



What Are Cycle Counts And Why You Should Be Doing Them

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Introduction

Every homeowner knows anything that isn't being actively maintained, built, or replaced is on its way to breaking. The same thing applies to your inventory. Thankfully, there is a defense system to keep your inventory from resulting in chaos: cycle counting.

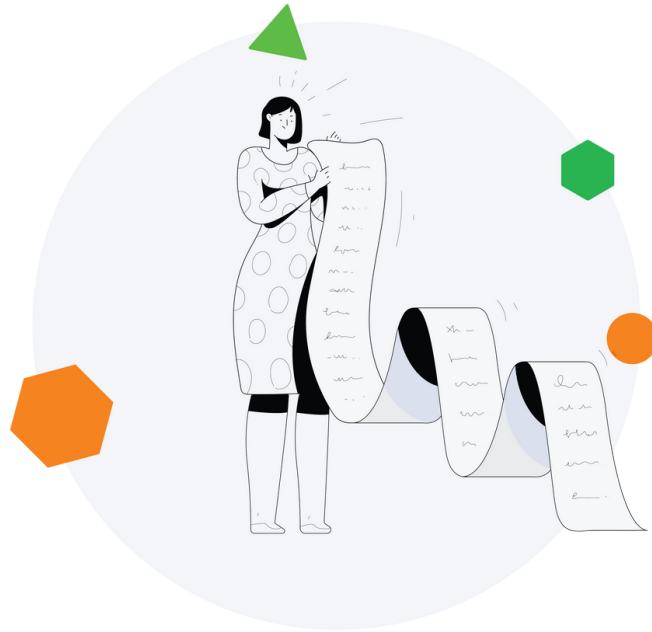
Cycle counting is the process of counting small sections of your inventory so you cycle through your entire inventory on a consistent basis.

An inventory cycle count will result in small adjustments made to your inventory counts regularly. This practice keeps your inventory accounts accurate between the larger physical inventory count that is done yearly or semi-yearly.

What Actually Happens When You Don't Do Cycle Counts?

To put it simply, if you don't prioritize inventory cycle counting you don't know where your money is. Many business owners aren't fully aware of all the products on their shelves and in the back of their warehouse. This not only impacts your inventory records, but means you probably are making business decisions based on guesswork rather than data.

Cycle counts clearly show you what products you're sitting on and losing money from. It can bring to light products that tend to expire before you move them, allowing you to lower your reorder quantity. Additionally, as the cost of products increase it is especially important that you use the first in, first out approach. Cycle counting can identify products that may be hidden in the back of your warehouse before placing another order at a higher price.



Inventory cycle count data can show trends on which products you're spending money on that aren't moving versus products that always seem to be low in-stock. If you notice your inventory levels for a specific product haven't moved much during the last few counts maybe it's time to stop reordering and run a sale. Contrastingly, if there are products that tend to always have a low quantity in-stock consider raising your PAR levels and invest more in similar products.

Your chances for inefficiencies fulfilling orders and running out of stock becomes more plausible leaving your customer to go to competitors.

Reasons For Inventory Errors

1 Location Based

Products are physically put in the wrong location or the location is incorrectly marked.

2 Label Based

Labels are unclear, misprinted, or repeated. Additionally, expired and old sale pricing can impact your inventory data.

3 Human Based

Inventory is incorrectly documented, hard-to-read handwriting, stock theft, undocumented sales, or mistakes due to distraction.

4 Software Based

Glitches in the technology or documentation errors.

5 Process Based

Confusing SOPs, inefficient workflows, shipping errors, etc.

