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# Everything You Need To Know About Inventory Cycle Count

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Cycle counting is one of the most crucial aspects of inventory management in any organization, especially in recent times. I have seen a lot of budding businesses struggle with finances due to mismanaged inventories, and it all starts with improper record keeping. Either they completely overlook the need for counting stocks, or they don't use the correct methods. In this article, I am going to cover the entire cycle count process, and it's technicalities in detail. So hang on to explore and learn how to manage your inventory audits accurately.

# The Effects Of Scaling Up On The Inventory Management

Every organization undergoes multiple changes with the increase in its size. Usually, smaller firms have small inventories, and managing them isn't a problem. It is done by typical visual inspection. But, as the operations scale up, the company starts to stock raw materials and consumables to meet business requirements and increase profitability. The problem arises when they lose track of what they have in stock and whether the value of their inventory is optimal or not. In the absence of inventory audits, they end up denting their profitability. This is because they cannot make crucial decisions like EOQ (Economic Order Quantity), make inappropriate purchases, suffer a shortage of warehouse space, and derail the manufacturing process.

The reason behind these problems is the increase in the types of raw materials and consumables required. Also, scaling up will result in an increased need for real estate for storage purposes. The employees will access the storage facility more often, resulting in higher chances of inventory shrinkage. Failing to provide raw materials due to miscalculations lead to stalling of production lines or hasty purchases. Thus, the increased volume of stocked items has direct financial implications on the business.

Hence, the need for tracking the components in both pre-production and post-production stages arises. To meet this requirement, many systematic approaches were developed. I am going to list them down for your ready reference. You can later analyze and pick up the right one for your firm.

## What Is Cycle Count

Cycle count is a subtype of a perpetual inventory management method. It is used for auditing purposes. Apart from internal processes, these audits are also required for financial accounting or taxation compliance purposes. In cycle count, a limited portion of the total inventory is counted at a time to constitute the figures for the entire stock. As a sampling technique, it utilizes data from a small portion to quantify the bigger picture. This technique is also used for estimating the general perception of the public during the elections.

In the next portion of the blog, we will understand various techniques used in the industry.

# Popular Approaches To Cycle Count

There are many ways in which you can count the piled stocks in your warehouses. All of them differ on the basis of which portion of the inventory is considered for audit. Learn more about these approaches below:

## Cycle Counting By Consumption

This is one of the simplest forms of cycle count as it relies on counting the frequently used items. The items are sorted as per the frequency of workers accessing them. The storage racks are arranged accordingly, and hence, you don't need to assign dedicated staff-hours. The priority is allocated to high consumption items, and the complexity is relatively negligible. However, it does not differentiate the cost of the stored components. It also overlooks the impact of any miscalculation on the production process or financial losses. These factors make it suitable only for low value, comprehensive inventory carrying firms.

## Objective Counting By Surface Area

In this method, the warehouse is divided into smaller areas for audit purposes. All shelves and racks are distributed as a part of these areas. The employee who is counting has to work only in the portion allocated to them. Hence, at the end of the exercise, the company can update the records with the exact location of the stored articles. It also helps in retrieval and fighting any discrepancies as the patterns for any particular area/material are identified quickly.

## Control Group Cycle Counting

Ever wondered how SOPs are formed? They are built with the help of seasoned workers, engineers, and tech experts who replicate, study, and deduce results on a particular activity. To define the standard operating procedure (SOP) for cycle count, a control group is set. The personnel will count the items in this group of articles several times within a short period. This is done to identify the best procedure to audit that particular type of thing and devise an SOP accordingly. It also helps in identifying any errors in the process, which would later lead to more significant problems. The documentation also serves as reference material for future resources and improvisation.

## Random Sample

In plants with a high number of similar items, the staff chooses items on a random basis. The counting is done regularly for a particular group of components. This is one of the most convenient methods as, despite the entire inventory being covered, other activities aren't affected due to planning. The rest of the operations are carried out in normalcy. To carry out this process, the items are distributed with the help of the following two approaches:

## Constant Population Counting

Relatively less efficient, this method focuses on the selected group and audits it continuously. The rest of the stock is entirely unattended. Due to this attribute, I feel that except for a handful of businesses,

nobody would find it useful. Just like objective counting by surface area, the value of goods is completely ignored. Hence, it is not preferable unless you have less different items with minimal cost variations.

## **Diminished population counting**

It is a smarter alternative as the company will conduct the counting before excluding the group. Once excluded, these groups are stored separately. The next time they are counted is when the full audit for the entire warehouse or company is done, which is around four times a year. The remaining groups are audited regularly as per the selection criteria set by the company's management.

