The Secret to Implementing Perpetual Inventory

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Why is implementing perpetual inventory, using an integrated software solution, so challenging to most users?

I believe the answer lies in the failure to clearly identify the benefits of integrated perpetual inventory for the entire organization. Without that explanation, it is truly difficult to get everyone, and I mean everyone, on-board.

We should start by clarifying the difference between *perpetual inventory* and *integrated perpetual inventory*. Although the practice of *perpetual inventory* is common, the use of the term *integrated perpetual inventory* is not as familiar to us.

Perpetual inventory is the method of keeping track of your inventory continuously, by recording each and every transaction that either adds to or subtracts from your quantities.

Integrated perpetual inventory accomplishes the same goal, but has two added benefits:

1 – Using specialized software, it keeps track of all the costs associated with those inventory transactions. This means that the inventory asset value is maintained in real time, which reduces both cost and the time spent preparing financial reports. The need to duplicate transactions using multiple tools is eliminated.

2 - The event that directly effects inventory automatically updates the inventory records. The effort of supplying transaction data to another department so it can update inventory records is eliminated.

Historically, manufacturers and distributors have recognized the need for inventory control. For those without the budget of a Boeing or Dell, the first systems chosen for implementing perpetual inventory were based on stock-keeping cards. Completing the cards was a tedious and difficult solution, as it meant transactions had to be hand-written; the math was done in someone's head. If information on stock levels was needed, someone had to look at the card and trust that the card was truly up-to-date. Trying to figure out if an order for more material was needed meant looking at every card in the files or relying on someone to bring the card to the purchasing agent. What if they forgot? The other big limitation, of course, was that the valuation reported on the balance sheet for inventory had to be generated another way; the stock cards weren't a reliable tool for the financial side of the house.

While a card system was better than no system, it was a tool that was easily replaced when something better came along.

The arrival of desktop computers made the spreadsheet an easy and affordable replacement for the stock card. As needs evolve, simple spreadsheets became multiple complex spreadsheets. They are able to handle complex tasks for the manufacturer, like decrementing the counts for all the items used in a multi-level Bill of Material or product formula. Electronic spreadsheets are shareable, predictable, consistent, and they perform the *heavy lifting* with mathematical precision, so results are more reliable. Their flexibility makes adding additional information, like the date of a pending receipt, easier to handle.

But you still have to receive a P.O. into your financial system and then duplicate the data onto the spreadsheet, so real time inventory valuation is still being managed in a different system.

So, let's say you have begun to notice the limitations of your spreadsheet systems. Errors are not easy to spot. Checking on-hand quantities for many items in a Bill of Material is really tedious. And, did we mention, there is still no reliable tie between your count data and your valuation data on the balance sheet? Today, with standalone spreadsheet-based tools, you are still spending plenty of money and time duplicating information in unconnected systems. But let's face it - your staff loves them. Each person is deeply familiar with their tasks and has developed a highly efficient set of processes for getting their job done.

Maybe you have reached the point where you understand that you are limiting the success of your business because you do not use a software solution with integrated perpetual inventory. You realize you are spending money on duplicating data entry and building islands of unconnected data. You might have tried looking for such a system, but you know your business processes are complicated and you will have a hard time getting staff to agree on requirements. You predict that your staff will feel threatened when, by implementing perpetual inventory, you replace their personal tools and spreadsheets.

In spite of these obstacles, you know you need to make decisions based on *fact* or your business will not grow.

To effectively champion this project, you need to get the right information to the right people or you won't get everyone on board. The secret to successfully implementing perpetual inventory is helping your team understand how to identify the benefits to the total organization when concern about inconvenience or change to individual contributors arises.

Try sharing these benefits with your staff:

1. By eliminating duplicate activities that are needed to support different data systems, the overall work load on the organization is reduced. This is not just a cost saver - it allows scarce resources to be redistributed to other functions that can drive additional revenue.
2. Required financial and performance data is available sooner and upon demand, which means decisions can be made in a more relevant time frame and based on more accurate information.
3. MRP (Materials Requirement Planning) can be enabled as your inventory planning tool. Cash flow can be optimized by buying materials in the time and quantity required. Operating costs can be reduced by adjusting overall inventory levels and eliminating *rush* shipment costs.
4. Added benefits from your physical inventory can be obtained to improve quality and identify the effectiveness of your people and processes.

If you are a discrete or process manufacturer and the benefits of integrated perpetual inventory interest you, find out more about our solutions on our web site.