

Inventory Control and Counting

What appears to be the simplest, most fundamentally obvious procedure in retailing is often the biggest bugaboo ... counting your inventory and maintaining accurate numbers in the computer. Since physical inventory taking is perhaps the most unpleasant, tedious, and most expensive single task that many retailers face, we thought it would be a good idea to offer a few suggestions that might prove beneficial.

We realize that there is no such thing as a 'generic' retail store ... every StockBoy customer has his own priorities and his own unique circumstances. What might be a great idea for one business has no benefit for another; but hopefully this paper will at least provide some good food for thought. At first glance, many of the following suggestions are 'too obvious', but it has been our experience since 1983 that the VAST MAJORITY of inventory/count errors are caused by inaccurate assumptions by *management*. Owners and managers may read and comprehend this article, but it's the cashiers and stock-handling personnel that will be doing the majority of the critical work ... it is vital that someone cross-check with staff to make certain that store policy is implemented with regard to use of the computer and inventory control.

StockBoy's Physical Inventory Reconciliation System (PIRS):

The PIRS is the key to working with physical inventory counts under StockBoy (located from the Main System Menu at {1-8}). While you could use the Quantity Editor {1-5} to type in all of your physical count adjustments, this is NOT our recommended procedure for bulk input. The Quantity Editor is a bit too time-consuming for large amounts of work, and has no built-in mechanism to correct the quantity on hand numbers for those SKU's YOU DID NOT COUNT. The PIRS, on the other hand, is good for counting big sections of inventory, automatically adjusting the quantity on hand for items you DO NOT PHYSICALLY COUNT, and for allowing you to prepare detailed reports on over/short SKU's where your physical count differs from the computers quantity on hand (QOH).

In addition, the PIRS has features that allow the use of hand-held electronic counting devices (such as the MS-3000/5000 or the Telxon devices) and that allow the input of data from third-party inventory counting services that can provide computer diskettes to you.

The PIRS must be 'activated' before it will appear on your menu. You activate the PIRS at {8-4-5-down-F}. The system will prompt you for which of the three StockBoy costs you wish to have recorded in the PIRS file ... invoice cost, landed cost (invoice cost+freight cost), or book value. *This choice has no bearing on your inventory valuation*; the PIRS can generate Exception Reports that show you where your count/QOH discrepancies are ... and can value the differences in terms of units, retail value, and cost value. The cost you select is the one that the system will use on these reports. If you are uncertain of your answer, we suggest you use BOOK VALUE.

A fairly detailed description of the PIRS is located as the last section of StockBoy's Inventory Reference Manual. As we discuss inventory counting procedures we will often refer to the functions of the PIRS ... so a good working knowledge of the program is very useful.

Blind Count Philosophy:

Many retailers find that the most accurate counts come from working 'blind'. This means that the person(s) who are doing the physical count do NOT know in advance what items they are to count and what the computer's QOH (quantity on hand) shows. We have seen over the years that those companies who print out a list of inventory SKU's and QOH numbers, then hand them over to the staff to 'verify' by counting on the floor, experience much less accuracy than those companies who instruct their staff to count a physical area of the store.

We recommend that you count SKU's within a given physical work area ... not in a pre-determined computer-generated sequence. This means counting the products and writing down the SKUs and the counts in a notebook (or keying or scanning it into a mobile terminal or hand-held data capturing device). Counting by physical location saves time and is easier to track where you've been and where you're going. If you hand a computer-generated sheet to your staff, they may have to run all over the store looking for all of the products on the list. It might be better to start with NO list, and have your staff record the SKUs and counts as they encounter them.

Remember that the Input Physical Count routine in the PIRS is cumulative; it always ADDS to the existing count in the PIRS .. this means that if you count 4 widgets in one section of the store, then count 6 widgets in another section, the system will show 10 widgets in the Physical Count column.

