problems – incorrect data and/or labels, missing labels, missing fields, or non-scannable labels – are caused by lack of compliance incentives for suppliers. When this occurs, discrepancies between the ASN and the actual shipment can go undetected. Without IT programs for label compliance, suppliers often won't bear the cost of managing changing label formats.

Solution: Tackle label compliance by requesting that suppliers reconcile labels on inbound inventory with ASNs; and ensure items shipped match items received or put away. Implement compliance label software that allows vendors and trading partners to issue labels compliant with your system.

Companies often lose control of inventory, despite investing in costly ERP systems. The good news? There are ways to address the causes of the problem and regain control.

4. Inadequate returns process.

Problem: Without an integrated “demand notification” and three- or four-way matching, returns are inevitable. Returns are treated as a nuisance, yet companies don’t recognize how returns complicate business processes that are too fragile to reabsorb inventory.

Cause: Because companies don’t always put data fields that allow for recording returns in their ERP, returns go unrecorded or are recorded incorrectly.

Solution: Manage returns as you would any inbound shipment. Return quantities may be low, but efficient business processes for handling returns are still required. Discipline, training, inviolable

business rules, and software are the best ways to accommodate returns.

5. Lack of three-way matching.

Problem: Any inbound/outbound shipment, call-off request, or putaway has an attached data set. Problems arise when ERP systems can’t collaborate to compare records and call attention to the discrepancies.

Cause: When disparate ERP systems can’t automatically reconcile discrepancies, or when companies’ internal business rules don’t force reconciliation between packing slips, invoices, warehouse receipts, and authorized purchase orders, then completely irreconcilable data records with glaring errors can go unex-

plained or unresolved.

Solution: Three-way matching. Have the ordering process originate from the customer’s ERP system, and access it using a “PO collaborator.” This makes matching a seamless data exchange, not a manual process. It also prevents shipments from leaving suppliers’ docks if the match is destined to fail. As a result, problem shipments never hit the docks.

ERP systems are only as good as the business rules and data that drive them. Real-time data validation at inventory transfer points, when coupled with software-driven, preventive-control mechanisms, can go a long way toward solving costly inventory problems. ■

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