

The Real Goal of Cycle
Counting is to Never Have
to Count It Again

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This Presentation will cover:

- A review of the standard Cycle Counting Methodology
- The Control Group
- A modified Cycle Counting Methodology

Standard Cycle Counting Methodology

Objectives

- Identification of causes of errors
- Correction of conditions causing errors
- Maintaining a high level of inventory record accuracy
- Correct statement of assets

Standard Cycle Counting Methodology

Process

- Sample count records frequently
- Test their accuracy
- Identify causes of errors
- Monitor quality of record accuracy

Some Statistics on Using Cycle Counting as the Primary Means of Maintaining Record Accuracy

Source:

"The Limitations of Cycle Counting"

Richard T. Graff, CFPIM

PRODUCTION AND INVENTORY MANAGEMENT
JOURNAL

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Population Sample Size Formula

$$\text{Sample Size} = Z^2PQ/T^2$$

Where:

Z = confidence limit based on area under the normal curve

P = the expected population proportion

Q = (1-P)

T = tolerance limit

For an Expected Accuracy of
95% +/- 2%

$$(1.65)^2(0.95)(0.05)/(0.02)^2 = 323$$

For an Expected Accuracy of
99.9% +/- 0.1%

$$(3.1)^2(0.999)(0.001)/(0.001)^2 = 9600$$

Note: the size of the part universe is immaterial

Standard Cycle Counting Methodology

Benefits

- Efficient use of a few experienced people continuously all year long
- Timely detection and correction of causes of error
- Fewer mistakes in item identification
- Minimal loss of production time
- Systematic improvement of record accuracy

Standard Cycle Counting Methodology

Measurement

- Must stratify the inventory by class
- Establish significance

Standard Cycle Counting Methodology

Phase 1: Cleanup the Input/Output Errors

- Establish a control group
 - Select a small number of high activity items
- Count every day
- Determine the causes of errors
- Correct the causes of errors
- When control group is 100% error free, begin the full scale cycle counting program

Standard Cycle Counting Methodology

Phase 2: Begin Daily Cycle Counting Process

- Calculate daily work load
 - o total item counts required divided by number of work days
- Hire required number of cycle counters
- Train the cycle counters
- Begin daily cycle counts



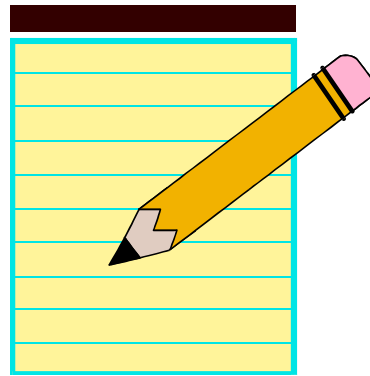
The Function of the Control Group

Let's Revisit Phase 1 of the Standard Cycle Counting Methodology

- Establish a control group
 - Select a small number of high activity items
- Count every day
- Determine the causes of errors
- Correct the causes of errors
- When control group is 100% error free, begin the full scale cycle counting program

The Function of the Control Group

...the key statement here is...



When control group is 100% error free, begin the full scale cycle counting program

The Function of the Control Group

What does this say about the control group?

- It's a predictor of the accuracy of the onhand balances of the inventory population

...therefore...

it's a means of monitoring inventory accuracy through sampling

The Function of the Control Group

Control: A Definition

“...to verify by a standard of comparison...”



The Function of the Control Group

- If I can monitor the integrity of my inventory with a control group...

Why would I ever want to count it again???

A Modified Cycle Counting Methodology

- Establish a control group
 - Select a small number of high activity items
- Count every day
- Determine the causes of errors
- Correct the causes of errors



A Modified Cycle Counting Methodology

- When control group is 100% error free, begin correcting all the inventory balance records



Don't confuse this with Cycle Counting!!!

A Modified Cycle Counting Methodology

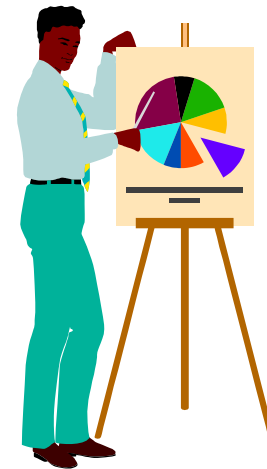
- Continue to monitor the control group while correcting the outstanding inventory balances



A Modified Cycle Counting Methodology

Once outstanding inventory balances have been corrected:

- Continuously monitor the control group
- Document the results



A Modified Cycle Counting Methodology

Audit the results:

- Once a month, have cost accounting audit the inventory balances
 - o purpose:
 - to verify the inventory profile predicted by the control group



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And Let's Remember The Real Goal of Cycle Counting

Is to never have to count it again!!!