Step 1: Advance Decisions:

- When. Although the PIRS does NOT force you to close down your sales screen activity, it is always a good thing to do when counting inventory. This, of course, is an important consideration in determining when to do your physical inventory count. When scheduling an inventory count after hours or on weekends, it is a good idea to contact your StockBoy Customer Support representative to make certain that they will be on call during that time.
- Who. You must decide who is going to do the count, your internal staff or a third party. Many StockBoy owners have found that doing third-party counts during non-peak seasons is quite economical, but others have discovered that the accuracy of the count is somewhat lacking ... most likely due to the workers' unfamiliarity with the products on the shelf. Some owners have also found that internal staff workers may 'lack the enthusiasm' necessary to get accurate counts, and have gone to temporary help services to round out their manpower needs. Naturally, the 'who' is dependent upon when and how you're going to do the inventory count procedure.
- How much. Many owners/managers rely on an annual full count and several spot-checks during the year; StockBoy has built-in features to handle both possibilities. Your CPA, accounting firm, or banker may propose very detailed recommendations and requirements for accomplishing your annual physical count, so please contact your support staff for assistance on how to best implement these requirements using StockBoy. Full inventories require shutting down the store for a period of time, while spot-checks can be performed during normal store hours or at least without too much after-hours work.
- Advertise, notify. We're all working for the benefit and goodwill of your customers, letting them know in advance of any store closure or hourly inconvenience is a sound policy. Many owners and managers will include a notice on each customer receipt using StockBoy's receipt printing features. Most will post notices on the doors and on the back of the sales registers, in addition to notices via mass media.

Step 2: Prepare the Store:

- Organize. Advance organization of your store's stock can be of tremendous help in cutting last-minute costs and errors. Where possible, it's a great idea (for inventory counting) to get similar products together and to combine displays of identical products. Organizing your back-stock storage areas is always a good idea. Identifying and organizing outdoor displays or remote-location displays should be a prerequisite, as is identifying products on Special Orders, Layaways, non-owned consignment inventory, and items back from warranty repair or under in-house assembly.
- Equipment. Make certain you have made arrangements for the necessary equipment and supplies. If you are renting hand-held devices or are configuring existing terminals to be able to move around on the sales floor, be sure to contact StockBoy Customer Support to verify that you have the necessary software, cables, hookups, etc. Most managers will utilize lots of notebooks, pencils, calculators, press-apply stickers, 'rope-off' material, aspirin, etc ... even two-way hands-free radios and public address systems are common necessities. *If you have hand-held counting devices such as the M3000/5000, don't forget fresh batteries!*
- Organize personnel. Get your teams together and determine priorities and channels of authority. Make absolutely certain that the buyer(s) or merchandise managers are available for making product identification decisions. Most managers have found that two-person teams work the best for maintaining accuracy ... one to identify and count, the other to record. Many companies hire temporary workers or volunteers from non-profit agencies (with a lump sum contribution to their organization) to assist in the counting --- a two-person team would consist of a knowledgeable staff member to identify and count the products, and a volunteer to hand write the data.
- Print a complete inventory valuation for future reference. Some customers like to print a full master inventory report by using their favorite format in the Inventory Report Generator {1-2}, others use the Inventory Valuation system at {1-4-7-1}.
- Clear out any previous PIRS information! Run an Exception report {1-8-3} with NO defined conditions and make certain that the resulting printout contains no SKU's. If it does, then this means that your previous inventory was never 'driven' – contact Customer Support for assistance. In addition, you should print and clear all data in the PIRS Listing reports {1-8-5-*} by using the ALL feature. This ensures that no data exists in the listing files.

If your software is dated 01/11/2000 or newer you can print a series of blank Counting Worksheets that are sequentially numbered. These sheets are accessed at {1-8-5-#}. Not having sequentially numbered worksheets could result in large chunks of missing data should one of the worksheets get misplaced or overlooked.

- Important! If your system is connected to an appliance timer that turns your system off/on each night, you MUST disable the 'off' mechanism if you are going to be working into the hours past where the timer usually shuts the system down! It's a bad thing when you're working feverishly on your inventory and the timer suddenly shuts off the power! Most timers can be disabled by removing the 'off' pin. If you decide to yank the timer out of the wall, make certain that you "BYE" the computer and turn it off FIRST.

