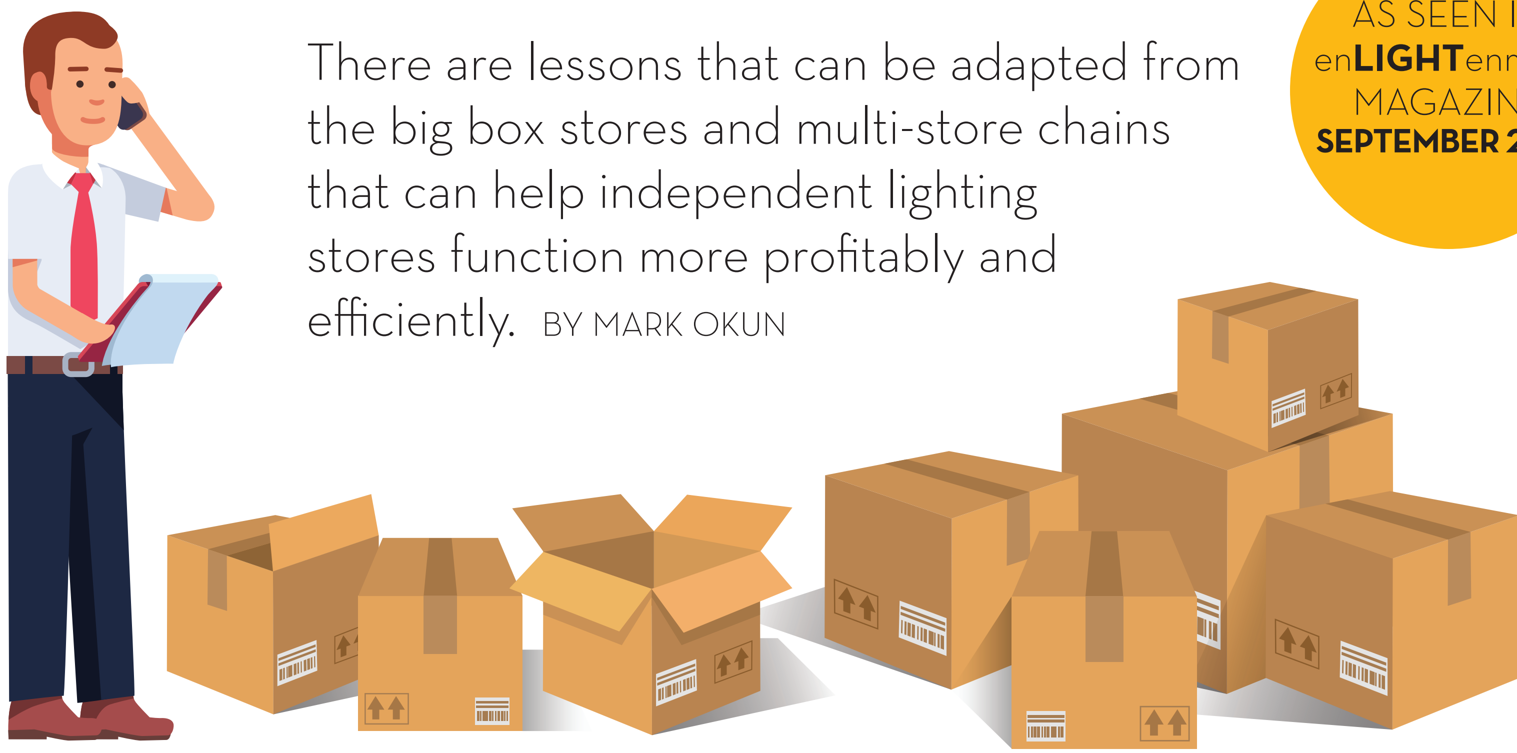
EVALUATING INVENTORY

There are lessons that can be adapted from the big box stores and multi-store chains that can help independent lighting stores function more profitably and efficiently. BY MARK OKUN

AS SEEN IN
en**LIGHT**enment
MAGAZINE
SEPTEMBER 2016



As I see it, brick and mortar retailers have one huge advantage over their digital competition: immediately available inventory. There have been decades of on-going discussions about the efficiencies of controlling and reducing the stock levels carried by traditional retailers. Much of what is talked about is directly related to the infrastructure and distribution networks of the multi-store chains and what can be learned from how they operate.

IS THAT SMELL YOUR INVENTORY?

If you have been operating a retail store for any period of time, you know that inventory can die a slow and boring death. Perhaps the hot-selling series of fixtures that appealed to one part of the country never got traction in your region. Or maybe that "unbelievable opportunity" purchase lost its charm or the fad passed too quickly. Then again, you might have an emotional attachment to a particular style.

It doesn't matter *what* caused your warehoused treasures to fall from grace, what's important is converting these products back into cash. The management of dead inventory is an often oversimplified process and a task that is easily put aside.

Gordon Gecko, played by the actor Michael Douglas in the movie *Wall Street* said, "Don't get emotional about stock, it clouds your judgment." While he was referring to the stock market, it is also a true statement for retail business.

TIMING IS EVERYTHING

The first step in this process is to identify the items that need to be moved out. You may have intelligence built into your POS system that tells you how your inventory of goods is flowing. It's also possible that you do the calculating by hand with inventory turn sheets or — as my dad would do — walk through the warehouse and look for the boxes with the most dust on them. Either way, the result is the same; those slow movers should stand out.

