



CPAs & Business Advisors

Manufacturing Monitor

Operation Reviews • Cost Management • Financing Strategies • Benefits Reviews • Accounting Systems • Inventory Systems

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Increase Inventory Count Accuracy with Cycle Counting

Maintaining an accurate inventory count is critical for distributors. If data in your inventory management system doesn't match what you have stored in your warehouse, order fulfillment delays and customer dissatisfaction can result. Achieving inventory accuracy, however, can be a challenge. The solution requires a multipronged approach.

A multistep process

First off, there's rarely a quick and easy solution. Most likely you'll need to employ a multistep solution that entails:

Defining and mapping processes. Work with your staff to gain a comprehensive understanding of all processes that affect inventory. Chart the actual workflow and document how the processes should work down to the individual task level for each position involved in the process — from purchasing, receiving and stocking to order processing, fulfillment and shipping.

Training employees to succeed. Set up training sessions for all your staff to review inventory processes and individual responsibilities. This will help them gain a solid understanding of workflow and how one process affects another. Test your employees on their knowledge of and ability to perform expected tasks, and provide constructive guidance for correcting errors.

Ongoing monitoring and reporting. Determine realistic goals for minimum inventory accuracy. On a regular basis, such as monthly, identify and report inventory inaccuracies — for example, improper counting, data entry errors, or goods lost to theft, damage or disorganization. Translate what these inaccuracies mean in terms of lost profit for the company.

Focusing on continuous improvement. Regularly review your operations with your staff to pinpoint broken process areas and identify solutions for reducing errors. This will allow you to incorporate enhancements or new processes as business needs change.

Try to batch together several process improvements at one time to avoid confusing employees with multiple process iterations. Then roll out the changes through formal training sessions to

ensure everyone is on the same page.

Two types of cycle counting

To help you reach your inventory accuracy goal, be sure to include cycle counting. Cycle counting involves taking a physical count of part of your inventory in the warehouse each day.

These physical counts are then compared against the levels shown on your inventory management system. By pinpointing inventory discrepancies, cycle counting helps you identify the source of accuracy problems, so you can implement applicable solutions.

To this end, there are two types of cycle counting that distributors need to employ in combination:

1. Control group cycle counting. This type of counting involves selecting a control group made up of a cross-section sample of inventory, including parts and

materials, and then counting the control group and comparing it against your inventory management system data. Because control group cycle counting should be performed at least weekly, it can help you identify the source of errors.

2. Random cycle counting. After you've implemented control group cycle counting, identified any sources of inventory accuracy problems and put the necessary solutions in place, begin implementing random cycle counting. With this type of counting, take a random mathematical sampling of your inventory to assess conformance against inventory accuracy expectations. An inference of the accuracy is then made relative to the entire inventory.

Cycle counting shouldn't be a one-time event. Conducted frequently, it will ensure continuing improvement in your inventory accuracy.

Total commitment necessary for success

Keeping accurate inventory counts is essential to your distribution company's profitability and ability to keep customers happy. But maintaining the correct numbers takes diligence and commitment from all of your employees.



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Retrain Low-Skilled Workers to Enhance Profitability

Manual jobs requiring only limited skills have been all but replaced by more complex positions involving high-tech automation, enhanced technology and data analysis. And as manufacturers explore additional ways to remain competitive in a difficult economy, some are branching out from their traditional roles to provide engineering, design and other related services.

As a result, many manufacturing jobs now require a higher level of education and advanced training. One solution that you shouldn't overlook can be found right under your plant's roof — your low-skilled workers.

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Retrain Low-Skilled Workers (cont'd)

Learning curve

To help your current employees increase their skill sets, start by developing position competencies so they'll know what functions they must master before they can advance in their jobs. Next, consider enrolling low-skilled workers with particularly good aptitude into specialized training programs addressing technical math, blueprint reading, practical dimensional inspection tools and machine technology.

From there, training might include learning manual machines such as mills, lathes and grinders. High-end training for exceptional workers can include learning CNC equipment, CAD/CAMS, mold polishing and design, and even robotics technology and maintenance.

In addition, enroll workers in workshops, online courses and certification classes to help keep them abreast of the latest processes, technologies and best practices. Encourage them to attend conferences so they can keep on top of new products and

trends. The National Association of Manufacturers and other national industry organizations may be helpful resources.

To foster an environment for learning, encourage your managers to share knowledge with workers through informal workshops, one-on-one training and mentoring. Consider developing a formal cross-training program to help diversify employee skills and create more challenging work. This can also be beneficial when employees leave or are absent, terminated or laid off.

Finally, be sure to reward employee growth and development with appropriate compensation and meaningful work that allows them to use their new skills. Both will provide them with a greater sense of value to the company and translate into greater job satisfaction and possibly even less turnover.

Lucrative returns?

Providing low-skilled workers with tools and resources to enhance their abilities is an investment in them and your company. The returns can be high: yielding more capable workers who could boost productivity and increase your bottom line.



Conduct a Safety Audit

Accidents happen. Some are minor, but some can result in serious injuries and even death. Conducting routine safety audits and inspections can reduce workplace accidents by uncovering hazards and ensuring that workers are complying with your company's safety standards.

Information from the Bureau of Labor Statistics shows that millions of non-fatal workplace-related injuries and illnesses are reported every year, about half of which are more serious, involving days away, restrictions, and transfers (DART).

Such work-related accidents create financial burdens that can significantly hurt your company's profitability. In addition to workers' compensation claims, potentially higher insurance premiums and possible litigation costs, there are mounting indirect costs associated with an employee's time off. These include expenses related to:

- *Lost production,*
- *Hiring and retraining new employees, and*
- *Management time spent investigating the accident and dealing with its aftermath, including low morale and answering to auditors and regulators.*

The facts can be daunting, but there are steps you can take to

protect your workers and, in turn, protect your company's bottom line. The best defense against injury and loss is an understanding of the risks and deficiencies within your operations. Here are two safety audits to help provide you with key information:

1. OSHA compliance audit. Auditors use a number of methods, including employee interviews and factory walk-throughs, to determine whether your facility and workers are adhering to safety standards and complying with federal safety regulations.

2. Safety management audit. This audit type measures the effectiveness of your company's safety management system. For example, if it's determined that employees aren't wearing

safety goggles when they should, there's clearly an issue with your safety management system, which would then require a thorough review to pinpoint the problem and correct it.

Audits can be performed by professional and unbiased internal auditors or with the help of outside consultants.



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