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in this issue . . .

**HAVE YOU PLANNED FOR YOUR FUTURE?
THE IMPORTANCE OF AN ACCURATE PHYSICAL INVENTORY
JUST ASK!
4-5-4 CALENDAR
QUOTE OF THE MONTH
OPEN-TO-BUY
WHAT WE DO . . .**

HAVE YOU PLANNED FOR YOUR FUTURE?
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Do you plan to work until you die, or are you planning to retire? Where are you going to get the money to retire? If you are a business owner you are depending on your business to achieve your personal financial goals. When you retire do you want to play golf, go fishing, travel, or sit at home because you can not afford to do anything? How you spend your retirement will depend to a large degree on how well you run your business now.

Planning is the same as budgeting. "Budgeting" seems to have a bad image. However, when you are budgeting you are making plans for the future.

Whether your sales volume increases, decreases or stays level, if you are making wrong financial decisions because of lack of planning and inadequate information you will not survive. We don't know of any retailer who intentionally plans to operate at a loss. However, we do know of many who, when asked what they plan to do next year will say:

- a. "I don't know, but I hope to do better than last year."
- b. "I'm planning a 15% sales increase."
- c. "Who's got time to plan?"

Our answer to these retailers is:

- a. Profits are not based on 'hope'.
- b. An increase in sales volume does not guarantee a profit.
- c. If you want your store to be profitable, you must make time to plan.

A retail budget or plan should contain certain elements:

- Annual Gross Margin Plan, by classification
- Open-To-Buy, at company level for the 12 month period being planned
- Budgeted Income Statement, by month
- Cash Flow Projection, by month

If you need help with this project, let me know. I have worked with scores of retailers on this project and can lead you through it with the minimum of time and effort on your part. The important thing is to JUST DO IT!

**THE IMPORTANCE OF AN ACCURATE PHYSICAL INVENTORY**  
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As every retailer knows, an annual physical inventory of all merchandise is required by the Federal Income Tax law. However, this should not be your only reason for taking inventory. The physical

inventory serves several purposes which are as important as satisfying the legal requirement. But unless it is meticulously taken to insure its accuracy, you will find that the information obtained is worthless and misleading.

By comparing the actual physical inventory with the book inventory you are able to check the accuracy of the record keeping that is being done, not only in the office but in the receiving and marking department and on the sales floor. Many things will affect the accuracy of the book inventory, such as unrecorded markdowns, unrecorded markdown cancellations or markups, merchandise sales that are recorded in a wrong class due to a salesperson's carelessness, merchandise being received and counted in the physical inventory but the invoice not being recorded in the books. The list can go on and on. The important thing to remember is that careless record keeping and the resulting 'paper shortage' will hide real shortages caused by shoplifting and theft.

An inaccurate physical inventory has many far-reaching consequences that retailers many times do not consider when actually preparing for and taking the physical inventory. An inaccurate physical inventory which overstates the total amount of merchandise actually in inventory at year-end will result in overstated Gross Profit and Net Profit for the current year which, in turn, can result in the paying of excess income taxes. This mis-statement of Gross Profit and Net Profit will distort the company's financial statement for two years, the year in which the inaccurate physical inventory took place and the following year when the inaccurate physical inventory is corrected by the taking of a correct physical inventory. Many retailers base their store manager's and/or buyer's compensation, in part, on the achievement of certain gross profit, stock turn rate and shrinkage goals. When the physical inventory is incorrect this causes the amount of compensation to be computed incorrectly. While one buyer could be over-compensated, another could be unfairly penalized.

A bad physical inventory can also seriously affect a company's merchandising decisions by causing erroneous information at the classification level, even though the overall store figures look valid. If the inventory counts taken in the store for each class are incorrect the buyers will be basing their purchases on figures that are distorted. For example, if the physical inventory erroneously shows that a particular classification's inventory level is too low, the buyer will mistakenly buy unneeded merchandise. This can simultaneously work the other way with the inventory showing that a class has too much inventory. In this case the buyer will avoid placing needed orders and sales could be lost.

As shown in the above examples, it is easy to see that a physical inventory carelessly taken is worse than not taking one at all. Instead of bringing the book inventory back in line with what is actually in stock, a bad inventory just causes extra work, confusion, and a wealth of misleading information. Fortunately, there are steps the retailer can take to ensure the accuracy of the physical inventory.