Step 3 - Physical Count:

- Multi-store systems: complete the full circle of downloads and uploads, then freeze all quantity activity at the headquarters by putting a 'lock' on that store. Locking is activated at {6-floppy network-7}. A full master distribution is often a good idea -- this makes certain that all the SKU's are present at all the satellite stores. Do your best to make certain that your inventory transfers between locations are 'in sync' – the physical product is located where the electronic numbers are. If you are in the middle of shipping/clearing or transferring product, you are at risk of counting products for the wrong store.
- Close the doors. If you're doing a full inventory, there's no way to get around closing the store if you want a 100% accurate result. If you're doing spot-checks you should ideally make certain that the merchandise being counted is 'roped-off' to eliminate the potential of sales activity corrupting your counts. Remember to consider your customers during a full closure ... they may see lights on in the store, lots of people inside, and perhaps employee cars in the parking lot ... be sure to prominently post CLOSED FOR INVENTORY notices and turn off outside signs, etc.
- Run PIRS Cutoff. The first step in using the PIRS is to run a cutoff. This procedure may take a few HOURS to complete, depending upon the number of SKUs and the speed of your computer! The cutoff is a major feature ... it writes the inventory Quantity on Hand (QOH) to the PIRS file (along with the current cost and retail), then sets the QOH to ZERO. Setting the QOH to zero makes absolutely certain that no SKUs 'slip through the cracks in the floor.' After you complete all of the PIRS steps, your physical count will be 100% reflected in the computer's QOH. There will be no chance of any negative QOH's being left in the system. In addition, you eliminate this scenario: a SKU had an inaccurate QOH and was never counted during the physical inventory, thereby leaving the inaccurate number still in the computer.

The PIRS allows you to cutoff the entire inventory or select a range of SKU numbers. It's a good idea to make certain that the range of SKU's you select with the Cutoff routine encompasses your entire inventory. The best advice is to accept the default answers (which will automatically be the very first SKU and the very last SKU). You could also use '0' (zero) for the first SKU and 'ZZZZZZ' for the last SKU.

Once the cutoff has begun, NO sales should be rung up in the computer for any SKU that could be involved in the cutoff range. You can begin manually counting and manually recording your counts (either to paper or to electronic portable devices), but you should wait for the cutoff to completely finish before you start using the PIRS system to record the counts (menu option #3). It is perfectly OK to use the StockBoy software to do inventory lookups at {1-1} at any time during any procedure.

- Designate areas. Many successful inventory count procedures involve physically roping off sections of the store ... some people use crepe paper or ribbons to mark the store in grids. If you have clearly defined gondolas, display cases, pegboard walls, racks, etc, then this step might not be necessary. Assign personnel to manage specific areas; sometimes a floor map that can be marked/erased with grease pen is invaluable! In our retail stores, we used to tape our floor map to the underside of a glass covered counter, then we used erasable grease pens to mark off sections on the glass. A very common mistake is to totally forget to include a section of the store in the map ... pay careful attention to overhead wall displays, end-caps at checkout stands, outdoor displays, window displays, and merchandise used in semi-permanent displays (mannequins, in-store demo's, lighting displays, audio-TV displays, etc). Using 'Post-it notes' to mark off sections of gondolas that have been counted often works well – especially if there is an interruption or the counters take a break.
- Organize Layaways and Special Orders. If you utilize StockBoy's Special Ticket module, you'll need to know whether items set aside for Layaway and/or Special Orders have been deducted from inventory or not

by the software. Generally speaking, most StockBoy users have defined their Special Tickets so that Layaway sales ARE deducted from inventory when they are first placed on a Special Ticket – therefore you do NOT want to count items on your Layaway shelf! It is also quite common to pre-define Special Order-type tickets to deduct from inventory when the item is picked up – so it is likely you DO want to count Special Orders still in the building. If you are uncertain as to how StockBoy is deducting inventory quantities on Special Tickets, please contact Customer Support and they can step you through the parts of the StockBoy program that indicate how the inventory is being handled.

- Blind count using teams. We have seen experiments with team size ranging from one to four people involved in a count ... if affordable, we recommend two (one person to identify and count, the other to write down or key in the SKU and count). In its simplest form, using a notebook and pencil is a reasonable way to capture the count. One person reads the SKU number aloud, followed by the number of units ... while the second person writes the information down. After each section is completed, the notebook pages are submitted to an experienced key-punch operator who then types in the counts to the PIRS Input routine.

Many StockBoy users have rigged a terminal onto a shopping cart, connected to the main computer via a long cable that is usually routed up to a swivel hook on the ceiling in the middle of the room or snaked along the floor, along with a lengthy extension cord. It is possible then, to have personnel directly key in the SKU and count to the PIRS program. We have seen this work best with two people, one to identify and count, the other to input to the PIRS program ... this method cuts out a separate person to record the count and input to the PIRS. The PIRS is fully capable of having multiple personnel all keying in data at the same time ... it is designed to do this.

