Your Inventory Counting Checklist

A Simple Step-by-Step Plan For The Most Accurate Inventory Ever!

A special selection direct from the
Inventory Management Module
of the **Retail Mastery System 2.0**

Retail Mastery System

INVENTORY MANAGEMENT

WhizBang
Retail Training

Your Inventory Counting Checklist

A Simple Step-by-Step Plan For The Most Accurate Inventory Ever!

By Bob and Susan Negen, WhizBang! Retail Training

It's no one's favorite job, but taking a 100% accurate physical inventory is an essential part of being a successful, professional retailer. And since you've got to do it, you might as well do it the best way possible. This report will give you a tried and true method used by thousands of retailers – one that really works.

> "We are doing a full physical inventory using your method once again and I even made an informational video for new hires about the process. We are poised for a complete, accurate inventory, thanks to you!"
>
> ~Cyndi Wells, Pet Pangaea, Los Alamos, NM

Why Bother Taking An Accurate Physical Inventory?

The inventory of merchandise in your store is probably the biggest asset in your business as well as your biggest business expense. Knowing exactly how much and exactly what you own is the first step in managing your inventory. And great inventory management is your key to higher profits! Here are several ways having an accurate inventory count will help you improve profits.

Shortage – Shortages eat directly into your store's profits. Shortage or overage in inventory can usually be attributed to one of several factors:

- Theft, either internal or external
- Incorrect ringing of sales in the store
- Paperwork problems in receiving merchandise, transfers, or RTVs, etc.
- Incorrect counting or key-entering of the physical inventory

Determining which factor or, more likely, which combination of factors is responsible for your shortage/overage takes some detective work. Knowing where the shortage problems are and how severe they are in each area will help you figure out how you can stop the shortages and increase your profits.

Taxes – Don't risk paying extra taxes. If you overestimate the dollar value of your inventory, your cost-of-goods will go down, your profit (on paper!) will go up, and you'll pay taxes on income you didn't actually earn. No one wants to give Uncle Sam more than he's actually due!

Credit/Funding – Don't sell yourself short. If you underestimate the dollar value of your inventory, you'll show less overall profit, which may have a negative effect on your relationship with your banker, investors, vendors, spouse, or parents who always thought the store was a crazy idea anyway. *("Dear, don't you think it's time you found a "real" job?")* To get a true picture of how well your business is doing, you need to have a totally accurate accounting of how much inventory you own.

Open to Buy Planning – Remember the old adage "garbage in, garbage out"? You can't run a correct Open to Buy plan if you don't have correct merchandise counts in your point of sale system – and Open to Buy Planning is one of the best overall ways to increase sales, reduce markdowns, improve cash flow, and boost profits.

You've got to get this one right!

Some "Less-Than-Perfect" Methods for Taking Physical Inventory

Here's a quick look at some of the most common counting methods being used by storeowners today and an explanation of how and why they are less than perfect…

The yellow pad method – This is the favorite method of most retailers who don't have a computerized POS system. Using this method, you give everyone a yellow pad and have them attack the store writing down a list of all the products they find.

Unfortunately, with this method there is no way to ensure that all the merchandise is counted ONCE and ONLY ONCE. It's way too easy to miss merchandise or double count merchandise. This is the method Bob originally used in his stores, and if you want to hear a good business story, ask him about the very last time he ever did inventory this way!

The scavenger hunt method – This method is a favorite of retailers who do have a computerized POS. In this method you print out a list of all the merchandise the computer says you should have on hand and go look for it.

Sounds good, but in addition to the same problems you have with the yellow pad method, there is one more problem. It doesn't take into account any merchandise that may be on your floor but not in your computer. In theory, nothing should be on the floor that's not in the computer, but… it happens.

The "little bit at a time" strategy – This is a strategy that gets combined with both of the methods above and compounds the problem! Using this strategy, your inventory gets counted a little bit at a time over a period of days, weeks, or months. One day during store hours you'll count the sweater department, and the next you'll count the shoes.

