

## ComputerTalk Online - August 2008

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Jonathan Rider, owner of Rider Pharmacy in Fairmont, W.Va., is a firm believer in perpetual inventory. He took a few minutes at the Cardinal RBC in Orlando, Fla., to talk to *ComputerTalk's* Will Lockwood about Cardinal Inventory Management (CIM), how he uses Kirby Lester counting technology to speed through the daily counts that are the basis for this inventory tracking method, and the financial and operational improvements he's seen.

### **CT: First, tell us about Rider Pharmacy, Jonathan.**

**Rider:** Well, my family's owned the pharmacy since 1967. My dad bought the store from Alice Bennett, the original pharmacist and a wonderful woman. She was one of the first female pharmacists and independent store owners, if not the first, in West Virginia. So, we've been providing prescriptions and healthcare to Marion County and to the town of Fairmont for a very long time. Pharmacy's been ingrained in our family. It's what I grew up doing. It was my first job.



### **CT: You are using Cardinal Inventory Management (CIM), a perpetual inventory tool. What is perpetual inventory and what are the challenges?**

**Rider:** Yes, we were a beta store for CIM and we've been using it for about four years. The challenge was finding out what our base inventory was. In general, you always want your book inventory to match what you have on hand. We'd been taking inventory once a year, but that was hardly frequently enough to keep track of what was actually on hand. We had no clue really what our on-hand was because products dispensing history change frequently. So when we started with CIM, we created a baseline on-hand inventory.

### **CT: How did you do that first base-line inventory count for CIM? Did you use a counting machine?**

**Rider:** No, we picked up our Kirby Lester counter later. I wish we had it then though. We did the count by hand, and we could've done it a lot faster. Now that we've combined Kirby Lester and CIM, we get a high level of accuracy in our daily audit counts. We aren't shaking a bottle anymore and saying, "Is it half empty or is closer to full?" Now, I'm very comfortable saying that inventory is accurate within \$5,000. My normal inventory is around \$174,000. If I'm off by too much, I know that I've got a problem somewhere. Of course, we also use the Kirby Lester counting to eliminate hand counting in our day-to-day dispensing, which is a big help.

### **CT: Let's talk about what some of those problems can be. But first, you mentioned the daily audit count. Tell us what you do.**

**Rider:** We start by printing off the audit sheet that CIM generates each day. This is a list of items that have been red-flagged or chosen random for count that day. Examples of what gets red-flagged are items we've sent back or that we've changed the on-hand quantity for manually based on a spot check. We count, running all the solids that aren't packaged as unit-of-use through the Kirby Lester, fill in the exact on-hand inventory on the printed sheet, and then punch these numbers into the CIM Web interface. That's it. We generally audit 50 drugs a day, which takes about 20 minutes. Sometimes we're too busy even for that. When we're really busy, I think that using the counting technology becomes even more important. That's because it is the quality of the count, not the quantity that's important with CIM. Meaning that if we can only count 10 items that day, that's fine as long as we're accurate. In the end, you have to make sure you do an audit count every day, whether it's 10 items or 50.

**CT: How frequently do you get through a complete cycle now, using these daily audit counts?**

**Rider:** Well, if the typical pharmacy carries 2,000 items and you are actually able to audit 50 of these each day, then you've done a complete inventory every 40 days. If you do a few less on some days, then it takes a little longer. No matter what, it is a huge improvement over a yearly count.

**CT: So when you've done that count, however many items you've counted, you know your book and your on-hand match for the items on the audit list.**

**Rider:** Right. Anybody who isn't using perpetual inventory as a daily process and using it properly is going to be inaccurate right then and there. The purpose of CIM is to do two things: to ensure that we have the right amount of product on the shelf for the patient and to control how much money I have tied up in inventory. I could log onto CIM right now and see my inventory and be comfortable that it is right within \$5,000.

**CT: Let's get back to some of the issues that might come up during an audit count and how you resolve them.**

**Rider:** Well, someone might manually change the inventory amount in our system. In that case, the fact that CIM flags this item for a count helps make sure any manual changes are valid. Another great example is when there's a unit of use problem — like if there's a package size discrepancy or a grouping issue. What this means is that the size we dispense for a certain drug might not be the way Cardinal has it listed in their inventory. So let's say something comes in a package of 10 10ml bottles and Cardinal looks at this as one package, rather than 10 individual bottles. If we dispense one 10 ml bottle, CIM is going to think that we dispensed 10 bottles and set the product for reorder even though we have nine left on-hand. When we see a discrepancy like this on the audit report, we let Cardinal know and they take care of it in about 48 hours.

**CT: You mentioned earlier that perpetual inventory helps you make sure you have items in stock. How does this work?**

**Rider:** Well, CIM helps us keep up when we see a change in demand for a certain drug. For example, a rep will detail doctors in an area, about furosemide let's say, and then we see a lot of prescriptions for it. CIM recognizes this and adjusts our ordering because it is tracking what we're actually dispensing. The algorithm recalculates every morning, so we have a 24-hour turnaround. And this works whether we're suddenly dispensing more or less of a drug. This means that I'm always sure that I'm going to have the right amount of a product in stock. I'll tell you about two other things I also do. I go a little bit above and beyond the basics that Cardinal asks for and do a spot check of the expensive drugs on the shelf. I'll make sure that the count is right on these. Most of the time it is. I also go through my excessive inventory on a monthly basis. As I mentioned earlier, if I haven't dispensed a drug in, say, 60 days, CIM will tell me. It will also give me an amount to return based on my usage. Sometimes I'm returning several thousand dollars worth of drugs.

**CT: How do all these elements of perpetual inventory add up over time?**

**Rider:** They have a major impact on our efficiency. The savings from the adjustments we made after the base-line on-hand count was about \$30,000. And as we've continued to use CIM month after month, we're not spending that extra money on inventory. So you have an initial savings, and then not spending money is like saving money every month. We're carrying less inventory and we're also turning it over faster. In four years, we've increased our turns from between 12 and 15 to 20 a year. I think the industry average is 12. This is another way of looking at it. The more turns I get, the less money I have invested in inventory on a daily basis, the more I can use for other things in the store, whether it is to pay for employees, other products, or the latest and greatest in technology. For us, being able to recapture some of the money we had in inventory and reinvest it in the business has helped us improve service levels, which is what it's all about.