Hand held counting computers are becoming more and more affordable. As of this writing (Feb 2001), for less than \$1,000.00 you can purchase portable machines with laser gun scanning to dramatically improve physical count speed and accuracy if you utilize bar code identification of some kind. StockBoy fully supports several such devices, and is capable of directly downloading data from the portable right into the PIRS input file. Even if you do not use bar codes (such as UPC), you can receive good value by hand typing the SKU and count into these portable computers ... this saves time at the PIRS end, while eliminating handwriting legibility errors.

- Mark counted items. Interruptions can be disastrous if you lose track of where you were! Many successful retailers use colored press-apply 'dots' or post-it notes to mark a SKU when it has been counted. This may also be a good time to optimize your displays ... pull product to the front of the pegs, dust things off, put identical products together, note out-of-stock conditions, verify identical retail prices on same SKU's, verify correct price tag on correct product, adjust flag indicators on bin labels, etc.
- Cross-check. We recommend that you fully utilize the PIRS listing of input data (option #5) to review the SKUs and counts that have been input into the PIRS. The PIRS Listing report prints out in LOGON name sequence – so you should have a separate LOGON name for each person doing the input. When you print the PIRS edit listings, you are asked to erase all listing for the LOGON name you print ... if you use the same LOGON name on more than one physical screen, you will erase the edit listings that were input on another terminal using the same name. When you erase these listings, you are NOT affecting the physical count! The PIRS Listing report is only a tracking mechanism so you can double check the work of the personnel doing the input.
- Resume sales and store activity. ***Important! Once the physical count is taken and recorded (either on paper, into a hand-held computer, or typed into the PIRS Input Physical Count program directly), the store can be re-opened for all sales activity.*** You DO NOT have to wait to start sales until after you have keyed in the counts to the PIRS (menu choice #3), as long as your cutoff range of SKUs has been counted and the counts recorded somewhere. You DO NOT have to print and examine your Exception reports prior to sales activity. You DO NOT have to Drive Physical Counts to Inventory QOH prior to resuming sales activity.

As long as your physical counts have been CAPTURED in some way, you may resume electronic sales register activities and take as long as you need to INPUT PHYSICAL COUNT, PRINT EXCEPTION REPORTS, CORRECT ERRORS, and DRIVE PHYSICAL COUNT. Just remember that the longer you take to finish, the longer your purchasing system cannot use automated scanning – your quantity on hand has been set to zero by the cutoff routine!

Step 4 - Reconcile and Drive the Counts to Inventory:

- Print exception reports. ***Take a few minutes to familiarize yourself with the PIRS Exception Report program.*** This utility allows you printout virtually any type of discrepancy report you want by using mathematical conditions.

NOTE: In 1999 and newer releases, StockBoy has included a series of example conditions that you can choose from – simply follow the “?” prompt, then select one of the samples. You can use the setup the way it is, or you can modify any of the conditions to match your exact needs.

Consider the possibilities such as printout all SKUs where the Physical Count is different from the Cutoff Count by more than 10% plus or minus, all SKUs with a count discrepancy greater than \$50.00 at cost value, all SKUs where physical count was zero but the computer cutoff amount was greater than zero, all cutoff amounts greater than zero where physical count was zero, all hand tools where the count discrepancy is greater than 5%, etc. A good master printout would use NO conditions (all of them set to "!") to make certain the report does not leave any PIRS SKU's out.

Just as with the Inventory Report Generator, you have up to five conditions that you can utilize during any ONE printout. Each of these conditions (A-E) must be in the form of a standard algebraic formula (don't pass out — we're talking 7th grade math!). Remember that all formulas may include any combination of the four standard math operators */-+ and can use parenthetical notation to control the math priority. (For example — $(1*3)+(2*4)$ is different than $1*(3+2)*4$, etc) There are four variables that you may use (and should use). “Q” stands for quantity at cutoff, “P” stands for physical count, “R” stands for retail price, and “C” stands for cost. The “C” cost can mean Invoice Cost, Landed Cost, or Book Value, depending upon your choice at time of Cutoff.

