

MERCHANDISING FOR HIGHER PROFITS

by Linda Carter

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To be a successful retailer, it is not enough just to sell merchandise. If you want to be successful you must sell merchandise profitably. It doesn't matter that you had a 20% sales increase if that increase was due to selling merchandise at a loss. Yet, there are many software systems on the market today that do not give the retailer the information needed to manage their inventory properly so the store can achieve higher profits.

What information is needed to effectively manage inventory? Before we can discuss this we need to have some common terminology. There are item or SKU records. This is the level at which all merchandise is ordered, received and sold. Next there is classification level information (we have heard this referred to as 'categories', 'departments' and even 'product lines'). The term 'classification' has been around retailing a long time and if your software provider does not know what you are talking about when you ask them about classification level reporting you are probably talking to the wrong company. A classification is a group of merchandise that in the customer's eyes is interchangeable. For example "Misses Coats" or "Misses Dresses". If a customer comes to your store looking for a Coat it is not very likely that you will be able to sell them a Dress instead. But, within "Misses Dresses" you might be able to substitute one brand or style for another. The next higher level is "Department". This is a group of classes that are related, such as "Junior Apparel", "Misses Apparel", etc. The next higher level is the "Division", such as "Female Apparel" or "Men's Apparel". It is important that the software package you are using gives inventory management information at these higher levels, not just at the item or SKU level.

When managing inventory it is important to be able to review results in a top-down fashion, much in the same way that you look at the company's financial picture by looking at the financial statements. You would never try to manage your company by going to the General Ledger and looking at every individual item that has been posted to it all month to figure out from that how you are doing and where improvements can be made. Instead, you look at the Income Statement to find out at the summary level how you are doing, then if an expense account is too high you look at the details of that account. Inventory should be managed in the same manner, initially at the classification and department levels, then, if there is a problem, going to the SKU level records.

The information we feel you should be reviewing at the classification and department levels are: Sales, Initial Markup %, Markdown %, Gross Profit % and Stock Turn Rate. A sample of a good Inventory Management Report follows.

BOM INV	REC YTD	IMU %	SALES MO	SALES YTD	MD YTD	YTD SHRINK	END INV	GP YTD	STR
U C R	U C R	MO / YTD	U % \$	U % \$	U % \$	U % R	U C R	% \$	
Class # 301 - Pants									
397	292	65.61	17	299	121	1	358	53.94	1.59
97105	68609	60.54			18.20	60	88079		
247150	180109		8133	154088	28046	195	223210	83108	
Class # 311 - Shorts									
29	39	45.50	2	56	16	1	28	62.88	3.29
841	1624	65.41			5.71	27	825		
2465	4355		200	5240	299	80	2385	3295	

u=units
c=cost
r=retail

We feel that just knowing what the Gross Margin (or Maintained Margin or Maintained Markup) is, is not enough, yet that is all the information many systems give. If Gross Margin is too low we must know why it is too low. Was the Initial Markup too low, or were Markdowns too high? If Initial Markup is too low the buyer may need to look for new vendors. If Markdowns are too high we can then look at the item records to see what was marked down so hopefully we do not make that buying mistake again. What kind of Stock Turn Rate are you achieving? By comparing this number to industry figures you can tell if you have too much money tied up in inventory or if you have the appropriate level of merchandise in stock for that classification.

If the system you are using does not give you this information you are not getting your money's worth (no matter how much or how little you paid for the system).

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