



Found Money: Inventory Management Basics

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What is Inventory Management?

- The practice of planning, directing and controlling inventory so that it contributes to the success of your business
- Balancing inventory supply and demand for profitability

Why do you need it?

- Exceptional customer service includes providing top-quality products at reasonable prices
- Good inventory management:
 - Improves customer service
 - Increases sales & profits
 - Increases working capital

Goals for Inv Mgmt

- Maintaining stock levels that satisfy demand but don't tie up money
- Increasing inventory turns
- Obtaining best possible price
- Offering best assortment of products
- Having the right products for your clientele

Selecting Manufacturers

- Philosophy/positioning
- Retail price point
- Packing
- Synergy through spa
- Advertising & Marketing
- Support



Choices?



- Fit
- Effectiveness
- Buy-in from staff
- You're not a drug store!



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How Many Lines?



How Many Lines?

- Average Spa, 4-6 tx rooms
 - 1 Main Skin line
 - 1 Niche Skin line
 - 1 Nail line
 - 1 Massage
 - Assorted Retail
- Larger Spa, 8-14 tx rooms
 - 2 Main Skin Lines
 - 1 Niche Skin Line
 - 1 Nail line
 - 1 Massage
 - Assorted Retail

Selecting Distributors

- User-friendly terms and minimums
- Shipping
- Geographic location
- Support options
 - Education, DSC support

P&L Rev/Cost of Goods

- *before*

Total Service Sales	\$ 1,618,523.04	
Total Retail Sales	\$ 404,711.66	
Total Revenues	\$ 2,126,433.11	100
Cost of Goods Sold		
Total Tech Svc Labor	\$ 560,147.53	35%
Supplies Back Bar Total	\$ 144,070.55	9%
COGS Retail	\$ 135,881.26	34%
Product Sales Commissions	\$ 56,659.63	3%
Tech Labor Payroll Taxes	\$ 55,512.65	10%
Merchant Fees	\$ 68,888.91	3%
Total Cost of Sales	\$ 1,021,160.53	48%
Gross Profit	\$ 1,105,272.58	52%

Chart of Accounts

- Product categories need to match service categories
- Separate entry for professional and retail
- Should be grouped just like your POS software

Chart of Accounts - example

- Esthetics Prof
- Massage & Body Prof
- Nails Prof
- Makeup Prof
- Medical Prof
- Hair Prof
- Miscellaneous
- Esthetics Retail
- Massage & Body Ret
- Nails Ret
- Makeup Retail
- Medical Retail
- Hair Retail
- Spa Retail



COGS Back Bar Detail

Supplies - Esthetics	\$	30,573.38	21%
Supplies - Hair	\$	32,355.95	22%
Supplies - Makeup	\$	285.12	0.2%
Supplies - Massage	\$	15,202.85	11%
Supplies - Medical	\$	46,002.11	32%
Supplies - Nail	\$	19,651.14	14%
Supplies Back Bar Total	\$	144,070.55	100%

Purchase Forecasting

- Determine minimum and maximum supply levels for each product
- Consider frequency of ordering
- Consider shipping time
- Allow some room for error



Ordering Procedures

- Purchase orders/computer generated
- Ideal day to receive merchandise
- One point person per department
- Consider products that cross departments
 - Gloves, cotton, lotions
- Central location for P.O.'s

Receiving Procedures



- Delivery location?
- Check box contents against packing list
- Check packing list against P.O.
- Damages
- Updating software
- Ticketing