6 Storage Based

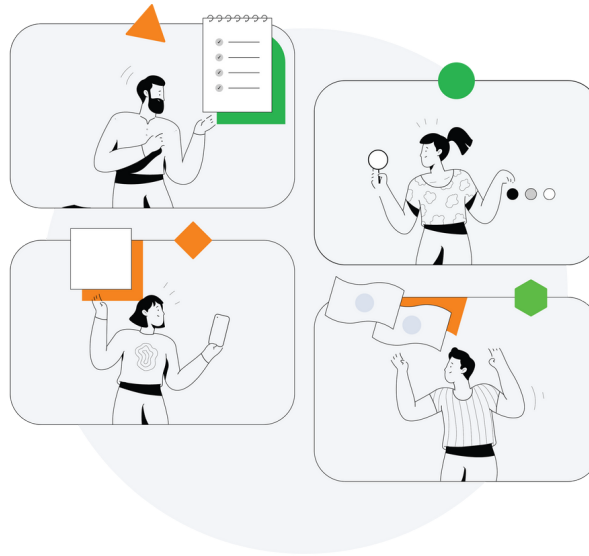
When warehouses or back-of-office is full or has insufficient space.

All of these consequences impact your ability to provide a great shopping experience for your customers and generate the most profit.

The Difference Between A Physical Count And Cycle Count

Physical Inventory Count

Physical inventory counts are when you physically count all the products in your store and/or warehouse and compare it to what's recorded in your inventory software or spreadsheets. While it is recommended to do a full physical inventory count once or twice a year, it is extremely time consuming and leaves more room for human error.



Count Counts

Cycle counts make sure the cost and count of your inventory in your books matches what is in your warehouse and on your shelves. However, cycle counting is completed in manageable pieces on a regular basis throughout the year, focusing only on a limited number of products at a time.

The Benefits

When cycle counts are part of your routine it gives you a better chance of identifying the specific issue since it should have occurred more recently from your last count. That way when you have your end of year physical inventory count you don't have as many surprises.

Cycle counting is especially essential for e-commerce and multi-channel sellers without an integrated inventory management system.

This is because spreadsheets and separate reporting systems make it easier to get off track with your physical inventory count.

Regularly conducting inventory cycle counts allows you to have accurate sales data so you can use reporting tools, like Thrive, empowering you to make smarter decisions.

Types Of Cycle Counting Methods

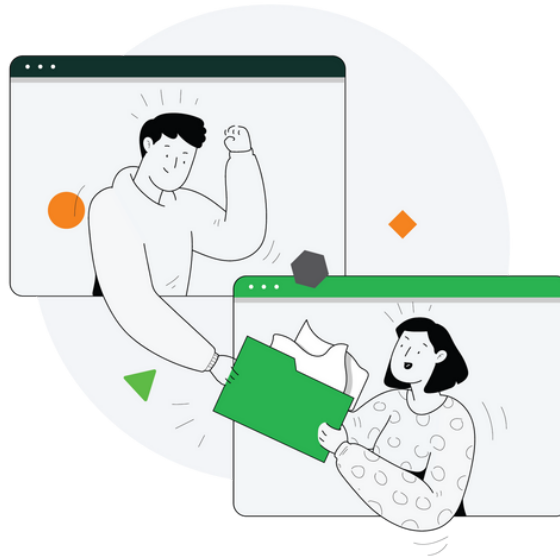
1 Control Group

This process utilizes a control group then takes that data and expands to larger sets of your inventory. If you're new to cycle counting, this is a great method for you since it allows you to practice on the same products repeatedly before implementing it on a larger scale.

2 Random Sample

There are two different random sample cycle count techniques that you can use. Consistent population counting uses the same number of random products for every count. This means that some products can be counted more frequently than others.

On the other hand, diminished population counting excludes items that have been counted from future counts until the whole inventory has been cycled through. This technique works great if your business sells a lot of similar types of products.



3 ABC

As inventory increases the higher the chances products will go out of stock. Some warehouse providers choose to apply use-based analyses of ABC.

ABC cycle counts use the 80/20 rule where 80% of your inventory results come from 20% of your products. This should be the area where inaccuracies are more likely to occur and where the majority of counts take place.

You can either use this method with the Pareto Principle that classes group by their monetary value or the usage-based analysis which classes by usage or consumer popularity.

Once you decide which technique you are going to use, this is how to create the inventory categories:

- Group A: High-value/usage products (70%) and 10% of your physical inventory
- Group B: Moderate in value/usage products (20%) and 20% of your physical inventory
- Group C: Small value/usage products (10%) and 70% of your physical inventory

This process helps you prioritize the products that have the highest value or usage compared to random sampling cycle counting. However, don't neglect counting Group C products enough for accuracy.