You may utilize any or all of these variables in your formula. Keep in mind that this formula must express a complete mathematical relationship. This simply means that you must have a number (or variable) on the left side of the equation, a mathematical operator, and a number (or variable) on the right side of the equation. Let's do a few examples:

‘P<>Q’ This is physical count not equal to quantity at cutoff. This report will print all SKU's where there is a difference between what you had at cutoff and what you've just counted. This report includes EVERY 'exception' in your system and does NOT include any SKU's that match.

‘(C*P)-(C*Q)>100.00’ This represents all SKU's where the cost value of the physical count (cost times physical count) is greater than the cost value of the cutoff quantity by more than \$100.00. To make this report even better, you should include as a second formula (line “B”), ‘(C*P)-(C*Q)<100.00’. This will verify that all SKU's printed will have a difference of more than \$100.00 regardless of whether the cutoff amount is larger or smaller than the physical count. Whenever you select more than one formula, the system will ask you whether you want to print the SKU's if any ONE condition is met or if ALL conditions are met. In this case you would choose “O” for any ONE. If you choose “A” for ALL, no SKU's could print, because you could not have both conditions be true at the same time. Persons familiar with Boolean logic or with other computers' report writers often think in terms of “OR” or “AND” logic. The ‘O’ indicates that either formula “A” is true OR formula “B” is true. The ‘A’ forces both formula “A” AND formula “B” to be true.

'P-Q>10' This formula is Physical count minus quantity at cutoff greater than 10. This will print a report of all SKU's where you counted at least 10 more units than the computer showed you had at cutoff.

'Q<0' This prints out all SKU's that had negative quantity on hand at cutoff — they were obviously in error.

'P=Q' Prints out all SKU's where you had an exact match.

'(R*P)-(R*Q)>500.00' OR '(R*P)-(R*Q)<500.00' (on two separate condition lines) Prints every SKU where the retail value of the difference between the physical count and the cutoff count is greater than \$500.00.

'P=0' AND 'Q<>0' (on two separate condition lines) This gives you a report that shows where you might have skipped over a section in your physical count. Any SKU that had a quantity at cutoff but was NOT physically counted will appear on this printout. Some people would exchange the 'Q<>0' for 'Q>0'. This leaves out the negative quantities and only prints SKU's that probably should have been counted but weren't.

- Re-count discrepancies. Use the PIRS Exception report to isolate the biggest errors first, then work your way down to smaller and smaller errors until you are satisfied. It's a good idea to re-count certain SKU's and to involve a different team of personnel when doing the re-count. Have your merchandise managers review the discrepancies carefully ... many are quite obvious ... such as a count discrepancy on one SKU offset by a reverse discrepancy on a similar SKU (counted too many 'blue widgets' and not enough 'green widgets'). Forgotten merchandise in the back room and multiple displays of the same SKU in various locations around the store are both common problems. It is often surprising how many errors are attributable to incorrect product identification, especially in product lines where price tags are not used and/or where products have subtle physical distinguishing characteristics.
- Reminder: When a SKU is 'cutoff' its quantity on hand (QOH) has been temporarily set to zero. When you view a SKU on the inventory screen editor, and if that SKU has been cutoff, the QOH will be blinking to indicate that the numbers haven't been driven by the PIRS, so the screen display is most likely NOT accurate. A reminder message also appears at the bottom of each Inventory Report Generator summary page.
- Print a master report using the Exception report program just prior to Driving the physical counts. This will capture the total book value difference between what the computer thought you had and what you really had in inventory. A master report would use NO conditions -- all of them set to "!" condition not used.
- Drive Physical Count to Inventory. This is the final step in using the PIRS, and can be done literally any time after the physical count has been captured and input to the PIRS -- even days or weeks later (not recommended, but possible).

Since StockBoy had originally set all SKU counts to zero during the Cutoff, and since the 'Drive' routine will ADD the physical count to the existing QOH at the time you run the program, you can Drive the numbers at any point in time you feel you have attained the best level of accuracy you wish to afford.

Let's step through a scenario regarding a SKU to show how the QOH is affected by using PIRS. First we stop all electronic sales activity. At the point of cutoff we have 5 units showing in the computer; when we run the cutoff the QOH is set to zero and the 5 is recorded in the PIRS cutoff count column. We then physically count and record 4 units (a discrepancy of one unit). We start sales activity again the next day, and sell two items ... our current QOH becomes -2 (negative two -- remember the Cutoff set the QOH to zero). When we Drive the Physical Count to the Inventory, the system takes our current QOH (negative two) and ADDS the 4 units we physically counted ... thus writing a positive 2 as our new QOH. This is correct. If the computer had originally shown the proper number (4), then our QOH after two sales today would be 2 ... and it is.

