

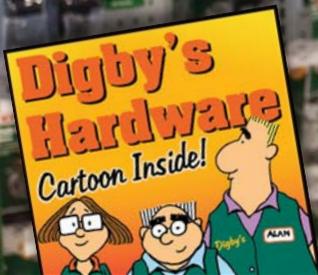
THE HARDWARE Connection™

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STRENGTHENING THE
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The Importance of Managing Your Inventory



Fred Fischer is president of Ganymede Technologies Corp. in Bucyrus, Ohio, which markets the J3 Point-of-Sale retail inventory management system. Please send comments to fred@j3pos.biz.

For most of us, December 31st is year-end. It is time to do inventory, meet with the accountant and dust off those financial statements. Specifically, it's time to look at the balance sheet and profit/loss statement (P&L). When it comes to the P&L, there is little that you really have any say about. We don't get discounts on taxes, insurance, utilities, and in the big picture there is not a lot that we can do to make a significant change in those numbers.

As we examine the balance sheet, there are three sections: assets on the top, liabilities in the middle and net worth at the bottom. And hopefully, that net worth is a positive number. Usually one of the bigger numbers on the balance sheet is inventory asset. In the big

picture, the two things you really have a say in are your inventory and labor.

If you know what is going on with your inventory and you and your staff members are working smart, most likely the profit is good and net worth is a good positive number. It is amazing the number of hardware stores and lumberyards that are still using hand-written invoices and maybe a cash register. Even more amazing are the stores that have a point-of-sale system and are not taking advantage of the many features their software offers.

Do you take a good physical inventory every year or throughout the year? Are you updating your prices every week? Can you identify what items are not selling in your store? How much profit (not gross dollars) do you

make on each item or for the day in your store?

How do you manage your inventory? There are a couple of tried and true methods. Do you identify your slow movers by whether you can write your name in the dust on the package? Are the edges of your price tags curled up (meaning the adhesive is old and dried up) so that they fall off if you touch them?

When you take inventory do you use the calculator method? It works this way. You get a few calculators that have memory keys. Going down each side of a gondola, you enter the quantity times the retail. At the end of the gondola you have an adding machine tape with a total retail value. When you are done taking inventory you add up all those tapes, which gives you a grand total of the inventory at retail.

Then there is the famous meeting with the accountant. As you sit down with the accountant, he multiplies the gross retail value by some percentage of profit you think you are making. Then the negotiating with your accountant starts. The trick is finding some balance between how much inventory you have and how much profit you made. The COGS account is the catchall for this adjustment. The goal: keep the bank happy and don't pay too much in taxes. The bottom line is that you really don't know what is going on with your business.

Recently, one of our customers did some analysis of his plumbing department. He discovered that 14.2 percent of his plumbing SKUs were generating 80 percent of his sales. What upset him was the realization that 85.8 percent of his plumbing inventory was only generating 20 percent of his sales. The old 80/20 rule is true!

As you analyze your inventory you will find many items are only selling 2 or 3 tenths of an item daily. Do you have a way to identify those items? If you have the data, you will be shocked at how infrequently some items really sell.

So how can you and your staff work smart? You have to have inventory and sales information. First is ORDERING. Knowing what to order, how much and when so that it's not a guess or gut feel. Do you or your staff spend three to eight or more hours a week ordering merchandise? If you had the data to auto order, could that time be better used identifying what is and is not selling?

Do you track your items coming in the backdoor? Are you sure what you are ordering is what you are getting? If you have a POS system, is it going to scan when the product gets to the front counter? Is there accountability that your staff is doing their job?

Then there is the issue of theft. Of all small businesses that fail, 30 percent fail because of theft and half of that theft is internal. Do you have the

TECHNOLOGY UPDATE

information and data to know what you are ordering and receiving is what is going out the front door?

Price updates are probably the biggest loss of profit in our industry. If you are hand-writing invoices and using a cash register, those price updates and price tags are probably somewhere in a big stack. With a POS system, do you download price updates weekly, apply the updates and then get all the bin tags changed?

What is it costing you to not do price updates? If you update prices from invoices, you are selling at the low cost and then replacing that inventory at

the high cost. If we can agree that inflation is an average of 3 percent over the course of a year, you are losing \$4,000 per \$100,000 of retail sales on items that prices have changed. (\$100,000 times 3% plus markup.) Can you afford to lose \$4,000 per \$100,000 of replacement inventory?

Managing inventory is much more than just counting items or checking profit margins. It is a complete package of managing information and data that is the difference between just making a living and the opportunity to get a fair return on your investment in your business. ■



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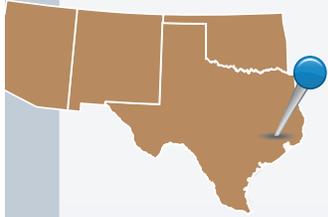


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How's Business?



SOUTHWEST

How were holiday sales? What sold well?

Christmas was up over last year about 2 to 3 percent. The only thing that stands out as far as good-selling items is electric heaters. Here in Houston, heat's not a main priority. It was colder, so they bought space heaters this year.

Store initiatives planned for 2012?

Right now, 70 percent of our business is plumbing, and we're looking to expand that even further. We also want to cultivate commercial accounts. Because we're located near a channel, we have a steady

stream of marine supplies. We would like to expand that.

Do you see signs of economy recovering in your area?

In this area, we're not seeing a whole lot of new building. Before the crash, we saw a lot of younger homeowners refurbishing older homes. We don't see that as much. Do-it-yourselfers seem to be doing more regular maintenance and emergency repairs.



Cyndi Martini-Kreckman
Martini Hardware Co., Houston, Texas

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