

by Linda Carter
© The Retail Management Advisors, Inc.
email: LC@the-retail-advisor.com

FEBRUARY 15, 2008

in this issue . . .

VENDOR RELATIONS

SHRINKAGE

QUOTE OF THE MONTH

**IRS WARNS OF NEW E-MAIL AND TELEPHONE SCAMS USING THE IRS NAME:
ADVANCE PAYMENT SCAMS STARTING**

JANUARY SALES SURVEY RESULTS

TELE-SWAP GROUPS

KEEP YOUR EMPLOYEES HONEST & INCREASE YOUR BOTTOM LINE!

WHAT WE DO . . .

VENDOR RELATIONS

At market the vendor is showing and selling his merchandise to the retailer and the retailer is viewing, choosing and placing orders for merchandise that will fit his store and clientele. When the retailer finds the right merchandise he places an order by giving the vendor or the vendor's sales rep his Purchase Order. This piece of paper is a contract between the retailer and the vendor and should be treated as such. Many times at market the vendor will have his own form for placing orders and it may be more convenient to use the vendor's form; however, you want to make sure that you attach your own Purchase Order form with your conditions and requirements to the vendor's form. If you do not, you are allowing the vendor to dictate to you the terms of this transaction.

While it would be nice to have a standard Purchase Order form that every retailer uses, there are too many unique, independent retailers to be able to do that. There are, however, a number of pieces of information that we feel should be on the Purchase Order you turn in to your vendor when placing an order.

MUST HAVE INFORMATION

1. Retailer's name and address. There could be a different Bill To: and Ship To: address and if so, they should both be listed.
2. Vendor name and address.
3. Vendor number or code if you are on a computerized system (which you should all be).
4. Date Purchase Order is issued.
5. Shipment start date. This is the earliest date the merchandise may be shipped from the vendor.
6. Cancel date. The latest acceptable shipping date OR the latest acceptable receiving date. Be sure to specify which of these you are listing.
7. Order number. This is the retailer's order number and should ideally be pre-printed on the Purchase Order.
8. Invoice payment and discount terms (if any). Be sure to note any special deals you have negotiated with the sales rep. Many times this information is not relayed to the vendor's billing office.

9. Shipping instructions, to include, where applicable, the F.O.B. location.
10. Merchandise descriptions, including classification number, SKU number, style number, color, size, unit cost, unit retail and total retail for each item.
11. Multiple copies for: vendor, retailer's office, retailer's receiving department and one for the buyer.
12. Customer's name if this is a special order.
13. "This P.O. number must appear on all invoices, packages and correspondence pertaining to this order."

INFORMATION ON PURCHASE ORDER THAT IS GOOD AND HELPFUL:

1. Buyer name: _____ Confirmed or Approved by: _____
2. Confirmation requested.
3. Insurance instructions. Ideally "Do Not Insure", provided the retailer has arranged for merchandise-in-transit coverage through his own contents, multi-peril or marine coverage.
4. "All shipping charges are verified and excess freight charges will be charged back to vendor". This is used if you are weighing and verifying the freight costs. Many retailers find enough errors to more than recover the cost of doing this.
5. "A style or coordinated group must be shipped in its entirety" OR "Partial shipments of coordinated merchandise will not be processed until total quantity ordered is received. This includes processing for payment. If coordinated merchandise is not completely and timely delivered, the portion that is delivered may be returned at buyer's option with freight paid both ways by vendor."
6. "In accepting this order vendor accepts all stated terms and conditions. Any deviations will be at the risk and expense of the vendor, plus handling charges."
7. "We reserve the right to reject all goods not delivered within the shipping times specified, not agreeing with the sample, or sent in excess of amount ordered. Also, if there are any substitutions that were not pre-approved by us. In these instances there may be a service charge assessed."
8. "Terms commence with receipt of invoice or receipt of merchandise, whichever is later."
9. "Do not include more than one order on an invoice."
10. DUNS Number.
11. "Do not enclose invoice with merchandise."
12. "Orders not shipped by completion date are automatically cancelled. No further notice will be necessary." OR "Completion dates shall be considered to be "in store" by date stated. Merchandise not shipped in conformity to shipping dates (start and cancel) may be refused at vendor's risk and expense."
13. Salesperson's (sales rep) name and phone number in case you need to contact him or her about the order or to place a re-order.
14. "Separate invoices must be prepared for each shipment or purchase order."