While this might work to correct on-hand counts in your POS for buying purposes, it doesn't work at all for getting an accurate total of all your inventory. And that is what you need for creating an accurate profit and loss statement, for figuring out your shortage, and for starting your open to buy plan. You need a "snapshot" of exactly how much inventory you own at one specific point in time. You should count the entire store all at once, after the close of the business day. (Yes, it can be done – even for the largest retailers!)

Why Our Inventory Counting Method Works…

Taking a WhizBang! Physical Inventory – The method we have developed is a combination of the best practices used by very large retailers and refined for use by small and mid-sized independent retailers. The "big boys" have spent literally hundreds of years, millions of dollars, and a gazillion man-hours learning and perfecting how to count a wide variety of merchandise. The stakes for them are very high and so they've worked very hard to get it right.

There's no need for you to reinvent the wheel – we've figured it all out for you. Using this method you will:

- Systematically map out your store.
- Clean, organize, and correctly tag all merchandise.
- Develop a strategy for efficiently using all your sales staff to help.
- Count all your merchandise **once and only once.**
- Ensure counts are correct with a system of double checks.
- Complete a full count of your store in one night.

On the next two pages you'll find a complete checklist and timeline for taking an accurate and organized inventory. You can also download the **editable version of this 2-page checklist** so you can customize it for any special requirements your store may have.

On the pages that follow, we've also included lots of the tips and tricks learned along the way to help make the process run even more smoothly and efficiently.

Good Luck and Happy Counting!

Inventory Checklist and Timeline

started **completed**

☐ ☐

Two Weeks Before Inventory

☐ ☐ Inventory date set and posted.

☐ ☐ Inventory schedule posted.

☐ ☐ Maps drawn.

The Week Before Inventory

☐ ☐ Stockroom cleaned and organized.

☐ ☐ All defective merchandise properly tagged or sent for RTV.

☐ ☐ All merchandise in stockroom checked for correct tags.

☐ ☐ Selling floor cleaned and organized.

☐ ☐ All merchandise on the selling floor checked for correct tags.

Two to Three Days Before Inventory

☐ ☐ Copy and number inventory sheets.

☐ ☐ Lay inventory sheets in the stockroom.

☐ ☐ Count stockroom and seal off counted areas.

The Day Before Inventory

☐ ☐ Gather all materials needed for the day of inventory.

☐ ☐ Determine plan for counting on inventory day.

☐ ☐ Complete all cleaning, sorting, and tagging projects.

☐ ☐ Make sure all new receivings are properly handled.

The Day of Inventory – Before Store Closing

☐ ☐ Complete stockroom count and pull inventory sheets.

☐ ☐ Pull moveable fixtures from floor to stockroom and count.

☐ ☐ Lay inventory sheets on the selling floor.

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Inventory Checklist and Timeline pg. 2

started   completed

☐ ☐ Last-minute sweep for merchandise in fitting rooms, hold areas, etc.

☐ ☐ Close the store.

The Day of Inventory – After Store Closing

☐ ☐ Staff meeting to review inventory procedures.

☐ ☐ Assign areas to count and review everyone's first counted sheet.

☐ ☐ COUNT.

☐ ☐ Pull all inventory sheets from floor.

☐ ☐ Check each sheet for completeness and legibility.

☐ ☐ Count sheets to make sure that every sheet has been pulled.

☐ ☐ Straighten the store for the start of the next business day.

Compile the Inventory Results

☐ ☐ Enter the counts into the POS system or....

☐ ☐ Enter the counts into a spreadsheet to get total inventory $.

☐ ☐ Analyze your inventory results.

Recap and Review

☐ ☐ Meeting to review how the inventory went.

