

INVENTORY TURN MANAGEMENT

TEST: INVENTORY TURN MANAGEMENT – LOWERING INVENTORY TO INCREASE SALES

OBJECTIVE:
Determine how merchandise sales are affected when inventory is optimized to include only those items that “turn” 12 times per year or more.

- SCOPE:**
- Pull six months of scan data on all sellable items.
 - Determine the “turn” number for each sellable item.
 - Use vendor exchange markdown procedures to eliminate all sellable items that are not turning at least 12 times per year. (e.g., eliminate all items that don’t sell through the amount normally purchased in one month)
 - Fill in shelf space created by the inventory optimization with inventory items that “turn” 18 times per year or more.

- MEASUREMENT:**
- An inventory “turn” is when a location sells through the entire inventory of an item. For example, if a location normally purchases 24 cans of 12oz soda, it will have completed one inventory turn when all 24 cans are sold.
 - Measure the total dollar inventory before the optimization against the total dollar inventory after the optimization.
 - After eliminating all non-turning merchandise, begin measuring inside merchandise monthly sales for 6 months and compare it to the sales from the 6 months prior to the inventory reduction.

RESULTS:

- Eliminating items that do not turn a minimum of once per month (12 times per year) lowers total dollar inventory and the amount of capital the Retailer has tied up in inventory.

#SKUs Before Optimization	4,283
#SKUs After Optimization	2,946
Total Inventory \$ Optimized	\$28,567
Carrying Cost Savings	\$2,285 annually (based on an 8% return average)

RESULTS (Contd.):

- Filling in space created by the inventory optimization with items that turn 18 times or more per year helps reduce out-of-stocks in those items that increase sales.

Increased Sales After Optimization	\$8,300/month (based on a 30% markup)
Additional Gross Profit	\$2,490/month
	\$29,880/year

- Additional profit of more than \$32,000 annually.
(Carrying Cost Savings + Annual Additional Gross Profit)

RECOMMENDATION:
We recommend that all Retailers implement an inventory turn management system for a minimum of 12 weeks.