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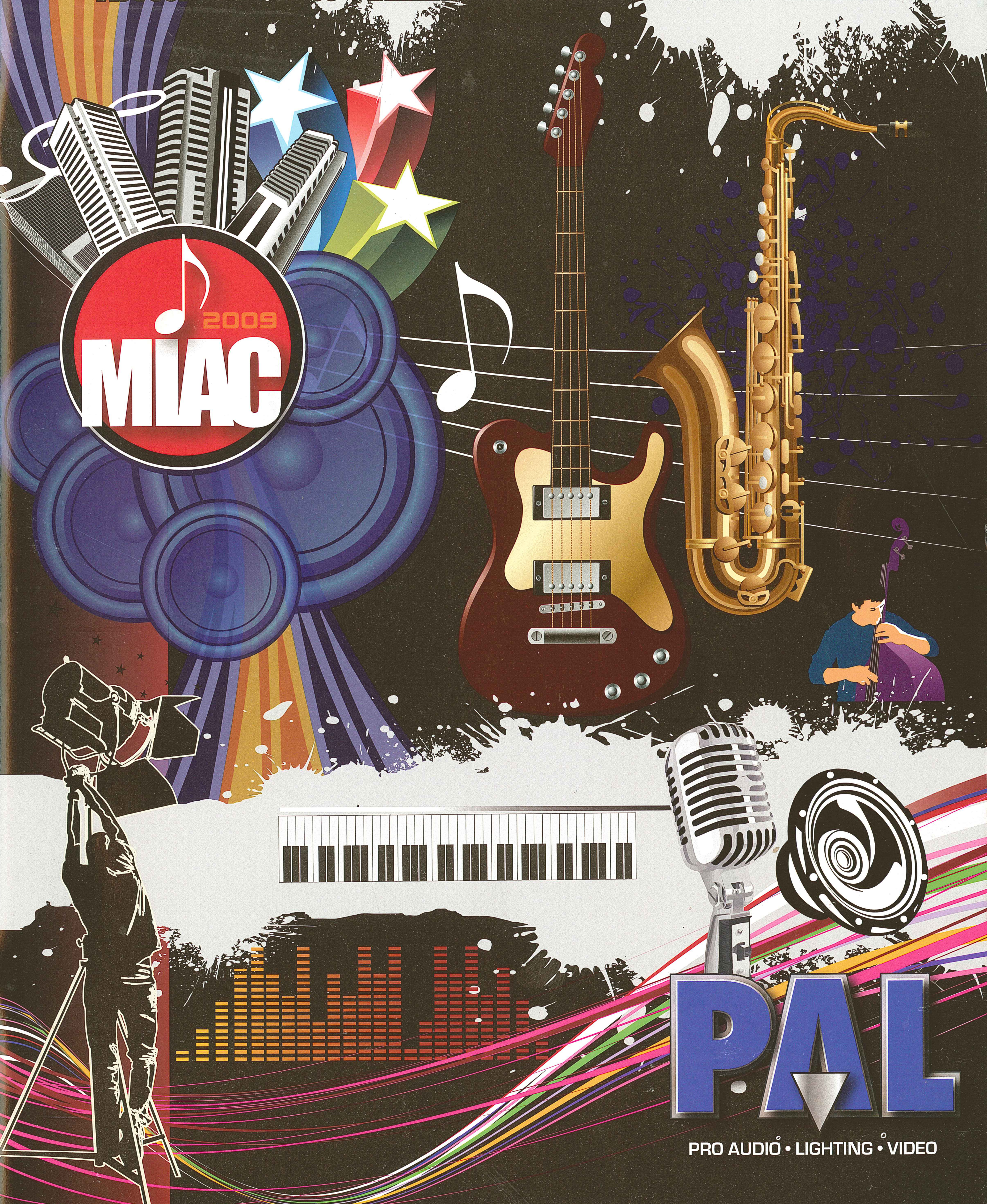

Inaccurate Inventory... We won't Get Fooled Again

Most music retailers recognize the importance of inventory accuracy - that is, having the available quantity of an item in your computer agree with what's actually on the retail floor and in the back stockroom and/or warehouse. But where many retailers go wrong is thinking that if they implement some new, cool technology - like bar coding or RFID (Radio Frequency Identification) - they've just completely cured all of their inventory inaccuracy problems. Granted, implementing these technologies can help reduce errors and improve inventory accuracy. However, none of these technologies will completely eliminate accuracy errors, and a poorly implemented system can leave you worse off than you were before spending all your time and money.

Before implementing any new inventory management technology, most music store owners need to take a step backwards and address some of the basics of inventory accuracy first. To that end, this article will guide you on the steps needed to achieve a more accurate inventory count and valuation.

Getting In Tune

Most music retailers are in tune with the importance of inventory accuracy - that is, having your inventory accounting software report the quantity of any item you stock that agrees with what's on hand. But bad things happen when inventory accuracy doesn't exist.

First, time is wasted. If your sales staff are constantly running back and forth to the stock room to see if an item is really in stock, they're wasting time. In some cases they can't even walk to the storage area because it's in a remote location. If they're wasting time running around, they can't answer phone calls or help other customers who are in your store waiting to be helped. Worse still is the time wasted checking stock status when the customer is on the phone. Do you enjoy waiting on the phone, for 10 minutes or more, listening to a repetitive "on-hold" message describing a store's commitment to customer service when all you wanted to simply know is if an item is in stock?

