



Solving The Costliest Problem – Overstock Part 2 of 2

Chronic inventory overstock, as discussed in our previous article, is the costliest problem furniture retailers face. Here's how to lick it. It takes work, but it's worth it.

By Larry Stark

Furniture isn't like wine... it doesn't get better with age, just more costly. We talked about that in our last article, and I hope you did your homework by adding up the out-of-pocket inventory carrying costs from your last year-end P & L statement and calculating what percentage they represented of your last year-end inventory at landed cost. If you did, I'm sure it was very enlightening about the seriousness of the problem, especially since the out-of-pocket carrying costs are just one of three categories of carrying costs, and, I think, the least costly of the three.

How to lick the overstock problem once and for all is the subject for discussion, but before I talk about how to do it, I want you to have a clear understanding of what doesn't work... how NOT to do it.

First of all, a couple of storewide clearance sales a year won't get the job done without massacring your margins, and you can't afford that. Far too many furniture retailers try to do it this way, and it just doesn't work, because there are just way too many dogs. Working with hundreds of retail furniture clients over the last 25 years has proven to us over and over again that the old 80/20 rule really does apply in the furniture business... that 80% of your sales and margins will come from 20% of your items, and the other 20% of your sales and margin are all that's produced by the other 80% of your items. In other words, only 1 out of 5 of your inventory items is really producing and the other 4 out of 5 aren't even coming close to paying the rent on the space they're occupying. If you're a client of ours, you're already familiar with our "Sales Analysis by Category and Margin" report, which ranks every item in each category in sequence of gross margin dollars actually realized for the last year and for the last month. That report very clearly shows what percentage of each category's items are producing the top 80% of gross margin, and it's seldom much more than 20%.

When four out of five of our inventory items are dogs that require effort to clear out, it's obvious that this is a big job... a job that requires a year-round, month-in, month-out system to accomplish... a job that won't ever get accomplished by a couple of storewide clearances a year. There's an old saying, "Systems define outcomes," and never was that more true than when referring to inventory management in general and clearing out dog merchandise in particular. It's NOT an unsolvable problem. It just requires a systematic approach. You need a system, and then you need to work the system constantly... as we said, year-round, month-in and month-out.

We developed what we called our "5 SMART Steps" to manage our own furniture business, and we've been teaching this system to our clients for the last 25 years. This system has enabled hundred of our clients to achieve double-digit profitability and you can use these "5 SMART



Steps” to achieve the results you want in your business. All it takes is discipline to work the system and the perseverance to see the program through to fruition. It does take work, but the results are worth it... seeing your net profit multiplied by 3 to 5 times really would be worth a little extra effort, wouldn't it? And here's the best part: Once you have the “5 SMART Steps” system implemented and routinized, it doesn't take more work to keep it going... it takes less. It's like pushing a car on level ground... it takes a fair amount of effort to overcome the car's inertia and get it started, but once it's moving, it takes very little effort to keep it moving.

So what are the “5 SMART Steps”? The word SMART is an acronym for the 5 steps. Here they are:

- **S**pot the Winners and the Losers – For PROFIT*windows* users, that's the job of the aforementioned “Sales Analysis by Category and Margin” report. If you're not a PROFIT*systems* client, you need to develop a means of identifying what's hot and what's not, because without that knowledge, how will you do a better job of inventory management in the future than you have in the past?
- **M**aintain the Winners In Stock a Much Higher Percentage of the Time – Our “Purchase Advice Report” analyzes the rate of sale of each item based on in-stock days, how many you've got in stock and on order and how long it takes to get more. From that analysis, it calculates how many you should order of each the good sellers so as not to run out. It's amazing how much sales increase just by keeping the best sellers in stock a much higher percentage of the time.
- **A**uto-Move the Losers in a Much More Timely Manner – Our “Auto-Markdown System” marks down the losers according to markdown schedules you define. We can give you a lot of help in this area creating your markdown schedules, because we've had a lot of experience with it over the last 25 years. We also teach you use the summary page of this report to “fine-tune” the markdown schedule for each category so that it becomes optimized for your store, your merchandise and your market.
- **R**eward High Margin Sales Effort – Our “Variable Commission System” makes your sales force your partner in margin maximization, instead of your adversary. We show you how exactly how to create the variable commission schedule(s) so that they WILL achieve the gross margin increase you want. We also show you how to present it to your sales force to automatically get their wholehearted cooperation.
- **T**arget-Mail Old Customers to Bring Them Back For More – Our “Targeted Mailing System” automates the job of extracting targeted mailing lists from your customer file, based on parameters you specify when you start the list-making program running. Then you use one of our proven-success direct mail letter templates to mail-merge with your



list to create mailings to your “ripe” customers that are indistinguishable from hand typed and produce results you’ll probably have to see for yourself to believe. The cost is practically nothing, and the results are typically on the order of 50 sales per 100 letters sent, if they are followed up by a phone call within a week.

That’s it. That’s the whole story on the “5 SMART Steps” system. Of course only the first three are needed to significantly increase your profitability by doing a much better job of inventory management... the last two are a free bonus!

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