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How to Take a WhizBang! Physical Inventory
A Simple Step-by-Step Plan For The Most Accurate Inventory Ever!
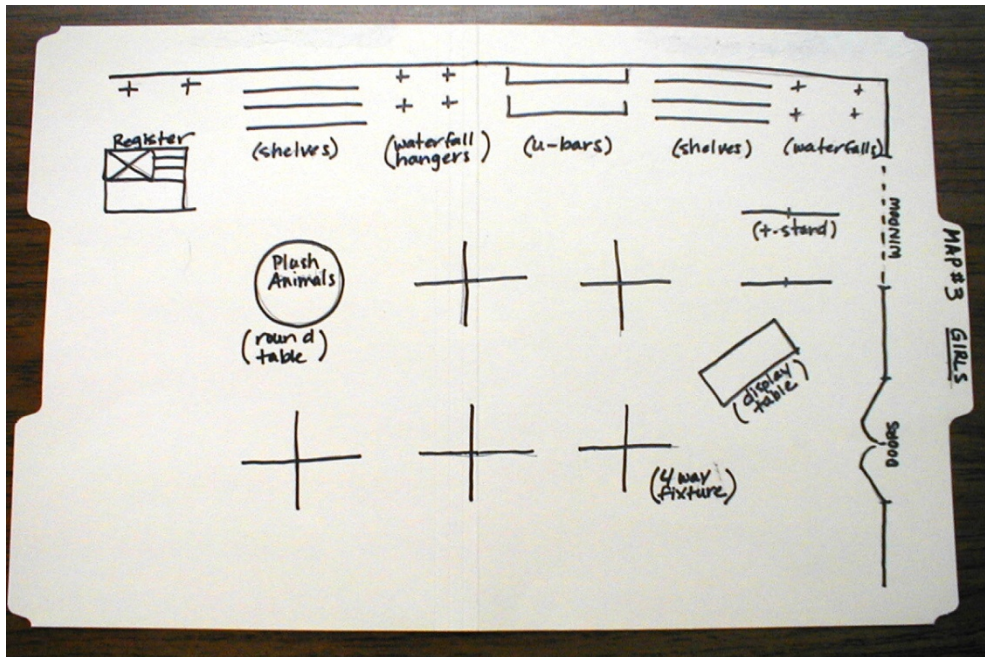
All the steps for taking a completely accurate physical inventory are laid out below in step-by-step fashion. This outline approach corresponds with the checklist and should make it simple for you to get great results.

Two / Three Weeks Before Inventory

1) Post a sign (send an email, post a message) alerting your crew about inventory date. All employees are expected to take part on inventory day. This should be a mandatory event.

Ten Days Before Inventory

1) Post the inventory schedule. Be sure to let everyone know what their assignment is for the day, i.e., working the floor, counting the stockrooms, counting inventory night, etc.

2) Begin creating **floor plan maps** of all areas that contain retail merchandise. Be sure to include selling floor, stockroom, windows, displays, ceilings, office area (if it contains retail merchandise), and any off-site locations that are used for storing merchandise.

- Use manila folders and pencil for maps. Any changes in maps can be easily made if they are drawn in pencil. Manila folders work very well for maps because they are durable, plentiful, and can be used to hold the inventory sheets for that section of the floor after they are pulled.

- Break up the floor into small manageable sections and draw one map for each section. Usually the sections will correspond to the way the floor is merchandised (e.g., one map for the stockroom, one map for sportswear, one map for shoes and one map for accessories). Be very careful to include all areas of the store in your maps – holds, sends, alterations, repairs, windows, stockrooms, ceilings, any area that contains retail merchandise. See sample floor plan attached.

- Give each map a name and number (e.g., Map#1 Shoe Stockroom, Map #2 Little Stockroom). Write the name and number on the front of the map and on the tab of the manila folder.

- Draw all walls, shelves, fixtures, register stands, displays, etc. If there is merchandise on a mannequin or stacked on the floor, be sure to include them as fixtures on your floor. Be clear about what fixtures go with which map, especially in transitional areas between maps. Make sure *all* fixtures, displays, etc., get put on a map. It can be easy to miss one!

- See example. The samples are done in black marker so it is easier for you to see, but your maps should be done in pencil so they are easy to adjust when needed.

A hand-drawn store map labeled "MAP #3 GIRLS" showing:
- Register
- (shelves)
- (waterfall hangers)
- (u-bars)
- (shelves)
- (waterfalls)
- Plush Animals (round table)
- (t-stand)
- (display table)
- (4 way fixture)
- WINDOW
- DOORS

Seven Days Before Inventory

1. Complete maps of selling floor and stockrooms.

2. Clean and organize the stockroom down to the corners. Be sure to check under stock shelves, behind desks, in hidden crannies, and anywhere else merchandise may have accumulated. Check any other area (office, hold area, closets, alterations, repairs, etc.) that might contain retail merchandise and move it to the proper location.

