

## **Rising stock: integrated inventory systems help companies shoot economic rapids**

Dennis Eskow

PC Week. 12.22 (June 5, 1995): pE1+.

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### **Abstract:**

Businesses are charging their IT managers with integrating inventory control systems with other business-critical systems such as accounting and sales to better control inventory levels. Inventory control is crucial to the bottom line of most businesses because poor control can result in unwanted and un-sellable inventory levels that can adversely affect the bottom line. IT managers today recognize that efficient inventory control requires integration of inventory systems with accounting, sales and point-of-sales systems.

Woolworth Corp ran into inventory-related problems caused by poor integration with its accounting system. The company took a \$40 million charge related to this problem. Ross Stores has a fully integrated inventory/accounting client/server-based system running PeopleSoft software. Groth Corp manages its valves and mechanical parts for the oil industry with UNIX-based servers running Computer Associates' Manman/X software.

### **Full Text:**

Business inventories rose 0.7 percent in the U.S. Commerce Department's latest report (for March), a slightly higher-than-average increase. The report puts mild pressure on an inflating economy and big pressure on corporate information systems.

In an uncertain economy, loads of inventory can leave companies with big losses. Just look at Woolworth Corp. A day after the Commerce Department released its latest figures, the retailer took a \$40 million write-down, which officials largely attributed to inventory problems.

To stave off such disasters, corporate IT chiefs are increasingly integrating financial data, such as accounts receivable, with sales information that includes customer histories. The goal: to control inventory quarter to quarter, so it doesn't come back to bite the bottom line. Key components of an integrated system, IT executives say, are general ledger, electronic data interchange, database connectivity, and connections to a range of vertical business applications.

*"What drives business is optimization of working capital," said David Cahn, director of product strategy for business applications at Computer Associates International Inc., in Islandia, N.Y. "The amount of control you have on inventory equals the optimization of the capital. That's why it's so important to integrate the inventory data with everything else."*

Woolworth's losses were due in part to accounting-system flaws, including a lag in reporting point-of-sale figures to the accounting department, insiders say. The company has embarked on a business-process re-engineering effort to better integrate its point-of-sale and accounting systems.

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Tight grip

Ross Stores of Newark, Calif., has kept a grip on inventory by integrating its accounting and supply-chain systems, says Peter Hart, senior vice president of MIS and distribution.

*"We have as tight a handle as we can get on inventory," Hart says. "We count merchandise as it comes in, and when our point-of-sale system rings up a purchase, it pops right into our inventory and accounting systems. Our emphasis is on getting the most merchandise at the best discounts, but then we have to keep it moving."*

And that isn't always easy. Retail inventories are tough to control, because retail products move in cycles that can make tracking them as much of an art as a science, IT executives say. Inventory control is also hard for companies whose customers need to plan months ahead.

*"We are looking to our inventory system to help us strike a very delicate balance," said Bob Bacon, chief financial officer of Houston-based Groth Corp., a manufacturer of valves and mechanical parts for oil fields and chemical plants. "Our customers have a very long planning cycle, so we have to carefully integrate data from every side of the marketplace."*

Integrated inventory systems may range in platform and complexity. Groth chose a system that it felt focused on its manufacturing business: Manman/X from CA, which runs on a variety of Unix-based systems. Ross' client/server system, by comparison, was built using PeopleSoft Inc.'s software on a LAN connected to Tandem Computers Inc.'s minicomputers. *"No matter what you use, the integration is key,"* Hart says.

The Commerce Department's figures for March cap a first quarter with the highest inventories of the decade. Economists say they aren't concerned, but IT executives are.

"Corporations are running flat and lean," said Ray Gadbois, vice president of corporate marketing at PeopleSoft, in Pleasanton, Calif. "They need application components that work well together--as well as doing the job they were designed to do."

**Source Citation** (MLA 8<sup>th</sup> Edition)

Eskow, Dennis. "Rising stock: integrated inventory systems help companies shoot economic rapids." *PC Week*, 5 June 1995, p. E1+. *Expanded Academic ASAP*, [http://link.galegroup.com.ezp1.lib.umn.edu/apps/doc/A17001921/EAIM?u=umn\\_wilson&sid=EAIM&xid=a1105293](http://link.galegroup.com.ezp1.lib.umn.edu/apps/doc/A17001921/EAIM?u=umn_wilson&sid=EAIM&xid=a1105293). Accessed 19 Dec. 2018.

**Gale Document Number:** GALE|A17001921

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