



Physical Inventory Tips for Preparation and Execution

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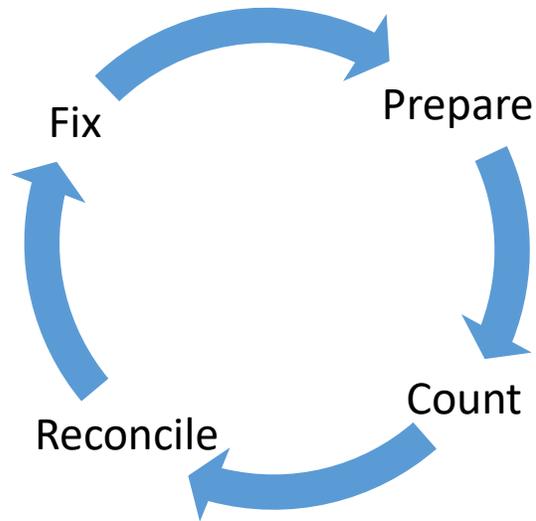
Businesses that use inventory have to include the value of that inventory in their periodic financial statements. A business that is a manufacturing entity has to also include something called WIP, work in process as an additional inventory category.

Inventory accuracy, meaning how closely your transactional records of inventory match the result of a physical count, is a practical test of the control you have in your business processes. It is a gauge of how reliable all of your data is so therefore we want to treat the physical inventory process seriously.

Operations that cannot show reliability on the inventory count and cost numbers through verifications of consistent cycle counts with high degrees of accuracy will at a minimum be executing one Physical Inventory a year.

What does that mean? Do it right! Here we present a few of our most reliable tips.

1. See your physical inventory as a 4 step process. That distinction can help you acknowledge completion of each step and make the whole process not so overwhelming. We suggest this model Prepare, Count, Reconcile and Fix. We use a circle because like all good improvement processes it repeats. View [our video](#) for a more detailed explanation.



2. Set the date. Let staff know well in advance, not so they can find excuses to be off site but so they are aware of the time line and can prepare. Don't assume that everyone was here last year and knows about the big event.
3. Let the staff who must be present, like the controller and others who will act as auditors or data entry resources, know they are on the list. Generally inventory occurs at a slow time of the year or over the year-end holidays. Staff have lives too and may need to make arrangements. Oh and keep an eye out for patterns of absence. It is not really fair if the same person gets to miss the company bonding event because they travel that time of year.
4. Review last year's debrief. That was the meeting you had last year with key participants 6 weeks after the event to report findings and review how things went. Now is the time to refresh yourself on any proposed changes or plan to handle the issues that were unanticipated last year.
5. Review last year's reconcile challenges. After the counts were in what were the biggest issues getting the counts reconciled, was it unit of measure conversions, shipping boxes incorrectly labeled or sales staff not getting their personal count sheets back in time. You probably captured these items in your non-conformance reporting. Use that content to revisit the issues and be sure the corrective actions have been completed satisfactorily. If you had a big surprise last year you have probably been working on inventory related issues all year. If you are not sure all open items were addressed, now is a good time to follow up.
6. Set the meeting schedule with your core team to review preparations and finalize assignments. Start at least 90 days out. If you have manufacturing operations that take longer than 90 days you will have to start further out than that. For manufacturers it can be really useful to physically identify shop floor paperwork for items that are expected to still be on the shop floor at inventory. If you have a fairly steady rate of production this will be achievable. It will make research and reconciliation of WIP easier. Also remember in your planning that review meetings with your core team will increase in frequency as the big day(s) approach.

7. Review and redraw your count zone map. A fresh map is always nice to have and if any outside auditor is present for the count a map will keep them from getting lost.
8. Establish the cut off dates for no shipping and NO RECEIVING. Yes, the second is more important because you can control the first but your vendors are controlling the second. Be sure that purchasing staff is notifying vendors in a variety of ways. You aren't really trying to stop everything but you don't want more than the critical trickle.
9. Clean, clean, clean and did I mention clean. It's not just to find the junk, but also to find the good parts. It is also a safety concern.
10. Refresh your supply list. On it should be standard items like the right kind of paper for printing tags, clipboards, pens, prepared spreadsheets for recording non-conformances, attendance rosters. Check last year's debrief to see what ran short and what was too much.
11. Prepare job descriptions for day or days of count. Be sure everyone is trained. Don't rely on their neighbor telling them what to do because, well, that could be wrong.
12. Plan food. Bring it to the location that way you won't lose important staff to unexpected distractions and it will build camaraderie, which you will need to get you to the end of the process.
13. Prepare an information packet for your outside auditor. If there are special situations, or just things about your counts that are unusual to someone who doesn't frequent your business it can be helpful if they get a little explanation before they begin.
14. Set the rules. Communicate the rules. Uphold the rules. This is for everything, including staff signing in and out at the beginning and end. Nothing drags the process out more than having the internal auditors leave before all the count zones are cleared. Internal Auditors start late AND finish late.
15. Make it fun if you can. Music helps – but not all day. Occasional blasts pump people up. Have a post event lunch with 'best of awards'. Colored baseball caps for designated roles, like internal auditors, zone captains, item identifier troubleshooters.
16. Be sure everyone knows that Physical Inventory isn't over until all the tasks from the 'Fix' phase have been completed too. Not sure what Fix is? That's when you trace the root cause of all the reconcile transactions and you institute corrective actions to make sure they don't happen again. Fix is best tracked using your quality improvement systems if you have one. If you don't you can check out [Quality Essentials Suite Improvement Management Module](#). It will let you track the corrective actions that need to occur to ensure they are all fixed before next year's inventory.