The Buyer's Bible

Analysts Share Essential Tips To Increase Profits And Better Manage Your Buy

By Mike Lewis

No one has managed a business in the midst of an economic storm exactly like the one we currently face. However, well-prepared companies are navigating the heavy seas better than their competition by taking a fine-toothed approach to management, utilizing in-depth analysis of industry trends, and translating information into successful buys that match their supply with their customers' demands—a difficult endeavor in the best of times. We sat down with some of the industry's top analysts and retail experts in order to boil down the lessons they see in today's economic environment, as well as some timeless tips, and supply you with four vital lessons to give you a competitive edge before product even hits your shelves.

It has never been harder to correctly match supply and demand, but a well orchestrated buying strategy will keep product turning and fresh.

An End To Faith-Based Buying: Tracking Orders To Increase Sales

By Sean Kennedy

There is a threat out there that plagues all retailers, but seems to hit independent shops harder than most. That threat is faith based buying. If you've ever placed an order on the back of a napkin, or faxed an order to your rep before tossing it in the trash, you've fallen prey to the "easier to be lazy" trap. Faith-based buying is buying product without any accountability.

It's easy to see the signs: a ship date rolls through and product shows up that you're pretty sure you didn't order, or even worse, hot products that you were counting on selling don't show up at all.

"Retailers who closely track their buying and receiving enjoy inventory turns that are two and even three times greater than those who don't."

Everybody knows that it happens, but unless you're tracking your buys against what ships, you never know to what extent. When we first started working with retailers, one of our clients placed an order for shoes where they intentionally left out a size eleven on two different size runs. Sure enough, when those products shipped those elevens showed up. On another occasion, an apparel retailer placed an order for dresses where they bought heavily into the small and medium sizes, but when the order shipped way too many larges showed up. The buyers took heat for not ordering the sizes their customers were demanding, but in fact, they had been ordering the correct products all along, the manufacturers were simply shipping the wrong sizes.

The manufacturers are not going about this process with any malicious intent, after all, the retailer is their customer and it behooves both parties to act in good faith. Yet, manufacturers run into issues that most retailers don't see—something gets caught in customs, a product gets dropped due to lack of interest, they don't manufacture enough product, or they manufacture too much and have to sell it. That being said, there's no reason that the independent retailer should bear the brunt of these logistic problems.

The repercussions of faith-based buying are not only blown buying plans. Looking at the data, we have found that those retailers who closely track their buying and receiving enjoy inventory turns that are two and even three times greater than those who don't.

The other effect of closely monitoring your supply chain is in negotiating power. Everyone has sat in on a buying meeting where your rep has offered to give you several points off your next order if you grow your buy with them by some percentage. When you monitor your supplier's fulfillment rates, you can counter by offering to grow your buy by that percentage, or greater, but off of what they shipped, not what you bought last season. In almost every case your rep will agree, and you'll leave the meeting with a much greater discount. When the data of their fulfillment is in your hands, so is the power of the negotiation.

On the flip side, suppliers can mitigate the harm of faith based buying by opening up the books, so to speak, and making all order information easily available to their customers. This is becoming more common as online sales order management systems evolve. There's no better way to build a strong relationship than showing there is nothing to hide.

Whether you sign up for a service, buy some software, or track all of your buying and receiving through some form of spreadsheet, the important thing is you do it. Otherwise, you are leaving too many discounts on the table and losing too many sales. Business is social Darwinism, and there's simply no room for faith-based buying in this e-volution.

It's Time to Negotiate: Creating Win-Win Agreements With Suppliers

By Cary Allington

The current economic climate and its affects on our industry have created situations of excess inventory and reduced profits, which is a climate conducive to increased negotiation. However, as one of my business school textbooks states, "Sometimes people fail to negotiate because they do not recognize that they are in a bargaining situation" (*Essentials Of Negotiation*). If there were any time to start negotiating, it would be now.

"Suppliers already understand that times are tough right now and your traditional agreements may not be cutting it. They are likely expecting you to request better terms or something else that will help you make it through this down period."