3. Label separate retail and non-retail (display props, fixtures, POP materials, etc.) areas of the stockroom.

4. Use the maps to implement a section-by-section check of the selling floor and stockroom to ensure that every piece of merchandise is **properly** tagged. This checking process needs to be ongoing until the time inventory begins. Use particular care when receiving and tagging new merchandise.

Three Days Before Inventory

1) Get all defectives cleared out and cleaned up.

   a. Send back any outstanding RTV's.

   b. Mark out of stock any broken items unable to RTV and throw away.

   c. All other merchandise (anything waiting for resolution) should be identified, sorted, and properly tagged.

2) Clean and organize the selling floor down to the corners. Be sure to check under shelves, behind fixtures, in hidden crannies, dressing rooms, and anywhere else merchandise may have accumulated.

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3) Clean register stand to the corners. Throw away old materials, lost and found stuff, and any other clutter behind the counter.

4) Copy or print enough inventory sheets.

If you are counting and **recording each item manually with pencil,** use the full sheet with lines to record the information for each item.

If you are counting and **recording each item with a barcode scanner,** use the smaller inventory sheet that only asks for total quantity of items on each fixture (for a double check.)

Use the sample blank inventory sheets provided in the documents section of the Retail Mastery System website and print them or copy the bank sheets in this report.

5) Number the sheets in pen in the" Inventory Sheet #" blank at the top right of the sheet. Start at 1 (one) and continue numbering in sequential order until all the sheets have been numbered. **It is very important to number the sheets in this way so you can ensure that all the sheets have been accounted for at the end of the inventory.** You will fill in the "Map #" blank as you lay the sheets for each mapped area.

The Day (or two) Before Inventory – Count the Stockrooms

1) Lay inventory sheets for maps in the stockroom. Here is how to lay sheets for inventory.

- Always start at one corner of a map and move in an organized and systematic fashion. Top to bottom and left to right is a tried-and-true system.

- You can lay sheets in groups (e.g., two sheets for a section of five shelves in the stockroom, ten sheets for an entire clearance rounder, etc.) or in a very specific manner (one sheet for each of the five shelves in the section of stockroom shelves, one sheet for each arm of a four way fixture, two sheets for each shelf on a floor fixture, etc.).

- The number of sheets you lay on each fixture should be determined by the number of different styles on the fixture, not by the total number of items. A clearance fixture with a large number of single styles will take up many more sheets than a fixture with a large number of only a few styles.

- Lay plenty of sheets**. Do not skimp!!** It is much easier to have extra sheets with nothing counted on them than to run out of sheets in an area on the night of inventory.

- Record the location of each sheet on the corresponding map. Also record the appropriate Map # on the sheets that you lay down in that area. List all the sheets located in the area of a map on the outside of the manila folder. This way you'll know which sheets belong to the area designated in that map and exactly where they are located on the floor.

