

## Accuracy = Cost Savings

Eliminate the cost of mistaken information

A number of years ago I was contracted to deliver an in-house seminar on the fundamentals of JIT and was scheduled to begin early one morning. Every planner in the organization was late for class. I started the meeting by asking why the planners were all late for class. All of the planners had been on the production floor taking a count and getting last night's production numbers so they could do their work. I then found out that this was something they did first thing in the morning and then again late in the afternoon. We switched over to a more fundamental element of JIT...data accuracy.

You cannot manage what you do not control. You cannot control what you do not measure. Timely, accurate information must be supplied to knowledgeable users in a format that they can readily utilize to make decisions. People make decisions at all levels of the organization based on data. Accuracy issues can cost an organization in so many ways. Here are just a few:

- ✚ Staff wasting time manually collecting data;
- ✚ Suppliers get inaccurate plans resulting in resources being late, early or supplied in the wrong quantity;
- ✚ Customers refuse to pay inaccurate invoices on time;
- ✚ Customers refuse the wrong product that has been delivered returning it to the supplier at the supplier's expense;
- ✚ Products and services are sold at less than expected margins (loss);
- ✚ Finance misrepresents the profit and/or shareholder value of the organization.

## Determining Accuracy Factors Required

Every accuracy factor needs to be measured quantitatively in order to benchmark the beginning point and determine progress towards the target. An organization defines the accuracy factors to be measured by determining the root cause of a problem. In the example that I used above, the root problems were: (a) timing of information entry into the system; (b) areas of the floor that were not being tracked; (c) lack of discipline in reporting material moves and production quantities; and, (d) bill of material quantity/yield percentage inaccuracies resulting in wrong quantities being back-flushed upon production being reported.

In many cases, the accuracy factor can be measured in more than one way. For instance, inventory accuracy can be measured by the number of cycle counts where the count amount equals the perpetual record amount, or by the dollar value of the adjustments. Shipping accuracy can be measured by the number of times an error is reported versus the number of shipments or versus the number

of line items shipped. Billing information accuracy can be measured by the number of time a credit note is issued to a customer to correct an invoice amount, or by the total amount corrected versus the total amounts invoiced.

Accuracy can also be tied to a human component. For instance, product forecast accuracy may be measured by product line and by the forecaster responsible. Inventory accuracy would also be measured by department in order to set departmental goals for improvement.

### **Don't chase the problem, chase the cause of the problem**

Every problem in an organization will have a root cause. The phrases: "We have an inventory problem" and "We have customer service issues" are correct but do not identify the root cause. In fact, the inventory problem may be one cause of the customer service issue but is likely not the only cause and is not the root cause. The trick to solving problems is to identify and correct the root cause.

### **Developing the solution**

When a problem is identified, one of the simplest methods of drilling down to the root cause is to keep asking: "Why does that happen?" until you find an actionable answer. Using my example above, the first group of questions that I asked (answers) were:

- ✚ Why are all the planners late for class? (We were on the shop floor)
- ✚ Why do you go out to the floor to collect information? (So we can plan)
- ✚ Would it help if information tickets were input while production while production is running? (No, the tickets are often wrong and we know there are issues with the bills of materials anyway so raw material is wrong).  
Action – Discipline and BOM audits.
- ✚ What is the current inventory accuracy? (Don't really know). Action – implement cycle counting.
- ✚ Does anyone track material movement? (Only by the tickets that are often wrong)

Experience has shown that accuracy issues typically do not have a single cause. Therefore, cross-functional teams will likely be needed to tackle them. Executives need to understand the impact of bad information and be willing to champion the cause of accuracy and hold people accountable for their accuracy with which they report information.

Do not try to slay all of the accuracy dragons at once. Pick the ones with the most potential for damage in each functional area of the organization and fix them one-by-one (and there is an art to picking the most painful). Set quick-win goals for achievement...do not try to go from 65% inventory accuracy to 98% in one shot.

Your organization's ability to ensure excellent decision-making is absolutely dependent upon accurate, timely information. Target: 100%.



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***About the author***

*Ken Cowman has over 11 years experience working in operations management and over 26 years of management and enterprise solutions consulting experience. With over 25 years of executive management experience and 6,500 hours of education and seminar leadership experience, he has the experience to be able to view the organization from all levels and ability to provide the appropriate level of teaching and/or consulting to effectively assist organizations in their quest for continuous improvement.*