The taking of a good physical inventory involves almost all of the store's employees whether they work on the sales floor, in the receiving and marking department or in the office. It also requires careful advance preparation. The merchandise on the sales floor must be checked to verify that the information on the garment tag is correct. Personnel must be scheduled for the actual count. Written procedures must be established to ensure a clean cut-off of all movement of merchandise and resulting paperwork. A store meeting must be held to review the procedures and emphasize their importance. If using count sheets, the numbered inventory count sheets must be ordered,

No matter how careful you and your employees are, there will be items that may be overlooked which can result in a poor count. Following are some of the things to be aware of and watch out for in preparing for and taking a physical inventory. You can most likely add more based on your own experiences.

- * Merchandise out for repair
- * Merchandise on display

- * Merchandise taken out of the store for use in developing advertising
- * Hold merchandise
- * Owned merchandise being repaired in the alteration shop
- * Merchandise being stored in a seldom used storage area
- * Interstore transfers not being properly counted if a multiple-store company
- * Merchandise in the receiving area that is not counted, even though the paperwork was processed or vice versa
- * Merchandise taken off the sales floor by a buyer and left in the buyer's office
- * Damaged merchandise which was taken off the sales floor for which the RTV has not been processed
- * Merchandise returned by customers but not put into stock
- * Processing the paperwork to return Layaways to stock, but leaving the merchandise in the Layaway room
- * Merchandise stored in what inventory counters assume is an "empty" box
- * An inaccurate cut-off of paperwork: receipts, interstore transfers, price changes and return-to-vendors

There are two ways to take a physical count. The first, and oldest, method is to use count sheets that are manually completed. The other is by using an electronic device to record the count. Both have their advantages. Both must be carefully used to ensure an accurate count.

The taking of an accurate physical inventory, because of the many details that must be attended to, can be an awesome task. However you do it, remember, it takes no longer to take a good, accurate physical inventory than it does to take a sloppy, inaccurate physical inventory. And, the benefits are many.

JUST ASK!

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One thing not enough small businesses do is **ask** their customers how they want to be communicated with. This incredibly simple question can greatly benefit the relationship you have with your customer. Learn how your customers want to be communicated to by ASKING them. Then make sure you use the form of communication they have asked for: phone calls, direct (snail) mail or email. If someone does not appreciate being interrupted with a phone call, but you persist in calling them, you could lose a customer. No one wants that to happen.

## 4-5-4 CALENDAR

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We have complimentary copies of the 2010 4-5-4 Calendar available. For your copy, just send us an email, fax or give us a call.

QUOTE OF THE MONTH

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"The greater danger for most of us is not that our aim is too high and we miss it; but that it is too low and we reach it."

Michelangelo

## OPEN-TO-BUY

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Announcing a new lower pricing structure for our Open-To-Buy Service. Now, you can have a professionally generated Open-To-Buy, including a monthly review by someone with over 30 years experience for as little as \$230 a month (after a one-time set-up fee that includes help with setting Stock Turn Rate and Markdown percentage goals and the development of an annual Gross Margin Plan by classification).

If you are tired of trying to decide how much of each type of merchandise to buy when at market, or if you are having trouble with cash flow, you owe it to yourself to try using an Open-To-Buy. We normally find that retailers who follow an Open-To-Buy will enjoy increased Sales, higher Gross Margin and Profit and better Cash Flow. We do not require any long-term commitments so if it does not work out for you, you can cancel with just 30 days notice. Call us at 1-877-206-1299 or send an email (to LC@the-retail-advisor.com) to get more information, sign up and get started on your way to a more profitable store.

WHAT WE DO . . .

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- o Monthly Open-To-Buy Service
- o Open-To-Buy Implementation on Your System (if available)
- o Merchandise Performance Evaluation
- o Shrinkage Control
- o Development of Incentive Plans
- o Development of Job Descriptions
- o Seminars On Retail Subjects
- o Financial Analysis
- o Financial Budgeting and Cash Flow Projections
- o Computer/POS System Evaluation, Selection, Usage
- o Policy and Procedure Development
- o Lead Tele-SWAP Groups (Share With A Peer)