- See examples on this following page. The samples are done in black marker so it is easier for you to see, but your maps should be done in pencil so they are easy to adjust when needed.
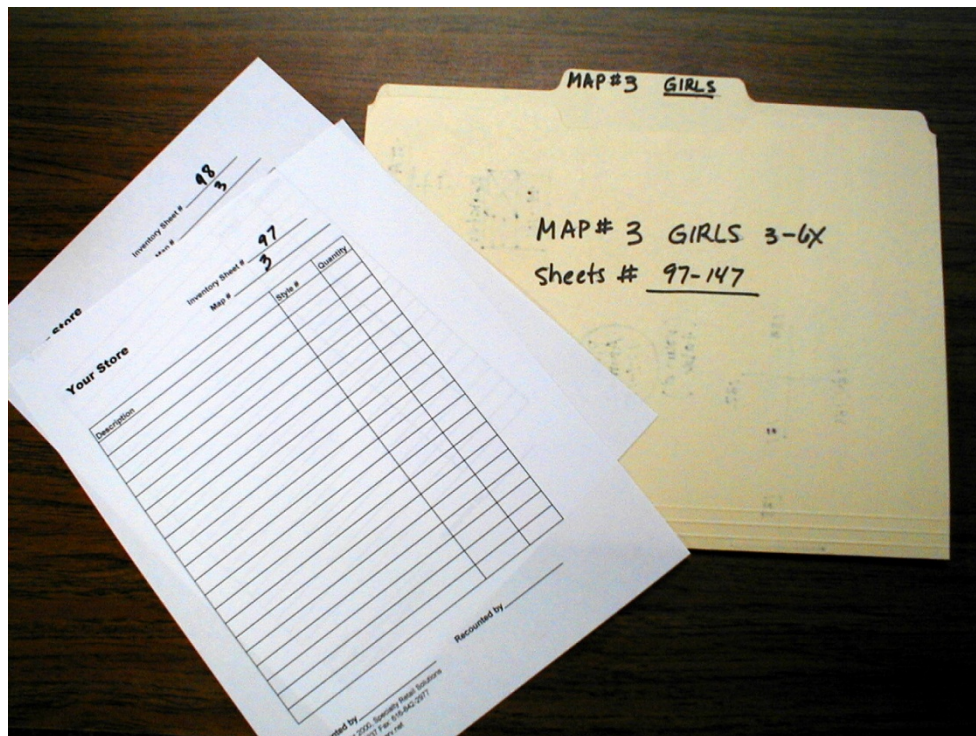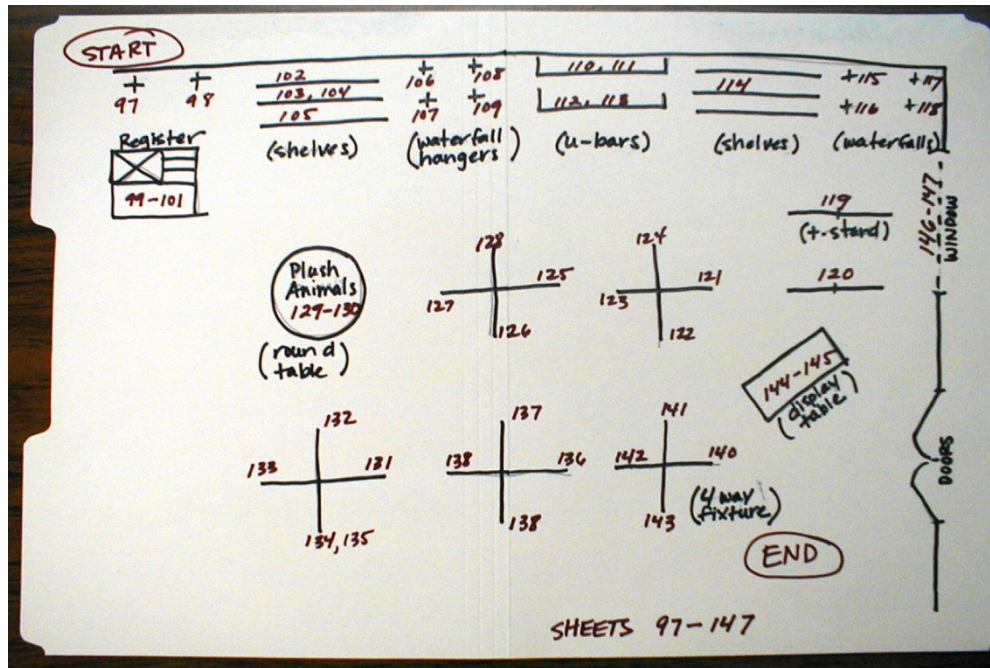
2) Count and seal off any areas of the stockroom or off-site storage areas where access will not be needed until after inventory. **Do not touch** any merchandise after it has been counted. A physical barrier like strips of tape or signs is a good reminder not to touch the counted merchandise.

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How to Count at Inventory

Method #1 - If you are counting and recording each item manually with pencil

- **Check the tag of each item counted**.

