What's Selling: How do you determine where products are placed? Pages 24, 32 & 40

MODEL Retailer®

THE HOBBY INDUSTRY'S #1 NEWS SOURCE

MAY 2011

Green light for new R/C venture

Ex-Horizon exec Mike Gillette, Gil Losi Jr. to produce trucks, parts for HobbyTown USA, broader market

A former Horizon Hobby executive is coming back to the surface radio-control business, and he's bringing some well-known names with him.

Mike Gillette, former Horizon president and CEO, has formed the Firelands Group along with R/C notables Gil Losi Jr. and former Team Associated engineer Jason Corl to produce surface R/C vehicles and parts.

The company has inked a deal to provide proprietary radio-control products to HobbyTown USA stores. Firelands' first project is a 1:18 short-course truck due out in May under the Helion brand name. Other trucks are also planned for the line.

The company will also have its Radient line for HobbyTown USA, consisting of parts and accessories for general surface R/C including motors, batteries and performance components. Gillette describes the line as "products with features that are a little bit future-looking."

The second part of the Firelands venture is hop-up parts for cars and trucks under the Anza brand name. These will be available to all hobby stores and have been developed by Losi and Corl. Gillette says they are aimed at the mid-priced market, primarily geared toward high-end bashers.

Some of the first Anza parts appeared at the Cactus Classic in Scottsdale, Ariz., March 18–20, but Gillette says...

(continued on page 6)

SELLING KITES

Spring is here, and that means your customers will be looking for these fun flying objects. *(see page 15)*

Take inventory, take control

Do you know what you have in stock? Do you feel like your store is running you instead of the other way around? Current and accurate inventory records can help put you in charge again, while tracking your turns can help you measure the health of your store. You don't even need a computer to do it. *(see page 14)*

How to: visual marketing

Retail gurus Kizer & Bender on displaying merchandise for maximum sales. *(see page 16)*

INSIDE

Rule your inventory

Accurate records put you in charge of your store, not vice versa

BY WILLIAM J. LYNOTT

Inventory management has a dramatic effect on profits. Too much inventory will tie up badly needed money while taking up valuable space on your shelves; too little inventory will eat away at your cash flow and disappoint customers.

Either system can work

Many small retailers rely on manual record-keeping. If done properly, a pencil and paper will do. Still, computerized systems are more efficient and less likely to suffer from costly lapses than manual systems.

There is no need for the small retailer to invest in costly software. "We are a small company and we use Quickbooks and Microsoft Excel to manage various aspects of our inventory," said Marcy Roth of small retailer Accessory Artists LLC.

Good records are essential

Eugene Fram, emeritus professor of marketing, Rochester Institute of Technology, College of Business, emphasizes the importance of good record-keeping. Keep records of critical inventory information, he says, such as "best-selling items, staple stock items and items that you do not carry but have been requested by customers." This data will help you make purchasing decisions.

Accuracy matters. "Even if you happen to place your order for precisely the amount you intended, if you were incorrect about how many you had on hand when you ordered, you'd end up with too many or too few. Either mistake will eat away at your profits," says Lisa Anderson, LMA consulting Group, Claremont, Calif.

Strive for accountability

"To minimize inaccuracies it's essential that one person be accountable for overall tracking, maintenance and updates to all software or manual platforms that track inventory," Roth said. The same person should place orders and track shipping and receiving.

The importance of turnover

One of the best yardsticks for measuring the health of your inventory is called turnover.

In short, your turnover tells you how well the items you've decided to stock are selling. To figure your turnover for last year, just divide the cost of all merchandise sold by your average inventory level during the year. Here's how that looks in the simple formula for turnover:

$$\frac{\text{COST OF GOODS SOLD}}{\text{AVERAGE INVENTORY AT COST}} = \text{TURNOVER}$$

To get average inventory, just add the cost value at the beginning of the period you want to measure to the cost value at the end of the period and divide by two.

Once you're comfortable with computing your past inventory turnover, you're ready to set goals for improving it. What should your goal be? That will vary from store to store. On average, though, you probably won't go wrong if you set four turns as your goal. The idea is to get your turnover as high as possible without reducing inventory so much you lose sales by not having demand items in stock.

Turnover can be too high and must be fine-tuned to other inventory needs.

Don't be afraid of markdowns

Merchandise sitting unsold on your shelves ties up needed cash and can damage your profits the longer it sits. If you've made a bad buy, or simply bought too much, it's important to move that product even if you have to lower the price.

"When markdowns are required, make them substantial enough to move the inventory quickly," says Professor Fram.

Sometimes even a low price won't move an item. When that happens, a total markdown — removing the item from both your inventory records and your shelves to make room for saleable goods — is a difficult but wise decision. Many retail executives feel that merchandise unsold for one year is a good candidate for complete markdowns.

Large retailers usually require that items completely marked down be immediately destroyed or discarded. Stock keeping units (SKUs) held on the premises once they have been officially removed from inventory can be a temptation for employee theft. Also, the fact that some items on the shelves are in inventory and some are not can lead to errors and confusion in records and inventory control.

"Reconcile your physical inventory with your records at least monthly," said Roth. "This is a good time to assess what inventory has been hanging around long enough that you want to move it along or unload it."

Consult your accountant on the proper handling of complete markdowns.

How much should you carry?

How you choose the items to carry in your inventory is crucial to an optimum bottom line. Don't stock items because they happen to be personal favorites; don't stock items because they seem to be selling or because a vendor has offered you a special on merchandise that isn't moving well for the vendor.

One way to estimate the optimum size of your inventory is to use your turnover goal as one of the factors. Using four turns as your objective, the formula for optimum inventory size at cost is:

$$\frac{\text{COST OF MERCHANDISE SOLD}}{4} = \text{OPTIMUM AVERAGE INVENTORY AT COST}$$

Despite the success you can achieve by doing what your records tell you, it's always tempting to second-guess the figures. Don't. Good inventory management is largely a matter of simple mathematics. Two plus two is four; don't try to make it five. ■

Bill Lynott writes professionally on business management and personal finance.