- Bookkeeping. The master Exception Report shows the grand total difference between your ideal computer inventory and the physical count. This difference should be handled in your bookkeeping system by adjusting the value of your inventory in your balance sheet to match the updated value of your physical inventory. You could run an Inventory Valuation (1-4-7) report to show the current value of your update inventory. Consult your CPA to determine the best method of posting the discrepancy adjustment to your books ... many companies have a 'sinking fund' account or a 'reserve' account for handling inventory write-ups/write-downs, others will distribute the difference to a special Cost of Goods Sold expense account, others will pro-rate the error over several months. Don't forget: StockBoy deducts BOOK VALUE cost each time a SKU is sold ... therefore you should always use BOOK VALUE extensions for your comparisons to the bookkeeping balance sheet!
- Multi-store systems: perform a full footer upload at the satellite store and then release the store lock at the headquarters once the physical count is driven to QOH. MID (Multiple Inventory Display) systems have a routine for re-balancing all of the physical counts at all of the stores ... this might be the time to perform that routine.

Step 5 - Prevent Future Errors:

- Minimize use of Miscellaneous SKUs! Miscellaneous or 'generic' SKUs are often set up as a 'bail out' for the cashier to use when the product price tag is missing, the product can't be identified, etc. These SKUs usually have no Retail Price or Cost. If you must have them, we strongly suggest that you mark them with the 'T' status, so that every time they are 'sold' you get an entry in the day's Critical Edit report. If you have a late 1998 or newer StockBoy release, you might consider setting the Book Value on these types of SKUs to a PERCENTAGE. If the percentage is, for example, 60% – then the computer will charge off 60% of the retail price to cost of goods sold.
- Negative QOH (quantity on hand) in Critical Edit report (included in the End of Day Till Update routine {3-1}). Anytime a SKU is sold where the QOH goes negative, an entry will be made in the Critical Edit report ... these are potentially problem SKUs! Always find a reason why the QOH is negative!
- Use Purchase Orders. Inventory errors occur when merchandise is bought and put on the shelf without the computer 'knowing' about it. Even if you do not use StockBoy's purchasing system to create PO's, you still might derive major benefit by using the PO system 'after the fact.' If you spend the time to type in your manually placed PO's you get (1) a printable list of your order for future reference, (2) an electronic means of checking in the merchandise and making certain that you receive all the goods you order and are charged the right cost, (3) you can print price tags for just those items on the PO in the quantity that should be

arriving; you can then place the tags on the products at the same time you're counting, (4) 'stocking' the PO automatically updates the latest invoice cost (at your option) and updates the QOH to reflect incoming goods. It also updates the Last Stock Date variable in the inventory record ... a very handy item to have for many different reports and evaluations, (5) the PO can be electronically confirmed so that your inventory system has the correct freight cost and book value.

- Repair Inventory {1-6} Make certain that you properly account for merchandise that is temporarily out for repair and/or warranty and/or warranty credit. Depending upon whether you had StockBoy deduct these shipped-out items from inventory or not, you may want to make accommodations in your counting procedures or at least in your after-inventory bookkeeping reconciliation.
- Multi-store systems. Monitor the modem and/or floppy network uploads and downloads. The reports from each end should match each other exactly. Usually just a quick glance at the upload & download printouts can tell you that all SKUs and quantities moved on the network correctly. Pay careful attention to upload/download reports that follow a transmission failure. XFER (Transfer) tickets are another potential source of quantity error ... make sure that outbound and inbound tickets match exactly. Yes, it may be time consuming to double check all transfer tickets, but we have discovered a host of unusual operator errors in this area ... everything from using IN/OUT incorrectly, to leaving off SKUs completely, to typing in the wrong SKU.

Use multi-store PO packing lists to check in merchandise at satellite stores. If the staff discovers discrepancies between the packing list and the physical merchandise, the errors must be tracked down!

