

Instore Magazine – Inventory Management Strategies: Aged Inventory, Part 3

If you have a surplus of aged inventory (and most retailers do) recognize that you did not acquire this problem in one day and it won't get solved in one day. One thing is clear, you will not have enough dollars for new purchasing and replenishment unless you get rid of old inventory! Aged inventory is plaque in your arteries – it restricts your cash flow. In order to increase your turn, thereby generating cash flow, you **must** manage your aged inventory aggressively.

When you decide on which strategies to pursue, keep in mind that your clients have told you that they don't like this merchandise, and you really do need to get rid of it. Aged Inventory is also somewhat of a report card on your buying, based on how high a percentage of your stock is aged, you might consider a change how you are buying your new product.

There are a lot of suggestions out there on what to do with aged inventory. Some entail marking the product up, or re-merchandise (add a center diamond), etc. With some exceptions, my problem with these types of approaches is that potentially the problem is just being prolonged. I prefer to take action, rather than wait and hope some more. Here is what worked for me:

Take the following immediate steps:

- Return to the vendor based on an agreed upon percentage of your sales, *or* each time you place those replenishment orders, ask if you can return one piece for every three ordered
- Incentivize your sales team by paying them a cash out of the drawer spiff on each piece, this can be extremely effective
- Take everything over 12 months old and have an “Everything in the Store 50/60/70% off Sale Event” – put all fast selling or new stock in the vault.
- Donate it (check with your accountant as to your cost limit) to charity
- At every opportunity use to barter with (catering for events, flowers, music, etc.)

- Dead stock is defined at over 3 years old. Look at scrapping this product. With today's gold prices if you can recover your cost it is worth doing

Take the following long term steps:

- Always negotiate with your vendors to return aged inventory (12 months and older) based on an agreed percentage of your sales – 20% seems to be acceptable to most vendors
- Do your RTV's twice a year at minimum
- Stock balance between stores – the cost far outweighs getting rid of old stock
- Mark it down – no matter how unattractive it is at a certain retail it **will** sell
- Depending on the price point and the number of units you bought – at 6 months take a look to consider a markdown
- At 12 months take your first markdown. Continue your markdowns at 6 month intervals
- After you have marked something down three times – at 24 months – consider scrapping it

Keep in mind, by the way, that Bridal “on sale” is not always effective. For many there is a stigma to buying an engagement ring discounted. Rather than putting it on sale, simply reduce the retail until it sells – add a motivating spiff for the salespeople and you will be surprised how quickly it will sell. The same strategy can be applied if there are concerns about your brand.

Since we will all make buying mistakes, you will want to budget for markdowns and scrapping in your Merchandise Plan. You don't want any unanticipated hits to your Gross Profit, which could result in not making your Goal. The key to aged inventory reduction is to *take action* quickly and frequently. A healthy and profitable inventory is one that turns!