A Randall Data Systems White Paper

Inventory Control: It's Your Money!

The importance of knowing what you have and what you really need, and how inventory control software can help.

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Randall Data Systems, Inc. is a Michigan-based company dedicated to providing retailers with the finest in automation solutions. These solutions are designed to help the retailer control their inventory, monitor sales activity, promote gift cards and loyalty programs, manage the operational aspects of their business and provide for the information needs of the progressive retailer.

Established in 1982, Randall Data Systems has been improving the lives and businesses of retailers throughout Michigan, the U.S. and Canada.

Dust or Dollars on the Shelf?

Mastering the world of retail has always been a challenge, but with more shopping options for customers that ever before, managing a highly competitive retail outlet is a true balancing act: your shelves may be full and the doors may be open, but whether your stock is really working for you, and whether you recognize (and have in stock) what customers want that day, is another matter. Wasting capital on excessive inventory when it can be used more wisely in other areas of the business can be a deadly mistake — particularly to the small business owner with limited capital and a small margin for error.

While large retail chains have long relied on software to track, analyze and order inventory, small businesses often don't realize the numerous benefits of automating the process of inventory control.

Let's take a few minutes to look at how good inventory control determines whether you gather dust or dollars, what it can teach you, and how the right software can make a difference…

Good Inventory Control: The "Right" Inventory is Key

Do you know how many times in one day you lose a customer because you haven't accurately anticipated all their needs at the right time? Can you name the items you stock with the best inventory-to-sales ratio?

With each consumer dollar up for grabs, the most successful retailers know that no matter the size of the business or market served, recognizing who your customers really are, and being able to respond quickly to their demands while operating in the most efficient way possible is a vital characteristic of any lucrative business.

Not having the right merchandise at the right time can send money out the door to a competitor and lead to the loss of return customers, as well as make the wrong inventory costly to maintain over time.

> *According to the National Retail Federation, product assortment and whether or not an item is in-stock are two of the top drivers affecting the level of satisfaction of a customer's shopping experience. The NRF also reports that on average, retailers are out-of-stock 10% of the time.*

Knowing in real-time exactly what you have (or need) on the shelves, who your customers are, and how quickly an item sells, is the most reliable way to forecast demand and increase profit margins by buying only the "right" (most in-demand and profitable) items. Identifying precisely what you are working with and what is expected of you also avoids the consequences of a lost sale and the mistake of having too much inventory that ties up working capital and hampers cash flow.

Challenging? It sounds that way. None-the-less, harnessing this information is a necessity for business owners who need to understand the ebb and flow of customer demands.

The good news is that putting the right tools to work for you can turn this intimidating guessing game of inventory management into a no-nonsense, accurate and painless endeavor, while at the same time minimizing your risk of excessive spending!

Why is Inventory Management so Important to Retailers?

Reduces Loss

There is no doubt that out-of-stock items and the lead-time between orders is detrimental to revenue, so accurate planning using data from good inventory tracking and management is a *must*. It results in a reduction in costly over-stocks and markdowns, and provides a reliable understanding of proper order points and order schedules for key items that have the quickest turn-around and yield the highest returns.

Customer Service

We all know that customer service is the cornerstone of the retail industry. Successful inventory control provides key data that will increase your level of customer service by telling you who your customers are, so that you can meet and exceed their expectations with the right items and services during the shopping experience. *The quality of this exchange can mean the difference between gaining a loyal customer for yourself, or, providing new customer for your competitors!*

Increases Responsiveness & Efficiency

Improving inventory control not only increases your level of service, but it also helps you to quickly react to changes in customer shopping habits, and helps you strike that golden balance between being responsive to customers and operating your business efficiently. You can immediately spot gaps in inventory and fill them seamlessly, avoiding out-of-stock conditions.

Helps use Your Money More Wisely

With high-efficiency inventory control, you create two lucrative options for yourself: you can reduce your total inventory and pocket the money, or, you can invest the difference in additional new inventory. A good retail automation solution will help you quickly identify fast and slow moving items, in turn allowing you to adjust your product mix in response to your customers' buying patterns. In addition, it can help you increase your inventory turns.

Consider the following example:

> *A retailer has sales of $600,000 per year. The average inventory value (at retail) is $300,000 and has an average gross profit margin of 40%. That means your annual turn rate is 2 times. If the retailer can increase his turn rate from 2 to 2.5 times (a modest 25% increase) that would put $36,000 in his pocket in the first year alone! A big return for a rather small change!*

Key Performance Indicators for Inventory Control

There's no question that each day a retailer opens its doors for business, the goal that day is to achieve optimal business performance…

Inventory is one of the most important costs associated with doing business. Tying up capital in the wrong inventory while bearing the burden of carrying costs such as insurance, taxes, handling and storage can drag down performance daily and work against inventory turn rates — and instead of *making* money, badly managed merchandise will *cost* you money — a retailer's nightmare!

To keep you on track, numerous Key Performance Indicators (KPI) can be referenced to "gauge" overall inventory performance. Some common ones include:

- Inventory Turn — The rate at which an item has been sold and re-ordered in a designated period of time. This helps determine hot sellers vs. dead stock.
- Stock-Outs — A gap in service, due to being out of stock on an item
- Lead Time — The time it takes to replenish supply; successfully managed, this can avoid stock-outs.
- Customer Service Level — How often do you have in-stock what a customer requests?
- Stock Cover — The "shelf life" of your inventory under the current usage level

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The data supplied by inventory management software gives you the insight needed to measure the above KPIs, delivering successful inventory control.

BENEFITS OF SUCCESSFUL INVENTORY CONTROL:

- Reduces inventory while increasing profits
- Increases a retailer's competitive edge
- Removes the guesswork when setting minimum and maximum ordering levels and helps to set fact-based buying strategies
- Forecasts seasonal demand
- Accurately identifies staple items and "dead" stock
- Facilitates category or departmental management
- Eliminates theft or loss
- Saves time
- Minimizes carrying costs
- Forms a profile of existing (and best) customers
- Helps determines prospective customers
- Provides an accurate sales history
- Reduces markdown items

What can a Retailer do to Better Manage Business?

With the use of the right retail technology, business owners can not only educate themselves on what their inventory tells them, but also improve their forecasting ability by performing periodic reviews that shed light on “problem”/costly areas.

> *For example, a well-stocked gift shop may have total inventory that equals enough stock for about four months of sales, but upon further inspection, individual inventory records reveal that some items are supplied for up to a year’s worth of sales, needlessly tying up shelf space and capital, and limiting earnings!*

The quickest and easiest way to spot discrepancies like these is by utilizing the data synthesized by inventory management software.

The software not only provides a convenient means for customer checkout, but also integrates information about sales, merchandising and marketing with inventory control to provide a real-time, overall performance and projection snapshot.

This type of information is invaluable when it comes to setting benchmarks such as:

- Taking the guesswork out of ordering staple items
- Determining a turn ratio
- Calculate a sell-through percentage
- Learning what your gross margin return on investment is
- Determining inventory movement by vendor
- Assisting with purchasing decisions
- Instituting inventory cycle counting
- Helping retailers know what they should be measuring.
- Conducting inventory valuation by department or category

Conclusion

Are you wondering what YOUR savings could be in as little as a year?

Give us a call, we’ll be happy to work through the numbers with you. It’s not uncommon to see a 300-400% return on your software investment over a 3-year period. In many cases, we can provide zero-down, no-interest leasing. This allows you to get up and running, enjoying the benefits of your new system before your payments start.

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We invite you to discover the many benefits that our solutions can bring to your company by giving us a call, or sending us an email. Our consultations are always free, and there is no obligation.