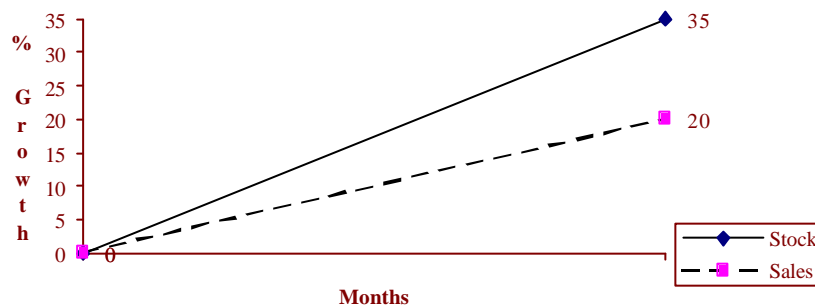


A SYSTEM TO ENSURE YOU ARE NEVER OVERSTOCKED AGAIN

During my travels around this industry I have yet to visit a store that is understocked. The perennial problem in this industry is simply having too much stock which then causes cash flow problems, arguments with the financier and suppliers, poor merchandising and displays and shrinkage problems. There is a solution which can save you thousands of \$ in stock and ensure that you will still be in the industry past the year 2001.

The answer is to have a system that relates your actual sales and purchasing to a budget and is reviewed monthly. The reasons why stores are overstocked is obvious, whilst turnover goes up, the stock level rises and usually by a higher percentage.



Why does this occur? Because we do not reconcile our stock position to turnover. We are so turnover orientated and chasing the sale we are too busy and there is an attitude in this industry that the stock will look after itself! Well the stock won't look after itself and the reason why you could ultimately go bust is you will run out the cash and where is most of your cash tied up? STOCK!

The system I suggest you put into place to ensure you can control this crucial part of your operation requires the following. You will need a piece of paper, a pen, a calculator and **ONE MINUTE OF YOUR TIME!!!** Once a month to do the calculations. The information you review and utilise is the following:

1. Actual sales each month
2. Budgeted sales per month
3. Actual purchases each month
4. Budgeted purchases each month

You will also need to put together a profit and loss budget, the most important tool in stock control. How you put together your 1 minute report is shown in the following case study:

1 MINUTE STOCK REPORT - JULY

SALES

Budgeted Sales July	\$100,000	
Actual Sales July	\$80,000	
Difference		\$20,000
Convert to cost (100% - Targeted GP% say 20%)	80%	
Overstock position due to not making sales		\$16,000

PURCHASES

Actual Purchases July	\$85,000	
Budgeted Purchases July	\$80,000	
Difference	\$5,000	
No need to convert to cost as stock purchases should be recorded at cost		
Overstock position due to over ordering		\$5,000

SUMMARY

Budgeted Closing Stock	\$150,000
Stock Adjustment	
Not making Sales	\$16,000
Over ordering	\$5,000
Approx. Actual Closing Stock	\$171,000

Thus after the end of the first month of the financial year this case study store is already \$21,000 overstocked against the budget. If this trend continues, there could be a possibility that this store could run out of cash. Fortunately this store has a purchase budget and by completing the 1 minute report on the 1st of August knows exactly how it is positioned.

Therefore to fix the problem the budgeted purchases for August will need to be reset to bring the actual stockholding at the end of the next 30 days i.e. 31st

August back to the targeted closing stock for August as set out in the yearly profit and loss budget.

This system is called an open to buy stock ordering system. It works, and if you implement it you should never be overstocked again.