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The Leading Edge

# Five Symptoms of Loss of Inventory Control

*You can have the world's best ERP system and still lack control of your inventory*

By Tom Dziersk

You have the best ERP and operating software money can buy. You have a great IT and support staff. You have the best hardware and infrastructure. So everything is under control, and all of your inventory is accounted for, right?

Think again...

While many companies believe their investment in ERP or WMS has solved their inventory control problems, the unfortunate reality is that many of these companies are exhibiting symptoms of the loss of inventory control and they just don't know it. Lack of real-time data validation or prevent-control mechanisms at key inventory transfer points introduce systemic problems. Here are five symptoms of loss of control that even the most well-equipped companies should watch for and how to get that control back.

Symptom # 1: Frequent Discrepancies That Lead to Expediting Fees

Problem: All companies perform a periodic physical inventory or cycle count, yet when they do, many find their physical inventory does not match the inventory in their ERP system. This is despite the use of RF guns to record transactions as they occur, and a disciplined work environment. A common result of inventory reconciliation is negative inventory, where a company assumes it has inventory, and commits to fulfill an order, only to find it does not have what it thought it had, resulting in additional expediting expenses to fulfill the demand.

The costs of negative (or positive inventory) variances are steep, and it's not just the company's reputation at stake. For negative inventory discrepancies, companies pay expediting fees to fulfill demand, laying out cash that digs right into the bottom line. For positive inventory variances, companies are carrying inventory that could be sold, adding capital costs as well as exposing them to unrealized revenue. Positive variances of time-sensitive products increase the potential for write-offs and losses. In both cases, inaccurate information causes poor decision-making, and undermines a company's investment in ERP software, which feeds off inventory data for MRP/Advanced Planning, procurement, and financial modules.

Cause: The most common sources of discrepancies are many: undisciplined inbound processing; non-compliant labels or inadequate/non-standardized label formats; inadequate returns processing; and lack of three-way matching.

Solution: Invest in sophisticated, integrated, software that irrefutably reconciles inventory records with physical inventory through label compliance protocols, and inviolable, rules-based matching of the packing slip/invoice/warehouse receipt/and authorized purchase order. These rigorous business processes will manage inventory transfer internally and as inventory moves among suppliers and trading partners. Investments in sophisticated software have an irrefutable positive return; case study after case study proves it.

Symptom # 2: Inadequate Inbound Processing

Problem: Discrepancies follow the life of the product. If an inbound shipment is incorrectly scanned or counted, the inaccuracy will follow the product until it is shipped out at the other end of the fulfillment cycle. Short of constantly engaging in physical inventory, and checking it against electronic records, accurate inbound processes are essential to prevent inaccurate data from entering your ERP. Symptoms of inadequate inbound processing include the classic signs of poor inventory management: regular write offs or write downs of "missing" inventory at the time of physical inventory; reoccurring expenses to expedite late shipments, and split invoices/split-shipments due to a promise-to-fulfill based on phantom inventory.

Cause: Aside from a disciplined workforce that properly accounts for inbound inventory, the most common cause of inadequate inbound processing is lack of collaboration around purchase orders (PO), including:

* Use of software that doesn't allow visibility to the status of shipments from suppliers

* Suppliers shipping against POs that have changed since initial issuance

* Inability for suppliers and their trading partners to "ping" each others' ERP systems to check PO status and update quantities

* Lack of package-level tracking, via Package Tracking Number (PTN) or Global Trade Identification Number (GTIN).

Solution: Inbound processing errors can be addressed by:

* A workforce trained in what constitutes a complete/acceptable data record

* Software that enables automated advanced shipping notification, integrated to floor-level devices at the receiving dock

* Software that enables visibility to supplier's outbound shipping status and control mechanisms to account for changing PO status

* Package level tracking via PTN or GTIN

* Automatic matching of packing slip warehouse receipt/and authorized purchase order before recording a receipt.

Symptom #3: Label Systems are Non-compliant, or Irreconcilable with Customer

Problem: Capturing data on labels using RF devices guarantees one thing: the data on that label will be recorded into your ERP system. Unfortunately, the label may not be in compliance with your inventory and put-away systems, nor truly representative of what pallet, skid or box it is affixed to.