Other Cycle Counting Methods

- **Location Based** For location cycle counts, divide your warehouse/store into sections and cycle through products one location at a time. However, this cycle counting method doesn't consider the value of the products and has a higher chance for error if a product is in the wrong location during the count.
- **Opportunity Based** Companies who practice opportunity based cycle counting only complete a count when a significant event happens, like a large incoming order or stocks falling below the set amount. While this works great for some businesses, it can be a reactive approach instead of proactive against inventory errors.
- **Physical Area** To use physical area for cycle counts, categorize your inventory. This can be done by vendor, category, or department, etc.
- **Hybrid Method** This simply means using two different methods for inventory cycle counting that best suits your needs.

What You Need To Complete An Inventory Cycle Count

Now that you have chosen a cycle counting process for your business, it's time to start making a plan to help keep you and your team organized. There are a few things you'll want before you start your count.

How To Conduct A Cycle Count

1 Start With Clean Records

Before you begin your cycle count, ensure that your database is accurate. That could mean ensuring your last product delivery has been received into your system or cleaning out products you no longer carry.

2 Create A Report

Set up an inventory cycle count report using a spreadsheet or an inventory management system, like Thrive, to track which products you have accounted for and any discrepancies.

3

Count

Go through each product and count each physical product and quantity you have in your store and/or warehouse.

4

Note Any Inventory Errors

Take detailed notes if the physical inventory doesn't match your inventory records. Look into any differences to see if you can identify where the deltas are coming from.

Once you have identified any issues that are causing your inventory numbers to be off, take corrective measures to prevent these issues from continuing.

5

Review Policies

These inventory cycle counting methods are intended to be a guide. However, every business operates differently so make any adjustments necessary to be as efficient as possible.

6

Update Your Records

After completing your cycle count, you may need to make some changes to your stock count records. It is a good idea to have a second employee or manager confirm the discrepancies.

7

Repeat

Once you complete one section of your cycle count, move on to the next until all your products have been reviewed.

How To Automate Cycle Counting



Use An Inventory Management System

Inventory management systems, like [Thrive's Stocktake feature](#), help manage and automate the cycle counting process. Simply create a report, click the products you want to cycle count, complete your count with the option of using a barcode scanner, and make any notes regarding errors.

Our platform will show you any discrepancies and will push out any inventory updates to all your sales channels at once.

You can view or download previous Stocktake reports giving you better transparency on patterns where errors occur and trends, allowing you to make smarter business decisions.

Also, you can set up user permissions to require a manager's approval before submitting a count. Updates are then sent across all your sales channels making sure your counts stay up to date.

Barcode Scanners

Save time and increase accuracy with a barcode scanner instead of writing or typing your entire inventory count. Additionally, barcode scanning your cycle counts can highlight any label inconsistencies for your products before they happen at the register and negatively impact the customer experience.

Thrive allows you to use a physical barcode scanner or our mobile barcode scanner app. By scanning each product's barcode and quantity, your inventory management software will automatically track the correct quantity for you.

How Often Should I Complete A Count?

We recommend completing a full inventory cycle count at least once a quarter, including the end of the year to calculate your ending inventory value.

By systematically and consistently doing cycle counts, your inventory will become more accurate. Correct data will allow you to be able to make better decisions for the health of your business, like re-ordering products with confidence.

Best Practices

- Have cycle counting be a part of your regular routine operations.
- Assign cycle count teams with at least two people completing the same cycle count separately for more accurate results.

- Write out a plan to ensure that you don't miss any products and are dividing them up correctly.
- Close out all shipping, receiving, and work in progress transactions first for the products you're cycle counting.
- Complete your inventory count before or after daily operations so you aren't distracted by a busy day and sales don't change your data during the count.

Additional Resources

[Inventory Count Template](#)

[Blog: Calculate Ending Inventory Like a Pro](#)

Automate Cycle Counts For Free

Thrive In will highlight any stock discrepancies and automatically update all your sales channels with the correct stock count at once. View and download previous Stocktake reports to see patterns where errors typically occur, like receiving inventory, to improve processes.

[Sign up for a free 30 day Thrive Inventory trial](#)