- Double check all return and exchange tickets. The system is designed for cashiers to use negative numbers in the QUANTITY column on the sales screen when a product is being returned or exchanged. Using a zero in the quantity column to make the extension zero may corrupt your inventory figures. If you need to generate a zero sale, make the PRICE zero, but let the quantity column be accurate. Consider using discount SKUs.
- Security. Perhaps the biggest single non-computer related difficulty with inventory control is security ... both internal and external. The use of StockBoy to control inventory is a double-edged sword ... if you use it wisely you will prevent most internal theft, if you use it poorly you will encourage internal theft. All staff members must be convinced that the inventory levels are being professionally monitored or they may be faced with temptation. Many owners' first reaction to major inventory discrepancies is computer related error - not human error; the dishonest employee may hope that the confusion of computer data will hide his tracks if he discovers that inventory control is not really being maintained.
- Quantity Editor {1-5} Minimize the use of this function!! If you are utilizing the Quantity Editor with regularity, we suggest you stop and think about 'why!' StockBoy has many other features and routines that are designed to handle inventory quantities OTHER than this. If you use the Quantity Editor, make certain you examine the Quantity Edit listing that comes out at the end of the System History report at {8-3-P}.
- Spot Checks. Even the slightest bit of effort here goes a long way. A spot check in the simplest sense can consist of a floor manager looking up the QOH in the inventory screen, then going out on the floor to verify it. This works very well for SKUs in high demand and for those that are most 'at risk' from potential shoplifters. If your SKU numbers are designed well, you may be a prime candidate for doing a PIRS on just a section of merchandise within a given SKU range.

Those stores with hand held inventory machines can spot check very easily by scanning or typing in the SKUs in a given physical area (display case, pegboard wall, end-cap, rack, etc), then using the PIRS to compare the computer's QOH to the physical count from the portable computer. StockBoy has a unique feature called Cutoff by Physical Count ... this tells the PIRS to do a cutoff only on those SKUs you just counted. This

allows you to do a spot check on a specific section of merchandise that may contain a wide variety of products NOT in SKU sequence. There are two potential problems with Cutoff by Physical Count, (1) if a product did not get counted it will not get cutoff ... that means that you could still have QOH discrepancies where the computer shows a quantity but you really don't have any, and (2) you must be on the lookout for SKUs that are displayed in multiple places around the store. You could show a discrepancy for a particular SKU because not all of the product is merchandised in the same physical location.

Even with spot checks, you might consider counting 'blind' rather than counting from a computer-generated list. This means manually counting the SKU's in one physical area, writing the SKU and the count on a sheet of paper (or better yet, use StockBoy's Counting Worksheets {1-8-5-#}), and then comparing your paper to the computer QOH screen. You might accomplish several things: (1) you may find products on the shelf with NO SKU, (2) you will not have a tendency to stop counting when you reach the computer's printed QOH number, (3) you will not have to search all over the store looking for SKU's on a list ... you will search the computer for the SKU's you count (much, much faster), (4) you will have a tendency to NOT duplicate computer errors caused by assuming that all products on a peg or in a bin are the same SKU (if you see 6 on a computer list and see 6 units on a peg, you will tend NOT to examine each of the 6 to make certain they're all the same), (5) you will examine each physical product more closely for display effectiveness, merchantability, consistent pricing, etc.

However, computer-generated lists offer a few advantages to consider: (1) it is easier to cross check SKU data such as description, price, etc by having it printed on the list by the computer, (2) you will have to search out all locations for a given product to verify the total store count ... this may be time consuming, but will generate accurate results and will give you a chance to combine all the displays and/or back-stock into one area, if you choose.

- Sales station errors. There are two major StockBoy features to help eliminate errors at the sales register, Check Digits and Scanning. A check digit is the result of a mathematical computation involving the digits contained in your SKU numbers. The computer adds and multiplies the digits of the SKU in a certain way, then comes up with an answer that becomes the single character Check Digit. If you activate this feature, Check Digits must be input at the end of the SKU number when ringing up sales. If the Check Digit you input doesn't match the calculated Check Digit, the entry of the SKU is rejected. The secret to how this works is quite simple ... the Check Digit will nearly always be different for two different SKUs, even if they contain the exact same numbers but in a different order. In other words, the Check Digit for SKU '123' is different than for '132' ... this helps eliminate transposing errors and faulty typing. For example, let's say that the check digit for '123' is '4' ... the cashier must input '1234' to get the SKU to be accepted ... if you type in '1324' or just '123' or '1235' the system will reject the input. Since StockBoy can print the Check Digit on the price tag and can calculate it on the fly at the sales register, it is easy to implement as a double check against inaccurate typing at point of sale.