The first thing to realize when thinking about negotiating is that your suppliers already understand that times are tough right now and your traditional agreements may not be cutting it. They are likely expecting you to request better terms or something else that will help you make it through this down period.

Since you are dealing with suppliers that you likely want to keep if you plan to stay in business, it is important to make sure your negotiation goal is for an outcome that works well for both parties (a "win-win" outcome). Playing "hardball" or demanding too much is not an effective long-term strategy with distribution partners. But remember, a "win" situation for your suppliers likely includes that you stay in business and continue to provide a distribution outlet for their products. Retailers and suppliers have an interdependent relationship, and your suppliers need you more now than ever since many of their retailers have been shutting their doors this year.

Your value to suppliers is not based on volume alone. If you are maximizing the sales of your particular region (whatever volume that may be) and your suppliers would have a hard time replacing the volume you are producing in your region, then you are likely considered an important retailer. Your importance to a supplier is increasing if their brand is doing relatively well in your store while it is not selling well elsewhere (you can get comparative information from ActionWatch). If you have managed your business well and been able to continue paying your bills on time despite reduced sales revenue, if you have been pleasant to work with and very open with your suppliers, you are likely considered an important and trusted retail partner. All of these things play a role in your ability to negotiate effectively with your suppliers. The more they want to keep your business, the more power you have in the negotiating process.

If the other party in your negotiation needs you less than you need them (i.e., they have more power), it is imperative before starting a negotiation that you know your best alternative. In the best-selling book called *Getting To Yes*, the authors call this BATNA—Best Alternative to a Negotiated Agreement. For example, if one of your suppliers is not willing or able to agree to your desires, are you able to replace that supplier's products with another's without losing any volume or profit? If so, this is a powerful position for you to be in during negotiations. If losing the supplier means losing a lot of volume, then you are in a position of less power. Whatever your best alternative to a negotiated agreement is, this is your "bottom line" where you know you can drop negotiations if that bottom line is not met.

Open-To-Buy Planning For The Successful Do-It-Yourself Merchandiser

By Alan Roseman

Merchandise planning boils down to expense management, maintained markup, marketing, store events, cash-flow projections, and translating that information into a successful open-to-buy (OTB) plan. While this is a very complicated subject that could fill a novel, the following points will provide a few necessary components for retailers who desire to be do-it-yourself merchandise planners and use the data at their fingertips to its fullest.

"A merchandise plan is an ongoing adjustment process and needs to be adjusted monthly for each class."

Planned Sales

The first step is to develop a spreadsheet by class listing your monthly planned sales. A proper merchandise plan is created at the class level with each item in the class consisting of like items. For example, T-shirts, sport shirts, and pants are each meaningful planning classes. A vendor is not a class. For example, if a vendor is a great performer with boardshorts, they may not sell as great in outerwear. For this reason, when a budget for a class is determined, you will need to develop an allocation plan to distribute those OTB dollars for that class to the appropriate vendors. If you have a POS system, this information should be readily available (more on this later).

This is only a starting point since what happened in one class last year may not be the same this year. Do you really want to base your most important decision on last year's numbers? Should you plan your monthly sales for this a specific class up five percent or down twenty percent from last year?

For instance, some of my clients are showing double-digit increases with new fall arrivals in the woven sport shirts and outerwear classes. If they had reduced their planned sales in these important classes, they may have under bought these classes and lost potential sales.

Planned Markdowns

Planned markdowns are a necessary component of merchandise planning. It is unfortunate, but as much as we think of ourselves as fantastic buyers, we will always end up with a slow-selling vendor, style, color, or broken sizes. These select items will need to be marked down. Additionally, most stores have some type of in-season promotions and/or end-of-season clearance sale, which should be planned for during the OTB period. Markdowns are healthy if used properly and must be part of a merchandise plan. The markdown plan should be based on the forecasted gross profit goal for each classification. (Check out the July 2009 issue of *TransWorld Business* for steps on managing markdowns.)

