



# MISTAKE CITY

## E-SUMMIT 2018

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## How much money is lost through wrong shipments, lost product, and mismanaged inventory?

Inventory is the largest financial asset of your warehouse; typically representing 75% or more of the cash value of your organization. And yet the majority of businesses we speak with, will admit to at least one of the **3 Key Inventory Pain Points** that will severely compromise our greatest fiscal resource:

- “The inventory in our internal systems is not accurate”
- “I don’t know where my products are at this moment”
- “Our inventory levels are accurate....in a day (or more)”

We can guard our company’s greatest resource with business strategies, processes, practices, software, and technology - but always bear in mind that “Culture eats strategy for breakfast”. If the business strategy rollout that gains ground with visibility and accountability is not embraced by the company culture and fails to illustrate how the personal growth and roles of employees will be improved - hand in hand with the organization’s strategic growth - then change is painful and often will not be realized.

All businesses recognize (and may be all too familiar with) losses as they relate to inventory; writing off thousands of dollars of product at the end of year, employee’s spending time searching for items, delays in customer shipments, and absorbing costs of incorrectly fulfilled customer orders. To address these issues, change is required and if driven passionately by management and embraced fully by individuals throughout the organization, businesses soon meet their planned strategic growth criteria and open a pathway to future streamlining and efficiency.

The below Best Business Practices are widely supported by distribution houses, and nearly all organizations can benefit from reviewing and implementing.



# BEST PRACTICES

## **VENDOR COMPLIANCE PROGRAM – LEVERAGE YOUR SUPPLIERS TO UNIFY THE DATA**

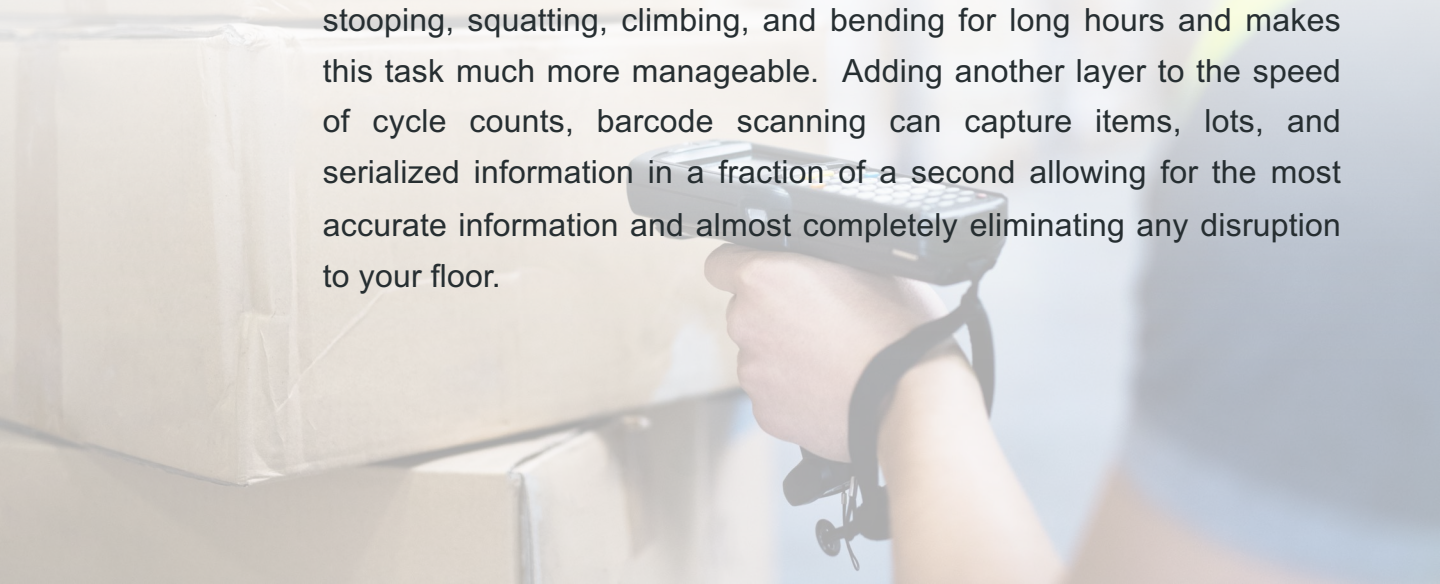


Requiring all vendors to use clear and specific labeling allows employees to perform their job duties in an efficient way and moves away from the “community knowledge” base that new employees may have trouble adapting to or may even slow down the most seasoned veterans. Instead of “knowing this vendor does that and this is how you have to use that information”, a unified labeling requirement allows all employees no matter their experience level to easily manipulate product coming in and out of your facility. Adding barcoded product information has also become a widely accepted requirement. Your vendor’s item numbers, even if it is not your internal product number, can also easily be linked to your Sage 100 inventory via Alias creation in Item Maintenance.