Second, money is wasted. If inventory is misplaced, lost or stolen, it must be replaced. Buying replacement stock is now no longer an asset...it's now an expense and must be paid for out of the store's net profits. Unexpected inventory shortages, called inventory "shrinkage" (or "shrink") usually hovers around 1% to 3% of annual sales, but can run 5% or higher for stores who have no handle on inventory accuracy. Worse still, is the amount of additional sales that now need to be achieved to make up for shrinkage. If a store is generating a million dollars of annual sales and has a 3% shrink, they're losing $30,000 in lost or stolen inventory each year. If their typical gross profit margin is 30%, they need to generate an extra $100,000 in sales ($30,000 divided by 30%) just to make up money lost due to inventory shrinkage. And that's without regard to the additional selling costs (like commissions, payroll taxes and advertising) to achieve that extra $100,000 of sales. Frankly, the real sales amount needed to make up a $30,000 inventory shrink loss is probably closer to $150,000.

Third, and arguably the worst attribute of inventory inaccuracy, is disappointed customers. If you promise to deliver a product to a customer based on what your computer says is in stock and later find out the item isn't actually available, the result is often a disappointed or angry customer in addition to lost revenues. If it happens often enough, you'll lose your reputation as a reliable source for product, which is great way to increase your competitor's sales.

There's little doubt to most music store owners that inventory accuracy is in integral part of effective inventory management. But, how do you convince your employees of this notion? Three ways: (1) Teach them inventory accuracy is an essential element to company's success, and their continued employment is dependent on that success; (2) Implement the tools and "best practices" to achieve inventory accuracy, and (3) Provide economic incentives for maintaining inventory accuracy. Let's talk about each of these...

Another Tricky Day

Having the right attitude is the trick to inventory accuracy. Just like carrying quality products and striving for high customer service, inventory accuracy must be promoted throughout the store as everyone's responsibility. This attitude must start at top levels of store management by clearly defining all processes that affect inventory accuracy. Given that even the most accurate employee will make errors, management should be looking for these errors to occur in order to implement changes to eliminate or reduce them.

Next, document the procedures you want your employees to follow to maintain inventory integrity, from its purchase, to arrival, to storage and eventual sale. Your documentation should be clear and comprehensive, and should include everything each employee needs to know to complete the inventory-related tasks they are assigned. For example, if your shipping and receiving clerk's responsibility is to notify the owner of any discrepancies between what was ordered and what actually arrived, that should be clearly stated in the clerk's job description. Remember, written procedures need to be enforced to promote compliance. Handing out a written memo does not constitute employee training. It's important to set a training schedule to go through all of the procedures with your employees. Take whatever time is necessary to ensure your staff fully understands all procedures. If you do your job correctly in defining the processes and documenting the procedures you shouldn't run into many surprises during the training.

Once implemented, immediately begin monitoring your processes for compliance. Any actions observed which do not comply with the written procedures must be addressed immediately with the employees involved. Allowing employees to "do it their own way" (even if their way is a better way) will make it impossible to enforce compliance on other issues and also creates problems when changes are made. If they have a better way, consider it for the next scheduled revision (perhaps at 6-month intervals).

Try to set minimum inventory accuracy standards (i.e. "Our store will not tolerate shrinkage greater than 1.5% per year"). We all want to be accurate; the problem is we all think that we're accurate and it's always the other guy who's making all of the mistakes. You'd be amazed how much just one individual not following the rules can quickly screw up your inventory. So hold your staff accountable for following documented inventory-handling procedures. The best way to measure a store's performance against these standards is by conducting a physical count of the store's inventory. Once completed, make sure you timely communicate your findings to your staff – you'll undoubtedly see an immediate improvement in inventory accuracy.

Lastly, make sure you count your inventory often. You probably think implementing the steps outlined above will automatically make your inventory accurate. Not true. The only way to prove the accuracy of your inventory count and valuation is to physically count it. Also, physical inventories that are only taken at the end of the company's fiscal year (usually at your accountants' request for financial and tax reporting purposes) do very little for inventory accuracy. You need to count your inventory on a frequent and continuous basis to maintain high levels of accuracy. These periodic counts (called "cycle counts") are one of the best ways to identify problems with inventory accuracy. Counting sections of your inventory each week or month not only improves inventory accuracy, valuation and overall customer satisfaction, it also shows your employees you care about the safeguarding of your inventory. This may, in turn, prevent or minimize employee theft of your inventory.

A Final Thought

There is nothing revolutionary about these inventory management "basics"; they're simply a series of steps which define a process for improving inventory accuracy. Your overall success or failure will be determined by your diligence in implementing each of these steps. This is not something that should be rushed; taking a "quick-fix" approach to alleviate an immediate problem may be more damaging in the long run, since the success of this plan requires a cooperative effort by many people within your store. If your first attempt fails you'll probably find it more difficult to get your employees to cooperate the next time you try. So, take your time, get everyone on board and involved from the start, and do it right.

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