## **ABC (Pareto) Analysis**

Vilfredo Pareto was an eminent Italian economist who introduced the 80/20 rule, better known as [Pareto's Rule](#). His studies regarding the ownership of land in the city of Paris revealed that the top 20% of the people owned 80% of the area. The rest of the 80% public was limited to only 20% of the land. This observation in other cities also reflected the same results.



In other words, Pareto's Rule states that 20% of efforts cause 80% of the results. But, remember that the figures 20 and 80 need not necessarily add up to 100 and aren't fixed. This is a representative figure, and the actual distribution could also be 90/15, 70/30, or 88/22.

In ABC analysis, the entire inventory is split into three groups based on this principle. The 'A' category items constitute 10% of the total stock by number but hold 70% of the value. 'B' category represents a 20% share in quantity and 20% of the value. Lastly, the 'C' category is 70% of the entire stock while valued at only 10% of the total amount.

The company classifies its raw materials, consumables, and finished goods in this fashion. Usually, this is done as per the sales forecasting or even product wise analysis. Most of the businesses use ABC analysis along with other techniques to create tailored procedures for their organization.

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Success depends on previous preparation, and without such preparation there is sure to be failure. -[Confucius](#)

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## Hybrid Method

As mentioned above, hybrid methods are formed by clubbing ABC analysis with various other parameters. This includes focus on vital parts, vulnerability to the production line, reorder costs, EOQ, sales, hazards, and other relevant factors. This approach varies from company to company and is usually a tailored procedure.

# Quick Steps For Proper Implementation Of Cycle Count In Inventory Management

We have understood the techniques used for cycle count, and if you want to implement an enhanced version or change the existing one, I am listing down the quick steps below. These steps are designed to act as a general guideline, and readers are free to modify them to serve their interests best. They are as follows:

- Collect old information and compute statistical data for recognizing probable discrepancies.
- Choose the appropriate model and select a time table for execution.
- Assign the workload to the staff members and trainees. This will benefit the organization in containing HR turnover and in training the new joiners.
- Stop the influx and efflux of items scheduled for counting.
- Distribute the groups in small, similar portions and systematically processable manner.
- Assign the auditing process to senior staff members.
- Also, conduct an inspection of the racks, shelves, and overall facility for maintenance while allocating housekeeping staff for cleaning purposes.
- Identify, record, and analyze discrepancies.
- Note down the process followed along with the parameters for optimization and future references.
- Build detailed reports for each item along with storage spaces for analytical purposes.

## Best Practices For Implementation

Like any other business process, the cycle count is intended to enhance profitability and prevent the discrepancies from occurring. To refine the process, follow these best practices for streamlining it with other functions of the organization.

- Don't run separate schedules for cycle count. Instead, try to include it in the working hours when that portion isn't under usage.
- Also, include all the staff members on a roster basis for participating in the exercise.
- Build a plan to conduct the auditing process and ensure that the procedure is repeated at least four times for the total inventory. For high-value units, increase the frequency as much as possible.
- Make special provisions for bulky items and move them aside if they are needed for immediate production.
- Use the past data to evaluate the time and workforce required.
- Ensure that all required equipment is available to the staff.
- Notify all the concerned staff members regarding the unavailability of the stock under process well in advance.
- Distribute the workload in such a manner that any assigned part is looked after by more than one employee accompanied by a general supervisor.
- Perform videography if required to establish SOPs and train new staff.
- Store the particulars in a database with all process parameters included.

## The Role Of Computerized Solutions In Modern Times

All of the procedures mentioned above and industry best practices will provide fair results only if implemented through automation tools. Gone are the days when noting things on paper and transferring the data to excel templates. In today's world, businesses strive to achieve higher inventory turnover ratios. Failing to compile accurate data will result in either overselling or underselling. Many businesses struggle with listing products that they cannot fulfill or fail to list available ones.

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Don't treat inventory cycle counts as an independent function. If you want to explore optimization, include as many verticals as possible.

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With the help of digital solutions, companies can keep track of every single article. This is done with the help of product serialization, electronic identification systems, and even industrial robots. The main benefit of using such solutions is the real-time availability of the data and minimal shrinkage.

## Wrapping Up

In this article, we had a look at most of the conceptual portions, along with their respective implementation strategies. This is a basic yet essential aspect of inventory management as it forms the basis for all computation and reporting. I hope that the readers will find this article on cycle counting actionable and share your views in the comments section.

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