On the other hand, we have seen language on Purchase Orders that is Excessive, Improper or Unnecessary. An example of this is:

"Anything to the contrary notwithstanding, we shall be under no duty to inspect goods before resale, and resale shall not be considered an acceptance of the goods so as to bar our right to reject them. Complaints or notice of defects in said goods will be considered made within a reasonable time if made a reasonable time after notification is given to us of such defects by our customers. Return of such defective merchandise shall not relieve vendor from liability for failure to ship merchandise in accordance with order."

Comment: This should be unnecessary. Vendors who don't practice this should be avoided. The reasonable time after receipt of merchandise should not be excessive, however, i.e. more than one year. The retailer should not be expected to be the vendor's quality control department.

The Purchase Order is also an important means of communication between the retailer and the vendor, and it is very important to keep the lines of communication open. Several suggestions to do that are:

1. If possible, designate 1 person in your organization to be responsible for communicating with the vendor. Also, if possible, try to always talk to the same person at your vendor's office. (Do not try to go through the vendor's salesperson or rep.) If your vendor is factored this becomes more difficult, and more important, since you will be dealing with more people.
2. If you are having a problem paying your bills, let the vendor/factor know before the payment is due. Once you and the vendor/factor work out a payment schedule that is satisfactory, be sure to make your agreed payments on time.
3. If there is a problem with an invoice (due date, terms, etc.) let the vendor know immediately. Do not wait until the payment is due.
4. When giving a vendor's name as a credit reference, also give the name of the person you deal with. Then, let that person know you have given their name.

It is important to keep the lines of communication open with your vendors. Using your Purchase Order with all the necessary language and talking to your vendor when needed are critical to good vendor relations.

SHRINKAGE

If you have taken your physical inventory count and come up short (again), it is time to get serious about changing this at your store. While shrinkage will never be eliminated in the retail environment it can, and must, be controlled. Most small, independent retailers who operate stores downtown or in strip centers should have shrinkage no more than one half to three quarters of a percent.

One of the most important things you, as an owner, can do to reduce shrinkage is to let all your employees know that it is important to keep shrinkage down to an acceptable level. No one enjoys working hard all year and having their Income Statement show a small profit only to have that profit disappear after the physical inventory count has been taken and shrinkage recorded.

Shrinkage can occur at any point where merchandise and people come in contact. Studies have shown that 48% of all shrinkage is due to internal theft. Recordkeeping errors can also cause "paper" shrinkage. Even a store's best customers are not immune to the temptation of taking something without paying for it.

You need to make sure that all inventory records and reports are accurate. If records are not accurate you really do not know if the problem is due to missing merchandise or to the office entering a transaction twice, or a salesperson not recording a markdown at point-of-sale. This means making sure that all procedures and forms are set up and properly used throughout the store. ALL employees need to be made aware of the importance of accurate record keeping, whether they are writing up a sale, receiving and marking merchandise or entering transactions into the computer.

No single shrinkage control program will work for every retailer since every situation is unique. The important point to remember is that you need to separately account for the amount lost through inventory shrinkage and then make shrinkage control a high priority with all employees doing their part to achieve the shrinkage goal.

While it may seem a little extreme, I have talked with one retailer who told me he had set up a reward/penalty system. If shrinkage was below a set level all the employees received a bonus. However, if shrinkage was too high all employees had to actually PAY a penalty to the store. He told me that the first time they took a physical inventory count the employees had to pay. Since that time the store has been achieving their shrinkage goal. It does work.

Whatever way you attack this problem, do not delay. Get started now so your next physical inventory count will be at or below your goal.

QUOTE OF THE MONTH

" The way to get started is to quit talking and begin doing."

Walt Disney, an American film producer, director, animator, entrepreneur and philanthropist

IRS WARNS OF NEW E-MAIL AND TELEPHONE SCAMS USING THE IRS NAME: ADVANCE PAYMENT SCAMS STARTING

The IRS reports that criminals are hard at work again. E-mail and phone scams abound in the name of the IRS. Forewarned is forearmed. Go to irs.gov; click on the newsroom link near the bottom. Put the word SCAM in the search box at the top. The article is dated 30 Jan 08 (or go directly to the article on your home computer at <http://www.irs.gov/newsroom/article/0,,id=178061,00.html>) to read the article in its entirety. If you do not have a computer available, take the date and topic of the article to your local library and the librarian can locate a hard copy for you to read.