    - Do not assume similar items all have the same tag or are the same item. For example, items of same style but different size may have different SKU numbers.

    - Do not assume items are correctly tagged. If they are incorrectly tagged, retag and count correctly.

- Use a pencil only and be sure to WRITE LEGIBLY. This is critical for the accuracy of data entry at the end of the process. Determine acceptable number styles (e.g., no crossed sevens, no fancy ones, no curlicue numbers of any kind).

- Fill in a brief product description, the style number, and total quantity counted in that area. If you need more information – like department code or classification – for entering the data into the computer or spreadsheet, adjust the inventory sheet template and fill in all the additional required information.

- Be sure to fill out the inventory sheet correctly and completely. **Accuracy is critical!**

- A manager should **check each person's first sheet for correctness** and legibility before s/he goes on to finish counting. It's much easier to find out after one sheet that someone doesn't quite have the hang of it and get the problem corrected than find out at the end of the night! Also the manager should be sure to check for legibility and correct number formation (no ones that look likes sevens for example).

- Do not write inventory information on the back or bottom of the sheet. Only use the lines given. It's OK to make small notes to yourself or tally marks in the right margins, but be sure that all actual inventory information is accurately entered on the lined area of the sheet.

- If you run out of lines on an inventory sheet, move on to the next sheet. If you run out of sheets in the area you are counting, ask a manager for more sheets. **Do not take sheets from another area.**

- Counting can be done individually or in two-person teams. Individual counting is best for most areas as it cuts down on chatting and is the fastest. Two-person teams work well in very complicated areas with lots of little items or where lots of reorganization has to take place. Two-person teams also work well for training first-time counters.

- If there is a mistake on a line, don't erase the line. Cross out the incorrect line and write it correctly on the bottom of the sheet.

- Count the merchandise in an organized, systematic way so that it is easy for the re-counters to check the first count.

- Do a 20-50% recount. Counters should not recount their original area. Additional recounts can be done in any given area, up to a 100% recount, if the second count reveals a problem with the first count.

- Counters and re-counters should initial each sheet as they are completed.

- Managers should do a 10% executive check on a random sample of merchandise.

Method #2 - If you are counting and recording each item with a barcode scanner

- **Check the tag of each item counted**.

    o Do not assume similar items all have the same tag or are the same item. For example, items of same style but different size may have different SKU numbers.

    o Do not assume items are correctly tagged. If they are incorrectly tagged, retag and count correctly.

- Scan the merchandise in an organized, systematic way being careful not to double scan an item.

- Count the total number of items as you scan them and record the total number of items on the sheet.

- If you need more sheets in the area you are counting, ask a manager for more sheets. **Do not take sheets from another area.**

- Counting can be done individually or in two-person teams. Individual counting is best for most areas as it cuts down on chatting and is the fastest. Two-person teams work well in very complicated areas with lots of little items or where lots of reorganization has to take place. Two-person teams also work well for training first-time counters.

- Managers should do a 10% executive check on a random sample of merchandise, counting the total number of items on the fixture against the number of items scanned and recorded on the sheet.

The Day (or two) Before Inventory, continued…

1) Complete all cleaning, sorting, and tagging projects.

2) All merchandise received in the few days before inventory must be properly entered into the computer book stock, tagged, and merchandised on the floor or put in the stockroom. Make any last-minute adjustments to inventory maps necessary because of new receivings.

3) The manager should gather all materials needed for the actual counting the following night. Develop a plan for what order the store will be counted in and who will be assigned to count in each area. The better the plan, the more smoothly the counting will go.

Here are some tips to consider when making your plan for the day of inventory

TIP #1: Count the most difficult areas first while everyone's mind is still fresh.

TIP #2: Try to group your counters so that entire maps can be completely counted and second counted before they move on to another section of maps. That way you can pull sheets and check them for accuracy and completeness while the counters move on to another section of maps. If you spread out all the counters, you'll have all the work of pulling the maps and checking the sheets to do at the very end of the night, all by yourself after all the employees have gone.

Tip #3: Don't plan on the manager counting. The manager should be running the inventory, delegating tasks, assigning counting areas, addressing problem merchandise,

making tickets for items missing tags, pulling sheets as each map is complete, checking sheets for completeness and accuracy, etc.

