

The YEBDC Small Business Information Column

by Sue Gingerich, Business Advisor

"Maximize Your Inventory Investment"

Businesses that sell merchandise often have the largest portion of their investment tied up in inventory. If dollars in inventory can be reduced, and at the same time the turnover of goods can be increased, (turnover = the number of times you sell a product within a given time period) return on the investment dollars can actually be greater.

However, sometimes when you eliminate a low profit item you also eliminate customers from coming in the door to buy other products and services. The trick in minimizing inventory is eliminating slow movers and low profit items without disrupting the sales of other merchandise.

One type of low profit goods are "lost leaders", items sold at or below cost. Lost leaders serve a useful purpose, drawing in customers. Usually they are basic items or staples, things people need and buy often and of course are in demand. Thus they are an easy sell, especially when sold at a low, low price. The beauty of the lost leader is that the customers come in to buy that one very low priced item, but they often buy other things while they are there. This is why you will often see "lost leaders" at the back of a store.

Other items that have low margins or mark-up, although not true lost leaders, may be used in the same way. Staples and basics are bought often, thus, they are very, very price competitive and therefore cannot have a large mark-up. Because they sell in volume, they do not require as much of a mark-up. Customers comparison-shop for these kinds of products, so they are looking for the best price. To mark them up would drive customers to the competition. To eliminate them would be to eliminate the main reason the customer comes into your business. Low prices on basic items, can buy customer loyalty, if they know that you always have the best price on these items. Therefore, it becomes very important to balance low margin/mark-up items with other higher margin goods within the inventory mix in order to ensure overall profitability of the business.

Never having dead stock is also an important part of minimizing inventory and increasing profits. Items should be marked down and cleared out BEFORE becoming obsolete. Leaving valuable dollars tied up on the shelf, not moving, isn't making you any money. If you bought an item for \$10.00 (cost) but couldn't sell it, should you mark it down below your cost? Sure, if it moves it. Even if you sell it for \$8.00, it is eight dollars you can reinvest. If your usual mark-up is 100%, and you reinvest that \$8.00, then if it sells, you will now have \$16.00. If you had not marked down the previous item, you would not have realized any gain. Now you actually have covered all cost of goods and realized a \$6.00 gain. So do not let dead inventory sit around, move it out, even below cost. Usually one turn of the new merchandise will recover your losses and produce some gains.

High margins and mark-ups usually can be realized from "fad" items or novelty items. What does your customer really want, and want bad, but doesn't really mind paying more for? Items that are new or are in high demand can often bare the most mark-up.

Increasing turnover of the goods in inventory is the next step to increasing profitability. Ensure that sales staff are aware of all goods available for sale, and knowledgeable about their benefits to the customers. Also make sure that the location of goods are rotated within the store. The customer will notice a product he never saw before, even though it was there, just because you moved it to a new location. Make sure that basic items, that the customer knows you have, are located towards the back of your business. Make sure that new items and items with high mark-up are in high traffic areas within your business, for maximum exposure.

Just by monitoring inventory more often, and knowing where and why you make your profit, will help to ensure that you don't get caught with unnecessary slow sellers and obsolete inventory. You will also become aware of those items that are worth investing more dollars in when money becomes available. So go ahead maximize your investment!

If you have a small business and have a question or problem that you think The YEBDC could help you with please call or write to: The Yellowhead East Business Development Corporation, Box 249, Sangudo, Alberta, T0E 2A0
1-800-556-0328 or 1-780-785-2900, e mail: yebdc@yebdc.ab.ca, or access our Website at:
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