Planned Inventory

Having the correct inventory levels peaking in the proper months is an art in itself. Landing too much inventory in the wrong class ties up working capital, valuable floor space, and could lead to excessive markdowns. Not having enough inventory in the proper classes results in lost sales. For this reason, the stock to sales inventory levels must be adjusted monthly. Do you need a two- , three- , or four-month supply of inventory available in order to reach your planned sales for each month of this specific class? No one wants brown bananas, so always know what your freshness factor is. Is 60 to 80 percent of your inventory new within the last 60 to 90 days? Unfortunately, this is something most POS systems do not provide, but an area you must focus on.

A Simple Open-To-Buy Formula

While the process may be complex, the following is a simple formula to identify the right amount of merchandise to bring in each month in order to reach desired sales goals, planned markdowns, and monthly ending inventory levels:

Planned Sales + Planned Markdowns + Planned Ending Inventory – Previous Month Ending Inventory = Planned Receiving (at retail). Got it? Now convert this number to cost!

Monthly Review And Adjustment

A merchandise plan is an ongoing monthly adjustment process and needs to be adjusted monthly for each class. If sales goals are not reached, merchandise may need to be marked down and/or purchase orders may need to be revised. If actual sales exceed planned sales goals, additional merchandise may be needed to stimulate profitable sales.

The above do-it-yourself merchandise plan is a very rudimentary technique, which is a step above a seat-of-your-pants buying process, but at least it is a plan. There are many other planning services and processes available to retailers; some are good, some are not. The point is that having a number is much different from having the right number. Make sure you review the accuracy of your plans often. If you are not 90-percent accurate or greater, you should be looking at obtaining better planning.

Proper Product Classification: A Must For Successful Merchandise Planning

By Cary Allington

Properly designed departments and classes are vital for your ability to manage your store and maximize profitability. Even a small store is difficult to manage without breaking it into smaller segments. How you classify your inventory can make a big difference in your ability to make good decisions quickly.

Let's say you have a single department set up for all women's apparel with no further classification. However, you are carrying a full assortment of women's clothing including swimwear, denim, sweaters, and other classes. Your "women's apparel" department may be down 25 percent compared to last year, but some classes are certainly performing better than others. But since you have assigned all your women's apparel to a single department with no classes, figuring out the performance of skirts versus dresses versus swimwear is very difficult.

However, if you have classes defined within your women's apparel department, such as tees, fleece, swimwear, dresses, skirts, and other appropriate classes, you can easily determine what types of women's apparel is performing better. This is important information because you don't want to cut your buys on all women's apparel by 25 percent if, for example, skirt sales are actually up while dress sales are down.

The open-to-buy (OTB) planning system discussed by Alan Roseman, which is widely recommended by retail experts, is based on the process of evaluating sales and necessary inventory levels by product classification. Using my earlier example, it does not provide much help to conduct OTB planning by evaluating sales of your "women's apparel" department. Swimwear and fleece have very different sales seasons and can have different growth patterns, so you need to do OTB planning at the class level. This is much easier if you can run a report from your POS software that gives you class-level information. It is difficult to determine your volume, inventory level, profit margin, and turnover in women's swimwear if these products are grouped in with all the other women's apparel. Good OTB planning must start with having a good department and class system for your store.

"The idea is to have enough departments and classes to appropriately segment your business but not so many that they become unwiedly to manage."

A good department and class system depends on the type of products you sell, but departments and classes should generally be designed around groups of products that customers find interchangeable (for example, consumers would not consider a jacket interchangeable with pants). You should also think about volume in your store, because setting up classes for insignificant product groups is a waste of time. If most of your volume is in apparel and footwear and you only carry a few skateboard hardgoods, then you probably don't need to set up classes for each hardgoods category. But if you do enough volume in your skate department, you should set up classes for each significant category, such as decks, completes, wheels, trucks, long completes, long decks, hardware, and any others you deem appropriate.

To qualify to be its own class, a category should be at least one percent of your total revenue. The idea is to have enough departments and classes to appropriately segment your business but not so many that they become unwieldy to manage. If you sell five scarves a year, it's a waste of time to have a class just for scarves (just lump them in with other "miscellaneous accessories"). Most retail experts suggest the "rule of tens"—no more than ten departments and no more than ten classes for each department. Setting up these departments and classes appropriately will help you better manage your store and increase your profitability. ▮▮▮

Meet The Experts

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