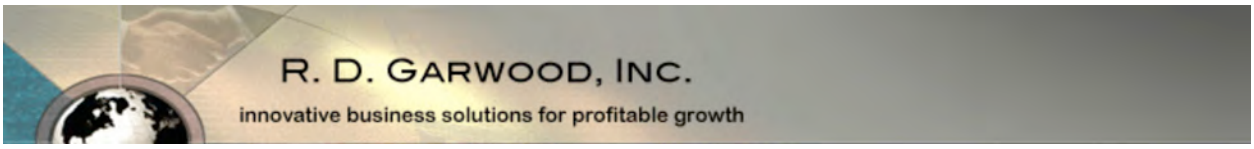

The Three Phases of Cycle Reconciling

by Dave Garwood

Are accurate inventory records just a dream? No! Yet many companies are still struggling with two old problems ... lack of credibility in the inventory records and taking an annual physical inventory. If your company fits this profile, wake up! There is a 100% guaranteed solution to these problems!

Lessons Learned From the Quality Revolution
Maintaining inventory records is a process. The input is different transactions to increase the record and other transactions to reduce the record. The inventory record is the output -- the net result after adding and subtracting. The expectation is the record matches what is physically on the shelf. Simple. If it doesn't match, there's a quality problem.

During the quality revolution of the 80s, industry learned what to do and what not to do to consistently conform to expectations, i.e. raise the quality. For example, the path to zero defects is not to concentrate on inspection, i.e. finding the bad parts/products and separating them from the good ones. The effective path is to find root causes of non-conformances and implement corrective action.

Cycle counting programs traditionally emulate the archaic inspection focused quality initiatives. Cycle counting usually concentrates on selecting a bias sample to count (for example, count high dollar items frequently), finding errors and correcting the wrong records, not fixing the process. The name, Cycle Counting, puts the emphasis on counting, not reconciling differences between the count and the record to find root causes of the discrepancies. For this reason, I am advocating that we retire the term cycle counting and replace it with Cycle Reconciling. The name change puts the emphasis on fixing the process.

Cycle Reconciling
Cycle reconciling aims at raising the quality of the process. It deploys the proven tools of TQM 101. The three-phases of cycle reconciling are:

- **APPRAISAL PHASE**
- **DIAGNOSTIC PHASE**
- **ONGOING PHASE**

The objective of the Appraisal Phase is to determine if there's a problem. How good or bad are the records? Some say they're accurate. Others disagree. You've got to get the facts. Select a small representative sample, then measure the accuracy.

If the record quality is poor, the objective of the second or Diagnostic Phase is to find the root causes of the errors. Counting is easy and you can potentially count many items per day. The difficult and time consuming activity is reconciling to find the root causes of the errors. Therefore, don't count more than you can reconcile.

Select a small group of 50 items. Count ten every day and keep a diary of the actual count, the record, the difference between the actual and the record and the reason for the difference. Spend all the time it takes to reconcile and find out what caused the errors. Start a frequency diagram of the errors to Pareto the problems. Focus on finding solutions to the most frequent root cause problems. Cycle the same 50

items every two weeks.

The objective of the third or Ongoing Phase is to verify that the process is still under control. The objective is not to find the wrong records and correct them. Make daily counts of a representative sample of items -- avoid biasing the sample. Measure the accuracy and publish the results at least weekly. Reconcile differences and take corrective action. Avoid the trap of counting many items and reconciling the discrepancies of none! Make sure accountability for a quality process rests with the process owners -- the folks that make the in and out transactions.

These three phases of cycle reconciling are fundamental to keeping high-quality inventory records. Make sure everyone understands and implements them.

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