Take Charge of Inventory Control

Ingenics recently worked with a major manufacturer in the auto industry that had noticed a deviation between its perpetual inventory and its general ledger resulting in thousands of lost dollars and countless wasted effort. Clemens Pichler, Competence Center Leader and Project Leader for this account, explains what went wrong, how it was fixed, and what others can learn from the experience.

Clemens Pichler,
Competence Center Leader

Q: What were the causes of the discrepancies between the inventory and the books?

A: Ingenics conducted an indepth investigation to get to the root of the issue and found a number of very common problems that many companies face. The first was that inventory was being tracked by **PRICING** in the books, with each unit representing by published dollar value. This is a typical practice, but it leaves out any changes to pricing that might occur, such as volume discounts, sales or special offers, and more. We also found that inconsistent bills of material often resulted in the products' **UNIT OF MEASURE** not being tracked consistently across the board, with different entries reflecting different things whether it was feet, meters, or inches.

AWARD:
Top Consultant / Management consultant

This is a common concern for international manufacturers with multiple locations around the world. Another inconsistency: **PROCESSES** for orders and ledger entry. In this case, for example, material entry was booked through the accounting department rather than via the logistics team, so packing slips didn't always accurately reflect the full order. Finally, simple issues with **DATA ENTRY** were a culprit.

We all make mistakes, and incorrect manual input of quantities, parts, and other information is often a big reason that the books and the inventory don't quite match up.

Q: How did you approach a solution?

A: We knew we needed to revamp the company's processes to close the gaps between the inventory and the books. We made sure there was a clear workflow, and put checkpoints in place to ensure consistency and accuracy across the board. But one of our biggest challenges was to look at the technology that the manufacturer had in place a book-keeping system the manufacturer had in place for more than 15 years. Could we keep it and make it work? Or did it have to be replaced? This is a very common dilemma. Many automatically think that it's worth the expense of upgrading the system but the fact is, it's not always the case. In this instance, we actually chose to keep the existing technology.

Q: How did you come to that decision?

A: The key is to start by identifying the changes that have to be made, then determining whether the system in place can support it. With our recent project, we established a set of new behaviors, and matched it up to the feature set of the existing system. We also recognized that the data coming out of the system was only as good as the data going into it so improving the accuracy of that data was a major plus in allowing us to keep the existing technology in place.

Q: Why might a company decide to replace their existing system?

A: For one thing, it's important that technical support is still available for the systems you have and sometimes with older technology, that's no longer the case. And the fact is, existing systems may not address all of the changes you want to implement. Technology changes so quickly, and it's very likely that a newer system will be able to better support the new processes you're putting in place. If there's anything your current system can't handle, or if it would take a great deal of time and money trying to retrofit it, consider replacing it. But remember: it's identifying those processes first that's so critical. Simply swapping out the technology alone won't solve your problems.

Q: What if I'm not ready to replace the technology now, but might be in a few years?

A: A third option is definitely to start by using the system you have in place, and really testing it against your new processes.

If things still aren't working as they should, you'll at least have a much clearer sense of exactly what functionality you need and what you don't which will make the transition to a new system that much smoother down the road.

Q: What were the results of your recent project?

A: Within a year, we saw nearly all discrepancies eliminated between the continuous inventory and the general ledger. Of course, small deviations will always be normal, but we improved to record accuracy rates.

Q: What are the keys to a successful rollout?

A: When you change physical procedures, you change people's behavior. So it's essential that you inform them, train them, and win them over to the new approach...before you implement it. They need to understand exactly how it will help them in their day to day activity. This includes getting buy in from your management team. The best approach is a topdown approach.

Realize these changes will take time, and there may be some growing pains. Don't be discouraged if there are a few tough days or things aren't going well right off the bat. Stick with it it's worth it in the end.

Keeping the lines of communication open can also make or break a project like this. There should be daily check-ins to make sure that any issues are being addressed, including who will correct them and by when. Stay proactive and ask for regular input to ensure that everybody's needs are effectively being covered.

A lot of this boils down to strong project management to keep things on track. But with the right approach, commitment, and support, you can realize significant improvements in a relatively short period of time.

For more information,contact us at **contactica@ingenics.com**.