



HORIZONS

QualityEssentials
Suite

Quiz – Would Your Organization Benefit from Integrated Perpetual Inventory?

Frances Donnelly, C.Q.P.A.

This 10 question quiz is designed to help you and your team determine if you can achieve greater operational success and profitability with an Integrated Perpetual Inventory solution.

The quiz has two sections:

Section 1 – Has 5 statements that identify physical tasks that occur in most manufacturing environments. We use these events as measurement points for organizational performance related to inventory activities.

Section 2 – Has 5 statements that identify operational expenses that can impact profitability. We use to determine if available inventory data might be affecting profitability.

At the end of each section an answer key is provided that includes an analysis of responses. Other factors that can be influencing the answers are also discussed.

Section 1

The statements below describe common conditions or events in most manufacturing organizations. Respond Yes or No to each statement.

1. It takes more than 5 business days after each month end before your accountant can provide you with your month end financials, including inventory valuation.
Yes No
2. Your year-end physical inventory returns a valuation at least 10% higher or lower than expected.
Yes No
3. More than 10% of monthly shipments are late due to inventory availability issues.
Yes No

4. It takes more than 10 minutes to get an accurate stock count that includes open purchase orders, unfulfilled allocations and stock on hand.
Yes No
5. Customer service accurately projects ship dates on less than 50% of orders the first time.
Yes No

Answer Key

Yes to all questions: You probably took this quiz because you were experiencing problems but you weren't sure they were inventory related. Changing systems around inventory is a challenge and it is important to be sure you understand all the benefits of the project so you can encourage your team to fully participate.

Yes to 3 or more questions: Well at least some areas are functioning well. But what is it costing you operationally to achieve that success? Could using integrated perpetual inventory improve your profit margins? See section 2 or a deeper analysis.

Yes to 2 or fewer questions: Terrific. Now the question is whether you have too much inventory and how would you know. Excess inventory is one of the surest ways to accommodate the information gap that occurs when perpetual inventory is not in use. Excess inventory has a negative impact on cash flow and can undermine the long term success of your business.

Section 2

These statements below highlight situations where manufacturers incur costs that under deeper investigation often shows that availability of inventory data is likely the root cause.

Answer yes or no to the following questions:

1. Staff has to check more than one spreadsheet or paper file to simultaneously provide both cost and count inventory values accurately.
Yes No
2. The purchasing department authorizes 'rush' shipments of materials more than 4 times per month.
Yes No
3. Customer service or sales authorizes 'rush' shipments more than 6 times per month that are not charged to the customer.
Yes No

4. More than 50% of overtime labor charges incur during the second half of the month.
Yes No
5. You cycle count the same 30% of your inventory items at least 6 times a year.
Yes No

Answer Key

Yes to any questions: One of the goals of integrated perpetual inventory is to provide real time accurate data all the time. When this occurs manufacturers typically reduce operational expenses because they can eliminate the costs associated with duplicating tasks and emergency shipments. If these costs are not showing up then it is generally relevant to consider if perhaps these issues don't surface because inventory levels are unnecessarily high. Excess inventory creates near term problems by affecting cash flow and long term problems by affecting profitability if the excess inventory has to be written off. Bench marking inventory turns can help highlight possible excess inventory issues.

Inventory Management

Inventory for manufacturers and distributors is the life blood of the business. Too little inventory and customers can't be satisfied and too much inventory can threaten the long term success of the business. This makes Inventory Management one of the most critical operational functions. Doing a good job with inventory management requires having timely accurate inventory data across all the events that shape inventory. Integrated Perpetual Inventory Solutions for manufacturers are designed to provide that information accurately in real time and for many businesses with an eye on growth selecting and implementing such solutions is critical.

At Horizons International we take pride in helping organizations select and implement the best integrated perpetual inventory systems for their industry and business model. We would like to help you too.

Contact us at sales@hzs.com or (800) 287 8014 ext. 811

Visit our websites to download helpful content, view short videos or sign up for our blog and newsletters

www.hzs.com

www.qualityessentialsuite.com