LESSONS LEARNED | BY GERSON ROSENBLOOM

Inventory Isn't Wine, II

Strategies for turning slow-moving inventory — including my secret little weapon

Last month, I discussed the all-too-common mistake of focusing on recouping an investment in slow-moving inventory instead of creating cash flow by stocking quick-turning items. It's a natural impulse. I certainly did it before I learned my lesson. Having "invested" in inventory, you expect a return on that investment. The problem you run into is that tastes change, the market shifts, and sometimes the whims of the buying public are just unpredictable.

Here's a simple truth: Once inventory goes bad, it's unlikely to get better until decades later, when it might acquire vintage appeal. In fact, it's likely its value will keep eroding. So the faster you address the issue, the more likely you'll be able to cut your losses.

I can hear it now. "I put my hard-earned money into that widget, and I'm not giving it away!" The fallacy is that money is all but lost when the slow-moving inventory sits on your sales floor. Selling the inventory at any price creates cash that you can use to buy items that will sell quickly, over and over again — earning the return you sought on your original investment.

So how do we make that inventory go away? Here are a few practical tactics you can put into place immediately.

COMMIT TO AN ITEM

For starters, define your tolerance for inventory turnover. If you're not a numbers person, work with your accountant to determine how many times you need to turn your inventory to realize your financial performance goals. Once you define how much time you will give your inventory to sell, you can have a dispassionate formula for what to do and when to do it. For instance, if your goal is four turns annually, then as you approach three months, it's time to take action.

There are several forms that action can take. First and foremost, there needs to be a firm commitment to do *something*. The passive resignation that lets excuses creep into the conversation is a sure-fire formula to end up with a store full of old inventory and poor cash flow.

One course of action is simply to focus on the item. How's about a new display? A new position in the store? Better signage? Or, maybe it's a home page spot on your website with an improved editorial description. When a product moves slowly, we're quick to blame the product, when the solution is sometimes our own ineptness in displaying and promoting it. Give everything you carry the full force of your marketing muscle, and slow turns may never be an issue.

On the other hand, some products never get traction, despite your best efforts. Sometimes, you've chosen a product that doesn't match your clientele's tastes. Some of your better suppliers may be in a position to help if the inventory is still in new condition. Don't hesitate to ask about stock balancing, an oft-forgotten tool. And don't be shy. It's in your suppliers' best interests to be sure all their products move well.

THE POWER OF EBAY

If all else fails, it may be time to adjust the product's price. On occasion, you can decide to motivate your staff with spiffs, and that little extra push may get the job done. If it comes down to discounting, a little knowledge goes a long way. With few exceptions, everything will sell at a certain price. That price is determined by a combination of what competitors are doing and what customers will pay.

You can experiment to find the right price, but that can be an arduous, slow process. The easiest and most accurate tool is eBay. Whether or not you're using the auction site to sell, it's a fabulous research tool.

Look up the item in question, and search for completed auctions. eBay is an open market comprised of millions of shoppers and sellers. You have the power of these sheer numbers to help determine the current market value of almost anything imaginable. Use this as a guideline, and you're well on your way to finding a home for your inventory.

THE SECRET WEAPON

The final tool I'll offer is a little secret weapon I used as a retailer. I shared it many years ago with fellow *Music Inc.* columnist Alan Friedman, and he requested permission to write about it in his column. I had reasons at the time to deny his request, but I'll now share this trick. This is the piece that Alan would've presented.

It has long been accepted that paying commissions based on profitability is the most powerful way to improve your business' profitability. It occurred to me that, likewise, I could improve inventory turns by tying them to commissions. The truth is, it's easier to sell when you have tons of inventory. Conversely, it takes more talent to sell from a compact, controlled inventory, and salespeople deserve to be rewarded for their extra effort and skill.

Here's how my system worked. At the beginning of each month, I looked at inventory levels. From that, I calculated a series of plateau goals based on inventory turns. Each sales associate was given specific sales targets at the start of the month. Each target got progressively more aggressive and was rewarded at a higher level.

For instance, if the sales associate sold X dollars, that would equate to Y turns annualized, and the associate would receive a multiplier added to the gross profit-based commissions. To be a little less abstract but hypothetical in the numbers, if he hit the sales plateau that was equivalent to four turns, he would receive 110 percent of his normal commission. If he hit the next plateau, he'd get 120 percent of his commission, and so forth.

The result was a sales staff that focused simultaneously on profitability and clearing out inventory on hand. The team was less excited about having a warehouse full of stuff and more motivated to be solid contributors to the company's financial well-being. Think about your business. Wouldn't that be a refreshing change? MI

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