## **PRACTICE CYCLE COUNTS – KEEP IT SIMPLE...AND ACCURATE**



Full, Annual Physical Inventory Counts may still be necessary for your organization, but the long weekend or off-hours count sessions don’t have to be. Ongoing cycle counts that focus on a range of items or sub-sections of the warehouse, will keep your inventory numbers on point without the additional overhead of weekend counting. These counts can be performed with or without a Sage 100 freeze and can be completed in a fraction of the time necessary for a full Annual Count. Time minimized on counting inventory also keeps employees from the stooping, squatting, climbing, and bending for long hours and makes this task much more manageable. Adding another layer to the speed of cycle counts, barcode scanning can capture items, lots, and serialized information in a fraction of a second allowing for the most accurate information and almost completely eliminating any disruption to your floor.



## DYNAMIC SLOTTING AND PICKING WAVES – EASY TO GET IT = EASY TO GET IT DONE



One of the simplest ways to make sure our inventory is moving efficiently and correctly, is to remove all obstacles for our employees - literally. Dynamic Slotting is old hat for most warehouses – “If we need it all the time, put it up front!” Making sure that our “big movers” are easily accessible or closest to the shipping area may not be a new concept, but how often is this process reviewed? Has a new product line overshadowed the old? Are current customer trends leaning toward a different seasonal product? Up front, easy access makes the put away of items or picking process clip along in record time. Picking Waves and routes are one of the most impactful tools for employees on the floor. If the employee’s picking order is automated and mapped out for single or even multiple orders “waved” together, less steps will mean the orders are in shipping that much faster, more orders are able to be picked and fulfilled, and the employee is not frustrated by wandering aimlessly and looking for items.

## TRACK THE MOVEMENTS – KNOW BEFORE YOU GO



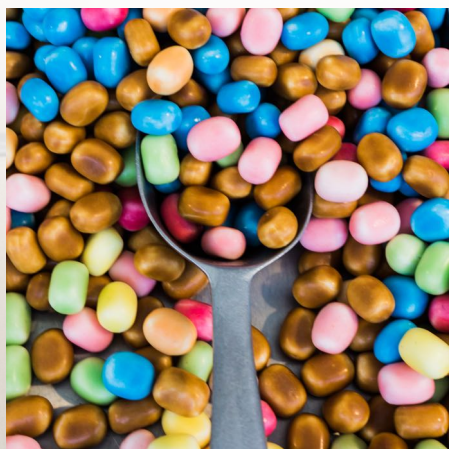
If the mandate came down to the warehouse floor that every product movement was going to be tracked, would mass panic erupt? Would the response be: “We have too many steps to track it all!” or “That is too much information to process!”? Then the issue may not be tracking movements, but an issue with internal process itself. Any step in a logistics flow that cannot be effectively tracked is either an unnecessary operation or at least should be flagged as an area to be addressed and improved. If we are only checking items when they come in and go out of our facilities, we miss the story behind the “journey”. Our products’ individual journeys show us key analytics that help organizations truly streamline processes. Adding tracked steps seems like it could slow employees down, but in reality, an accurate inventory system with movement tracking stops time draining activities like customer service calls to the floor to ask if the items are verified in stock, employees starting to fulfill an order only to find out that the stock levels are not able to satisfy it, or worst of all – employees constantly searching for where the item is. Items with low turnover rates that take up valuable square footage, “hot sellers” that might need additional stock on hand, or visibility to where items are hitting a black hole and disappearing are all huge pieces to our organization’s distribution puzzle.

