Inventory Turnover
By Beth Harper

How much revenue can you generate from $1 worth of investment? This is an age old question faced by retailers everywhere. You purchase product and it arrives at your location ~ you put it out on your sales floor ~ and it sells to a happy client. Perfect! But how long did it stay on your shelves or on your racks? How many times inventory "cycles" through your store in a specific time period is called inventory turnover.

Let's set in motion an example that illustrates how the *timing* of receiving inventory can have a big impact on your business. Okay—let's say that you purchase $15,000 worth of a product each year. The total revenue you received from sales of the product is $25,000. Let's also say that you took delivery of all this product on January 1… at the end of the year you would have made a $10,000 gross profit on an investment of $15,000.

But let's imagine for a minute that you opted instead to have 2 different ship dates. Half of the product was brought in on January 1st and just before running out of stock, you brought in the additional $7,500 worth of the product with part of the revenues received from selling the first shipment.

At years end you still had the same sales revenue and gross profit but this time you did it on a smaller investment of your hard earned cash.

It's easy to see that if we had 4 or even 6 ship dates with the same annual revenues, we would be tying up less money, turning the inventory 4-6 times and freeing up cash to apply to other products or other expenses. The more times you can turn your inventory, the better off you are. Some businesses are able to turn their inventory quicker than others. Grocery stores, for example, have a much higher turn rate than a business offering a top dollar product, for instance.

Why is your turn rate important? If you are able to calculate turnover for each product or perhaps a grouping of products, you can identify inventory that is not giving you the return on investment that you are looking for. Steps to improve this include reducing the amount you buy at a given time which will increase the turn rate while taking less cash each time you bring the product in.

Another way of increasing your turn (and profit) is to increase sales. Move an item to a more predominate location—or lower the price. A lower margin will not necessarily be a curse <u>if</u> it turns over much quicker. Keep in mind that you will have to sell more at a lower price to meet the same profit.

A high priced item can be individually profitable but if it doesn't sell, it doesn't matter. A lower margin product might be turning over much faster adding a greater margin of profit to your overall bottom line.

Maximizing profits regardless of it being a high priced item or an inexpensive item, is to determine which price point generates the best results. Can you hold the price and still maintain the turns? How far can you lower a price to clear out stagnant merchandise and free up your space for more profitable items?

Your retail store is a fun and creative extension of your business model - look at your financial statements and implement some basic math to help you achieve better returns on your investment dollars. In today's economy it is even more paramount to watch the length of time your money is tied up in product that is not moving as quickly as you need it to.

At Man of Rubber we generally encourage our retail clients to purchase numerous different products to increase their chances of a retail sale. By choosing to use our convenient "autoship" program, you are able to stagger various ship dates while still enjoying the bulk price we extend for quantity purchases. Your store also has a broader appeal with a more diverse product mix. By having various "departments" or types of products you enhance your sales opportunity by offering products to a more varied audience. Not everyone wants to purchase a tee shirt, for example. Offer a mix of products to keep things interesting both for your clients as well as your staff.

Happy Sales!