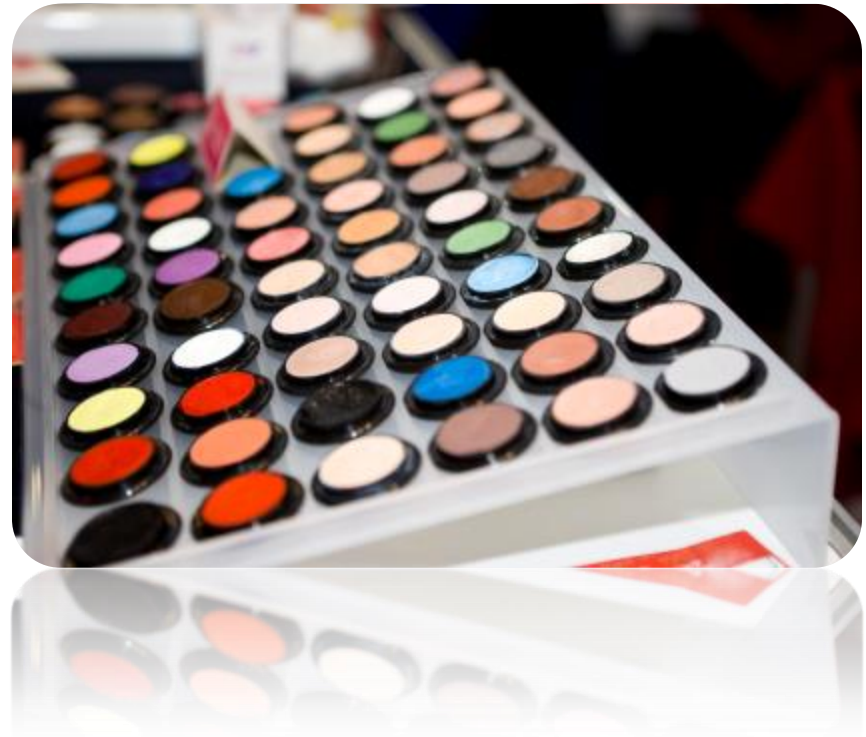
Product Storage

- Professional Supply
- Retail Supply
- Why not mix them?



Performing Physical Inventory

- Monthly
- Last day of the month
- Separate professional and retail counts



Measuring Inventory Turns

$$\text{Inventory Turns} = \frac{\text{Annual Retail COGS}}{\text{Average Inventory}}$$

2010 Prod purchases	\$93,271.	= 5.7
2010 Monthly Inv Avg	\$16,350.	

Shrinkage

- What is it?
- What causes it?
 - Product obsolescence
 - Deterioration/damage
 - Theft
 - Protocols not followed



Minimizing Shrinkage

- Insure assigned storage
- Limit access
- Carry minimum of product
- Speed of cycle
- Stocking protocols

Controlling Waste

- Service Protocols
- Training
- Awareness
- Rewards



Skin Department Analysis



Esthetic Dept Revenue	\$ 547,589.29	
Labor - Esthetic Department	\$ 171,920.13	31%
Supplies - Esthetics	\$ 80,199.98	
Esthetic Dept Gross Profit	\$ 295,469.17	54%
Service Sales - Esthetic	\$ 382,167.29	
Service Labor - Esthetic	\$ 147,106.83	
Back Bar - Esthetics	\$ 30,573.38	
Service Gross Profit - Esthetics	\$ 204,487.07	54%
Retail Sales - Esthetics	\$ 165,422.00	
Retail Commission - Esthetics	\$ 24,813.30	
COGS Retail - Esthetics	\$ 49,626.60	
Retail Gross Profit - Esthetics	\$ 90,982.10	55%

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- *after*

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Tech Labor Payroll Taxes	\$ 55,512.65	10%
Merchant Fees	\$ 68,888.91	3%
Total Cost of Sales	\$ 974,201.36	46%
Gross Profit	\$ 1,152,231.75	54%

Partnering

- Work with suppliers to plan inventory levels
 - Suppliers
 - New product or packaging information
 - Spas
 - Promotion calendar, historical data

Focal Points

- Set up a chart of accounts and stick to it
- Don't let technicians plan your purchases
- Keep professional and retail stock separated
- Inculcate product awareness into training and protocols

Web Resources

- Storefrontbacktalk.com
- Retailwire.com
- Snapretail.com
- SCMR.com
- Supplychainer.com





Inventory Management

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