## AUTOMATE DATA COLLECTION – INCREASE ACCURACY AND SPEED



At Scanco we naturally gravitate to the topic of data collection automation – Hey, it's what we do best! The error reduction and real time access to information will, in and of itself, lend naturally to best business practices, but the often overlooked component is the elimination of 2 people doing the same job! When employees are asked to handwrite information out on the floor, we open ourselves up to mistakes in that written information. Recording a serial number, logging materials to a different area of the floor, or confirming the correct quantity is being received with a check mark are situations where data can be skewed. Now, compound that margin of error with other employees that will need to translate the handwriting into data entry keystrokes, and we have created an environment that cultivates errors and delays. Eliminating this duplication of data collection opens up time for both the employee on the floor as well as the back office employee. The information is collected correctly the first time and in your Sage 100 system immediately – no pen required. The real time information also allows Customer Service to know what's in stock, Purchasing Managers to know what needs to be ordered, and Pickers and Packers to know their items are available when they get to the shelf.

Any of the Best Business practices above can be read and heartily agreed with....in theory. But how do these strategies affect the real world and the bottom line? Let's take one of the simplest Sage 100 Inventory Management functions – Physical Counts – and look at 2 very different company models. Let's also see if either's practices seem familiar? Both example companies have the same overhead, same number of individual SKUs, and do the same amount of annual business volume.



**Company:**  
**Cody's Candies**



**Company:**  
**Kristen's Confections**



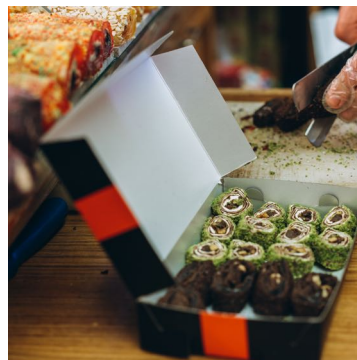


### **Current Processes:**

Items are received in with different labels from each vendor and packing lists are checked against items with employee written notes to record quantities and lots. Packing lists are given to back office to enter in Sage 100 Receipt of Goods by end of the following day. The received items are put on any available, open shelf space. Annual Physical Counts are performed at end of year. Sage 100 Sales Orders are placed by customer service and a pick sheet is sent to the floor. Employees pick items, write down lots, and give picked items to shipping department to box and ship. The pick sheet is then sent to the back office to create Sage 100 Invoice to be sent to customer. Sage 100 Invoice is usually created the same day.

### **Annual Physical Counts:**

Cody's Candies shuts down their facility for 2 business days and 8 employees count inventory by writing down counts and lots on Sage 100 Physical Count Worksheets. Worksheets are given to back office on Monday and entry into Sage 100 Physical Count Entry is completed by end of day Tuesday. Sage 100 Variance Report is run and high value items maybe recounted, but most of variance is written off as loss.



### **Current Processes:**

Items are received in with item and lots barcoded on labels. Employees scan and validate against Sage 100 Purchase Order the items, quantities, and lots, create the Sage 100 Receipt of Goods record, and stage items in receiving area. Receiving area scans items to be put away in primary locations and scans locations when dropped off. Cycle counts are held every 2 weeks on rotating product lines. Sage 100 Sales Orders are placed by customer service and a wave pick list is created for orders that can be satisfied at 90%-100%. Employees look up assigned wave pick list on mobile devices and start guided pick based on route. Employees pick several orders together, validate correct items, quantities, and FIFO lots, and then stage items to shipping department to box and ship. Shipping validates the picked items, quantities, and lots against the Sage 100 Sales Order as they pack the boxes, and simultaneously creates Sage Invoice Data Entry record.

### **Weekly Cycle Counts:**

Kristen's Confections takes next product line up for cycle count on Monday and have 2 employees spend 4 hours in dedicated product line area, scanning product and lot numbers and entering hand counts of items. When count is complete, back office runs Sage 100 Variance Report and any requested recounts are done immediately. In 2 weeks on Monday the next product line is counted in the same manner.

# BEST PRACTICES

## So who comes out on top?

Kristen's Confections spends 208 hours a year in counting inventory. Cody's Candies only spends 128 hours once a year. Surely stopping business for 2 days makes sense to get everything done in one shot at a reduced time investment?

Let's look at these scenarios against our Best Business Practices and then take a closer look at the costs.