JANUARY SALES SURVEY

THANK YOU to everyone who participated in our survey. Your participation makes the results meaningful.

To remind everyone, this survey concerns January sales.

JANUARY 2008 SALES COMPARISON TO 2007

	MEN	WOMEN	SHOES	GIFTS
More than 15.0% below last year	15%	28%	20%	
10.1% - 15.0% below	9%		10%	20%
5.1% - 10.0% below	98%	16%	10%	
0.1% - 5.0% below	12%	6%	20%	40%
EVEN	6%	5%	10%	20%
0.1% - 5.0% above last year	25%	6%	10%	20%
5.1% - 10.0% above	6%	5%	10%	
10.1% - 15.0% above	6%	17%		
More than 15.0% above last year	12%	17%	10%	
TOTAL	100%	100%	100%	100%

An insufficient number of sports goods, children/infant, western, gift and dance retailers responded to provide an accurate representation.

As a reminder to those who use the 4-5-4 calendar, January 2007 had the unusual occurrence of having 5 weeks instead of the normal 4. If you use the 4-5-4 calendar, remember to take this into account when planning and comparing.

TELE-SWAP GROUPS

As I have mentioned before in the newsletter, this year I have started a new service for retailers called SWAP (**S**hare **W**ith **A** **P**eer) Retailer Teleconference Groups. I have a menswear group that has been meeting successfully for several months now. When the group started it was a little difficult to get

everyone on board every month, but now they are all always on the call if they possibly can make it. The questions and topics we have discussed are numerous. A few recent examples are:

- * "When advertising menswear, what media has been most successful at your store?"
- * "How do the other members handle return alterations when someone has gained or lost weight?"
- * "Do you have any effective employee sales contests that you have used?"
- * "Do you take in any outside alterations and if so, how do you charge for it?"
- * "In an effort to attract more local shoppers at our shopping center during the holiday season, our center and the merchants in it are talking about tying into a popular non-profit and have a percentage of sales benefit that organization during the holiday season. Have any stores done this? What percentage of sales? How long of a period should this run?"
- * "What events are you planning for the holiday season?"

Comments from just a couple of retailers taking part in these teleconferences are:

"It is well worth my time to meet with other retailers. I found a new line that I anticipate generating thousands of extra of dollars." Phil Chizum

"I was starting to think I was "alone in the world". I am busy and did not want to participate in something that was not going to help my business. I am thrilled with my participation in the SWAP. I discovered that I am definitely not alone and the other similar businesses have the same challenges and now we are helping find solutions to those challenges together. I strongly recommend trying the SWAP - it is definitely worth my time!" Katie Andrios

If you would like to discuss the types of issues listed above, and others, with retailers who are similar to you, but far enough away they are not competitors, give us a call at 1-877-206-1299 and we will send you an application. Once I get your application I will contact you about joining a group.

I currently have one or more openings in the following groups:

- Men's - Regular
- Women's - Moderate to Better
- Women's - Better
- Women's - High End

There are so many retailers around the country who are isolated because they are a small independent retailer. This service gives you an opportunity to talk with others in a similar situation without having to worry about giving away any information to your competition. Get help and advice you need to be more successful without having to leave your store. Do not delay!

KEEP YOUR EMPLOYEES HONEST & INCREASE YOUR BOTTOM LINE!

Studies have shown that almost half of all your store's shrinkage is due to employee dishonesty!

If you can reduce shrinkage by 1% that is an additional 1% of profit for you. As the owner it is your job to provide the procedures, checks and balances to keep your employees honest. Also, consider that as our country plunges into this recession, normally honest people may become desperate. Financial need is one of the main reasons given for attempting theft from an employer. Make sure you are doing all you can to help avoid temptation before it strikes.

As a former controller for a 5-store chain of family apparel stores and with my experience working with retailers around the country as a retail management consultant I have developed a manual to help you

with this. It is our "Internal Control Manual" that covers all aspects of a retail store's operations. It is set up in an easy question and answer format where a Yes answer means things are OK and a NO answer means you may have a problem that needs further checking.

To get a copy for your store, for just \$95 shipped Priority Mail, visit our website at http://www.the-retail-advisor.com/internal_controls.html.

Do not wait until you discover that a trusted employee has stolen \$70,000 from you (like a retailer I know had happen to him last year). Take steps now to make sure your merchandise and cash are as safe as you can make them.

WHAT WE DO . . .

- 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)