Scanning bar codes is another way to improve speed and accuracy at check-out. If you pre-load your StockBoy inventory database with UPC or other bar code numbers, the sales register can instantly lookup the SKU from the bar code field. Remember that the product can be accessed and sold from the sales register in any one of three possible ways: (1) by SKU number, (2) by UPC or barcode number, and (3) by key words in the product's description. The SKU number is completely separate from the UPC number ... StockBoy uses the UPC code to find the SKU. StockBoy supports bar code tag printing so that you can print your own tags for those products that do not carry the UPC identification. Bar code scanning may be very valuable for shipping/receiving and for inventory counts, too.

- Balance Sheet vs Inventory Valuation. In a perfect situation, the Balance Sheet's inventory account balance will be equal to the Book Value extension of your inventory when printed from the Inventory Valuation or IRG programs. Any difference here (and there will always be one) is a function of any of the following: (1) rounding errors ... when you confirm a purchase and include freight and discount amounts, the system has

to pro-rate the freight and discount amounts across all the SKUs on the PO; sometimes this doesn't add up to the exact penny.

(2) errors in cost valuation due to delayed confirmation. Let's say that you have 3 widgets on the sales floor and they cost you 10.00 each at Book Value. When you sell one, the system deducts 10.00 from the inventory account in the Balance Sheet and adds 10.00 to cost of goods sold on the Income Statement. If you buy two more widgets that cost you 11.00 each, but do NOT confirm the PO ... the computer still 'thinks' the widgets cost 10.00. When you confirm, StockBoy will immediately adjust the Book Value to 10.40 (3 @ 10) + (2 @ 11) divided by 5 = 10.40, which is correct. But the one unit sold at \$10.00 cost when it should have sold at 10.40 cost if the PO had been confirmed prior to the sale. You also should know that StockBoy 'remembers' what the quantities on hand were when the PO was stocked, so that it used the FIVE widgets for the new Book Value calculation rather than just the FOUR that were on hand when the PO was confirmed. This time lag between sales and confirmation is, of course, un-avoidable, so there will always be some valuation error. If your costs are generally going up (inflationary economy), your inventory value will be generally OVERstated (it should have deducted 10.40 but only deducted 10.00), and your cost of goods sold should be UNDERstated (you should have 10.40 in expense but only registered 10.00). Many companies keep a special account in their books as a reserve account to post these corrections on a regular basis, but unfortunately there is no real way to exactly identify the amount of Balance Sheet/Inventory Valuation discrepancy. If you confirm PO's accurately prior to those products being sold, you will have insignificant rounding errors.

(3) Timing. If you physically count product that has been stocked on purchase orders whose invoices have not been posted through bookkeeping, you will have a discrepancy between your balance sheet inventory account and the total book value valuation. When a PO is stocked, the quantity on hand is updated and the book value total valuation is increased. If that same PO has not yet been booked to the balance sheet, the balance sheet value will be less than the inventory Book Value valuation by the amount of the PO. When reconciling your inventory valuation, you should always attempt to achieve a 'clean cutoff' with regards to incoming purchase orders - match up the stocking function with the GL posting to inventory.

(4) Loss, theft, shrink, error. These four bad boys comprise the majority of the difference between the Balance Sheet inventory account and the Inventory Valuation at Book Value. Errors include faulty physical count, check-out errors, shipping/receiving errors, product identification errors, clerical errors in handling electronic PO's, etc. Unfortunately, no computer system can be of significant help in preventing loss, theft and shrink ... all they can do is report the bad news and spur store managers on to greater loss-prevention programs and techniques.

- Track Dummy SKUs. When inventory errors are believed to be caused by computer use/mis-use, we have recommended in the past that StockBoy users set up a few dummy SKUs in their inventory. Then run these SKUs through all kinds of sales transactions, refunds, special tickets, etc ... and track the quantities on hand. Test out your unique situation handling procedures and inventory count procedures on some of these dummy SKUs; watch what the system does to the quantities and to the bookkeeping entries. Using dummy SKUs can be very educational and has discovered lots of weak links in businesses that have been running automated systems for years. We recommend that if you use non-zero costs and retails.