* The label may represent the entire pallet, but not the entire shipment, and a worker may assume it is for the entire shipment.

* For multi-pallet shipments, the label may represent the entire shipment, but may be scanned multiple times as though the label were for just one pallet.

* The label might be for the entire shipment, but the shipment is split, and received over two different days. During initial put-away, inventory could be added that does not exist; or, for follow-on shipments, put-away without recording.

* The label contains a quantity but your RF or ERP system cannot record it.

* The label may be in the wrong format, or may not contain sufficient data to adequately identify the shipment's contents.

Cause: Recording an ASN number can tally the total shipment, but you may have been delivered only half of it in a split delivery. Discrepancies between the ASN quantity and the actual shipment contents may go undetected, introducing inventory errors into your system. Label compliance problems are generally caused by lack of sophistication or lack of compliance incentives within your supplier base. Unless the suppliers have sophisticated IT programs for shipping compliance, the cost of managing changing formats is often too much for them to bear. They tend to focus only on customers representing a large portion of businesses, and ignore the needs of lower-volume customers.

Solution: Label compliance issues can be tackled by either demanding that A) a label on inbound inventory be reconciled with advanced shipment notification, so you match the items shipped to you to the items received/put-away and aggressively reconcile discrepancies, or B) implementing compliance label software that facilitates accurate recording.

Symptom #4: Inadequate Returns Process

Problem: Without an integrated "demand notification" linkage to a customer and Three- or Four-Way Matching (see Symptom #5, below), returns are inevitable. Even with "demand notification," you'll get returns for breakage or customer errors. Unfortunately, some companies treat returns as a nuisance and do not fully recognize their impact on costs, nor how returns can complicate business processes that are too fragile to absorb inventory (authorized or unauthorized) back into the ERP system.

Cause: It is common that returned products often have improper or inaccurate disposition codes when they are placed back into inventory, if you do not have an adequate and accurate returns process. The easiest process to put in place is to ensure that there are data fields in your ERP to facilitate recording proper disposition of the inventory, e.g. returned/available for re-sale, or returned/unavailable due to breakage, damaged, etc. Otherwise inventory can end up on the shelf and not in your ERP system.

Solution: Management and the business processes they put in place should process returns as meticulously as they treat any other inbound issue. Return quantities may not be as high as traditional inbound, but the business processes need to be as sound for handling returns as they are for absorbing any other inventory. As with the solution to the inbound problems cited herein, software that enables matching allows customizable business rules, and allows your trading partners (even those using different software) to print compliant labels/returns.

Symptom #5: Lack of Three-Way Matching

Problem: There is a finite set of data records attached to any order (and any activity: inbound/outbound shipment, call-off request or put-away). There are inbound data records: a purchase order, shipping notice, packing slip, invoice, warehouse receipt, shipping confirmation and acknowledgement of receipt. Each of these records generates fairly consistent data fields that need to be populated as an order is processed. Problems arise when ERP systems are not able to collaborate in real time to compare records against one another and - through an automated, cross-platform, manage-by-exception basis - call attention to discrepancies. Quantity shipped should match quantity received, eventhough two different companies engaged in two discrete activities.

Cause: When disparate ERP systems can't communicate with one another to automatically reconcile discrepancies, or when companies' internal business rules don't force reconciliation among packing slip + invoice + warehouse receipt + authorized purchase order, then completely irreconcilable data records with glaring errors potentially go unexamined and worse, unresolved.

Solution:The need for "three way matching" is nothing new. But the process is time-consuming and error-prone, because, typically, each element of the data is coming from a different source. The solution is having the entire process originate from the customer's ERP system, through access to a "PO Collaborator." This makes the matching process a matter of seamless data exchanges, and not a manual process. Additionally, a tight 3-way match allows for "pay on receipt" Electronic Receipt Settlement (ERS) with suppliers. Since the invoicing, receiving, and invoice review process are automated, electronic fund transfer (EFT) can be confidently executed.

ERP systems are only as good as the business rules and data that drive them, so a good ERP system is not the only answer to inventory discrepancies. Real-time data validation at inventory transfer points, when coupled with software-driven, prevent-control mechanisms, can go a long way toward solving costly inventory problems. Confidently knowing that your physical inventory matches your virtual records can bring security to your business that you may be lacking today.

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