The length of time an item is held in inventory directly relates to its net profitability. An important piece of information in your quest for inventory control is the "*Sell Through Rate*" (STR), which will vary from category to category. Chandeliers sell at a different rate than sconces, and sconces sell differently than seasonal items such as landscape lighting or table lamps. Those are the parameters that must be set, so please be realistic when setting them. Base an STR off similar categories as a baseline to start.

For example, you begin the month with 8 sconces and sell 4 – that is a 50-percent sell through rate... which is pretty good. If the sell through rate was zero or even 10 percent, that item should be put on a watch list. If the STR minimums were not met in a set period of time, the style would be designated for markdown. If the STR was over 70 percent, I would think about increasing the stock levels.

Sell Through = Item Sales / Stock on Hand at Beginning of Month

BEGIN WITH THE END

With that mindset, the way you control your inventory starts the very day that you purchase it. Your showroom didn't get filled with dead inventory overnight. It happens in the same way that we put on a few extra pounds. It isn't the *one* ice cream cone or the one funky chandelier that causes the problem, it is indulging too much and too often.

When buying for your showroom, you must have a plan. A plan to buy, a plan for the placement of the pieces in a display, and a plan for the items that don't sell.

One sure way to create dead stock is to over-display similar items. While one of those will be the clear winner, the others will fall short. It is critical to know your stock well. That way you are not duplicating looks, eating up precious square footage, and creating a category of fixtures called "also rans."

ALL STOCK IS NOT THE SAME

The merchandise you have identified as dead can be broken down to three levels of value: let's call them the Good, the Bad, and the Ugly.

THE GOOD — The moment a fixture is hung on display is the moment you must start evaluating its performance. Once a piece has been classified as a slow-mover in the "Good" category, it is time to start being aggressive in marketing it before discounting. The "Good" classification of slow-movers contains items people still want and, with special attention, can be converted quickly into revenue. Such special attention may include merchandising the group to a better position in the store's display. This strategy provides amazingly powerful results. I have witnessed cases in which salespeople — and their customers — found new excitement by re-introducing them. In this scenario, items will sell without further discounting. Of course, adding signage and promoting the items to make it "fresh" again is the key. Remind salespeople that these pieces are still cool designs that just happened to have had a slow start.

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Ask yourself this tough question: "Am I a retailer or a museum?"

If you are aggressive in social media, highlight these items on posts with a very strong call to action. Still need help? Try the old tried-and-true way of moving an item: Put a spiff on it.

This Is Not the Time to Take the Best of Your Worst and Chop Away Your Margin.

If a new location within the store and increased attention doesn't get these lights moving, then the next step is the 60-day countdown. For the next 60 days, your efforts will go toward turning these items into cash by posting a discount that is greater than your best advertised sale price — but not as deep as you will go on the other levels.

Revisit the progress made at this level of pricing. If there has been no action, or you want to turn up the volume, proceed with an established pattern of price reductions. Set up a system so that at the end of every 60-day timeframe, the price drops until you have sold out or the item moves into the "Bad" category.

THE BAD — This is a group of products that we all have hanging around. They are the reminders of chic looks from days gone by. They have been around so long that the cost of holding these goods has taken all the profit potential away from them.

They may have some usability left to them and if they do, mark them at ridiculously low prices to increase their appeal. If they are way out of style or worn, the best benefit for your business at this point is to get as much return from these pieces as you can, even if that means that you make them part of a tax-deductible donation. Your goal is the reclamation of capital.

THE UGLY — The products that make up the Ugly category are those that are the most tired. Maybe the style has long passed or the time on display has taken its toll. Whenever these shop-worn pieces are hanging in your showroom, they take away from the hard work and beauty that you put into the display. The sad truth is that there may be little or no value left in these pieces; they need to move out and fast.

Ask yourself this tough question: "Am I a retailer or a museum?" If you are a longtime merchant, you know that excess and dead inventory is costing you turns and dollars per square foot. The profit you lose is not only from the result of the cobwebbed chandelier or sconce, but also the potential gains from the new items that must replace them. There is also the downside of negative customer perception. Think of your own shopping experiences. What if you walk into your favorite clothing store and, as you sort through a collection of great new colors and styles of pants, you discover a polyester teal leisure suit. What just happened to your perception of this company? Now do you have any "leisure suits" hanging in your showroom?

SET THEM FREE

A recent conversation with a client reminded me of how some lighting stores struggle with dead inventory. My client expressed that they sold off some items for less than they paid for them, causing them to "lose money." It turns out the piece was bought seven years ago and was backed up five times. That's less than one piece per year on average.

There is an old school thought that an item you've had in inventory for two to five years is worth *more* because costs have increased since then and the item was bought for less. What is not easily recognized is that any item that hasn't turned well in your store — no matter how long you have it — is not worth the price marked on the ticket.

Let go of the past and turn these unwanted goods into free cash or, at the minimum, a tax-deductible donation. As a worst case, scrap them out. If you have a repair department that is slow, they can break down the fixtures for parts and pieces before they are thrown away or (preferably) recycled. The most important thing is to forget how much you paid for the item; it is no longer relevant.

No matter what causes slow or dead inventory, it happens. As retailers in this fast-paced new age, we must be assertive in the way we handle it, but we cannot be fearful of trying new styles and looks that may take us out of our comfort zone. ❖

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