Tip #4: Plan on a break about two thirds of the way through the counting. This could include drinks and snacks, even a whole meal (pizza or subs are excellent) depending on how long you will be counting and the time of day. The break is important to give everyone some mental breathing room; but also understand that your crew will become less productive and less focused after the break. They will begin to zip through things just to get home. (See TIP #1!!!)

The Day of Inventory

1) Any receivings that come in the day of inventory may be dealt with in two ways.

    a. If the receiving is entered into the computer stock that day, it must be counted for inventory.

    b. If the receiving is not entered into the computer stock that day, it should **not** be counted in inventory. Boxes should remain sealed and be labeled "Do Not Count."

2) Continue counting stockroom and seal off areas as they are completed. When the stockroom is completed, pull completed sheets and put them in manila folder maps. Put completed maps in a safe place – perhaps the manager's desk – until the sheets are needed.

3) Lay sheets on the selling floor prior to store closing. Use the same method as described in the section about laying sheets in the stockroom.

4) Close to the time of store closing, pull any moveable floor fixtures to the stockroom, count, and seal. The more you can count ahead of time, the faster your evening will end.

5) Do a last-minute sweep of any areas that may have accumulated merchandise during the day – fitting rooms, alterations, repairs, holds, defectives, manager's desk, counter area, etc. Your goal is to have all retail merchandise in its proper place on the floor so it's not missed in the counting process.

6) Determine who will do the day's closing activities like counting down the bank and processing credit cards. This should probably be someone who worked during the day who isn't going to stay for the counting.

Counting Begins

1) Hold a brief staff meeting prior to beginning counting on the floor. Stress to the employees the importance of this job and make sure they have come prepared to work. Other areas to cover in the meeting include:

    a. How to count at inventory (see directions in the previous section). Review this carefully with all employees, even if they have counted before.

    b. NO MUSIC. NO EXCESS TALKING. NO FOOD OR DRINKS. This may seem harsh, but these small distractions can absolutely affect concentration and, therefore, the accuracy of your counts.

       c. Leave inventory sheets in their place. Do not take them to a manager if you have a question; get a manager to come to you.

       d. Don't guess; ask if you aren't sure about something.

2) Assign each employee an area to count.

3) **COUNT**. Don't forget to check each counter's first completed sheet for accuracy.

4) Pull inventory sheets as maps are completed.

       a. **Check each line of each sheet** for legibility, completeness, and accuracy. As hard as people try, mistakes do get made, quantities aren't entered, or style numbers are forgotten. It is much easier to correct mistakes and check on errors while the person who did the counting is still there and the job is still fresh in the mind.

       b. Check the sheets associated with each map and make sure they are all there, **in sequential order.** If some are missing, refer to the map and look around to find them. If the sheet is empty, that area has not been counted. Count and put them in the order sequence.

5) After all merchandise has been counted and all sheets accounted for, make sure the selling floor is ready for the start of business the following day.

6) When all counting, straightening, and any other necessary work has been done, the employees can go home. Usually, you won't need all the employees to stay until the very end. Let the ones who started their shifts first go home first.

This system for counting inventory has been used by thousands of independent retailers with great success – and it will work for you.

Good Luck and Happy Counting!

About WhizBang! Retail Training

Twenty years ago Bob and Susan Negen founded WhizBang! Retail Training to help retail store owners and managers get the nuts-and-bolts skills they need to run a successful business.

In those twenty years they have worked with hundreds of thousands of retailers, presented at trade shows and conferences all over North America, and created numerous courses for retail owners including the flagship Retail Mastery System 2.0.

Bob and Susan's skills and real-world perspective come from over 40 years of combined on-the-floor retail experience. Bob founded the Mackinaw Kite Co., an award winning chain of kite and toy stores, and ran them for 19 years. Susan started her retail career as an executive at Bloomingdale's and Macy's, before she joined Bob at the Mackinaw Kite Co.

Together they have a knockout, one-two punch of sophisticated "big business" skills and street-smart small business experience!