It is true that if the average hourly rate of the employees on the floor for both companies is around \$18.00/hour, then Cody's Candies is definitely in the lead! The Vendor Compliance Program may add standardized information to the items at Kristen's facility, but Cody's employees know their products well enough to knock out the counts quickly regardless of the labels. Kristen's employees are scanning the product number and lots the vendors were asked to supply on the labels and are quicker, but we are still neck and neck at cost. Kristen's employees also need to spend a total 8 hours of every other week to get the Cycle Counts done where Cody's employees only need to "crash-the-boards" on an annual basis. Wouldn't that time at Kristen's Confections be better spent doing something else? Now Kristen's Confections does have all items in a Dynamic Slotted arrangement so items are not randomly located throughout the warehouse and the monthly review of item locations based on seasonal needs does make it easy to find all product line items that have to be counted. But business is completely shut down at Cody's Candies during the annual count so employees can find all items; eventually. Cody's employees can struggle a bit when items are still in receiving or have already been pulled for an order since Movement Tracking is not currently done. Kristen's employees can look up items on their devices and see where every item is in the warehouse before they even start counting to make sure the product line is accounted for in full. Kristen's Confections is scanning and Automating Data Collection which enters the counts into Sage 100 without additional manual entry. Cody's Candies does experience a lag when the office has to manually enter the employees' written information which opens the window even wider for variance once product starts moving on Monday morning. And sometimes it is hard to read the handwriting. Occasionally a deactivated product is also recorded. Every now and then the lot number is wrong. But these minimal mistakes can just be written off as variance, right?

So really who's running with a healthier inventory bottom line?

# WHAT'S THE BOTTOM LINE?



## Cody's Candies – Yearly Physical Counts Costs

Employee's Hours: 128 hours @\$18 = \$2,304  
 Back Office Data Entry: 8 hours @\$25 = \$200  
 Handwritten Mistakes: 60  
 \*Data Entry Mistakes: 240  
 \*\*Average Cost/Error: \$20.00 - @300 errors = \$6,000  
 \*\*\*Product Variance by Unit: 5,000/year  
 Write Off: 5,000 items @\$20.00 avg. item = \$100,000

**TOTAL: \$103,104 Cost Investment**



## Kristen's Confections – Yearly Physical Counts Costs

Employee's Hours: 208 hours @\$18 = \$3,744  
 Back Office Data Review: 13 hours/year @\$25 = \$325  
 Handwritten Mistakes: 0  
 \*Data Entry Mistakes: 0  
 \*\*Average Cost/Error: \$20.00 - @0 errors = \$0  
 \*\*\*Product Variance By Unit: 130/year  
 Write Off: 130 items @\$20.00 avg. item = \$2,600

**TOTAL: \$6,669 Cost Investment**

\*Statistical average of 1 error every 300 keystrokes, with average data entry speed of 9,000 keystrokes per hour.  
 Statistical average of barcode scanning errors 1 in 3,000,000 scans.

\*\*Average Cost per Error for our example is an average item cost of \$20.00 – this cost in your organization may also include estimated cost of delayed shipments due to incorrect promise dates, multiple package shipment costs, and return shipments costs for incorrect product.

\*\*\*Product Variance by Unit is number of units not able to be accounted for in Physical Count.



# WHAT'S THE BOTTOM LINE?



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So which methodology seemed more familiar? Can you relate to either of these examples?

Cody's Candies has an Annual Physical Count loss of over \$100,000. Not to mention 2 days of facility shut down where orders were not being fulfilled and dollars were not being generated. With Physical Counts being the cornerstone of any distribution organization, we can easily see how our Best Business Practices would be translated to this real scenario and can extend these practices to any area of our warehouse from receiving all the way to shipping. Our two example companies have the same carrying costs and handle the same amount of business, but end up with vastly different success rates.

Changes may not always be easy, but they can be simple while still being impactful. Small improvements within your organization can be the first steps in protecting your greatest asset and if additional guidance is needed, your Sage Partner is a monumental resources that can help guide your organization. With every efficiency supported passionately by management and communicated directly with employee benefit in mind, growth becomes possible.

No successful business has ever stated they were looking forward to another stagnant year, right?

Additional References for Distribution Best Business Practices:

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# About Scanco Software



Since 1989, Scanco has been a leading provider of supply chain automation software and services. From our inception, we have focused on innovative warehouse management solutions with a unique technology-driven approach. Our solutions deliver unequaled efficiency and visibility for distribution and manufacturing companies around the globe.

From basic barcoding to the most complex distribution and manufacturing operations, Scanco software is positioned to grow with our customers ever-changing business needs. We are focused on providing top-tier, fully integrated automation solutions built specifically for your ERP solution. Today, thousands of world-class distribution and manufacturing companies have automated their facilities with cutting-edge Scanco technology.



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