

How to Fix Your Buying Mistakes



Presented by



Alan Friedman, CPA
Friedman, Kannenberg & Company, P.C.

Effectively manage your entire inventory with “3” calculations:



- **Gross Profit %**
- **Inventory Turns**
- **Gross Margin Return on Investment (GMROI)**

Gross Profit %



Sales	\$ 1,000,000	100%
Cost goods sold	(600,000)	60%
Gross Profit	\$ 400,000	40%

G.P.% Goal:



- Full line = 35% - 40%
- Keyboard = 38% - 43%
- School Music = 37% - 42%
- Combo = 30% - 35%
- Print = 40% - 45%

Inventory Turns



Cost of goods sold (\$ 600,000)

Avg. Inventory
on hand (at cost) (\$ 300,000)

= Inventory turned "2 Times"

...or, it took you 6 months to turn
over your entire inventory (in \$\$\$)

Inventory Turn Goal:



2.5 – 3.0

(or better)

GMROI



Gross Profit (\$ 400,000)

Avg. Inventory
on hand (at cost) (\$ 300,000)

= GMROI of \$1.33

...or, you earned \$1.33 for every
\$1.00 you invested in inventory

GMROI Goal:



\$1.50
(or better)

"My Bible"



FULL TRANSCRIPTIONS FROM THE ORIGINAL RECORDINGS

THE
BEATLES
COMPLETE
SCORES



EVERY SONG WRITTEN & RECORDED BY THE BEATLES

\$79.95 (US)

Publisher: Hal Leonard

Inventory #: HL

00673228

ISBN: 0793518326

UPC: 73999732283

Width: 7

Length: 11

1136 pages

Let's test our new inventory management calculations...



- In January of last year, you bought four (4) copies of “The Complete Score of The Beatles”; the book has a list price of approximately **\$80**
- Your cost was **\$50**, including freight
- You sold all four copies by the end of the year, as follows...

BIG AL'S HOUSE OF ROCK INVENTORY REPORT

MON	QUANTITY		INV DOLLARS	
	Sold	On-hand	Sold	On-hand
JAN	0	4	\$ -	\$ 200
FEB	0	4	\$ -	\$ 200
MAR	0	4	\$ -	\$ 200
APR	-1	3	\$ (50)	\$ 150
MAY	0	3	\$ -	\$ 150
JUN	0	3	\$ -	\$ 150
JUL	-1	2	\$ (50)	\$ 100
AUG	0	2	\$ -	\$ 100
SEP	0	2	\$ -	\$ 100
OCT	0	2	\$ -	\$ 100
NOV	-1	1	\$ (50)	\$ 50
DEC	-1	0	\$ (50)	\$ -
			AVG INV	\$ 125

Gross Profit



Sales	\$ 320	100.0%
Cost goods sold	(200)	62.5%
	-----	-----
Gross Profit	\$ 120	37.5%
	=====	=====

Inventory Turns



$$\begin{array}{r} \text{Cost of goods sold} \\ \hline \text{Avg. Inventory} \end{array} \quad \begin{array}{r} (\$ 200) \\ \hline (\$ 125) \end{array}$$

= Inventory turns of 1.6 Turns

...or it took you an average of 228 days (or 7.5 months) to turn over the entire "Beatles Score" inventory

GMROI



$$\frac{\text{Gross Profit} \quad (\$ 120)}{\text{Avg. Inventor} \quad (\$ 125)}$$

= GMROI of \$0.96

...or, you earned \$0.96 for every \$1.00 you invested in the "Beatles Score" inventory

BIG AL'S HOUSE OF ROCK INVENTORY REPORT

MON	QUANTITY		INV DOLLARS	
	Sold	On-hand	Sold	On-hand
JAN	0	4	\$ -	\$ 200
FEB	-1	3	\$ (50)	\$ 150
MAR	-1	2	\$ (50)	\$ 100
APR	0	2	\$ -	\$ 100
MAY	0	2	\$ -	\$ 100
JUN	0	2	\$ -	\$ 100
JUL	-1	1	\$ (50)	\$ 50
AUG	0	1	\$ -	\$ 50
SEP	0	1	\$ -	\$ 50
OCT	-1	0	\$ (50)	\$ -
NOV	0	0	\$ -	\$ -
DEC	0	0	\$ -	\$ -
AVG INV				\$ 75

Gross Profit



Sales	\$ 320	100.0%
Cost goods sold	(200)	62.5%
	-----	-----
Gross Profit	\$ 120	37.5%
	=====	=====

Inventory Turns



$$\frac{\text{Cost of goods sold} \quad (\$ 200)}{\text{Avg. Inventory} \quad (\$ 75)}$$

= **Inventory turns of 2.7 Turns**

...or it took you an average of 137 days (or 4.5 months) to turn over the entire "Beatles Score" inventory

GMROI



$$\frac{\text{Gross Profit} \quad (\$ 120)}{\text{Avg. Inventory} \quad (\$ 75)}$$

= GMROI of \$1.60

...or, you earned \$1.60 for every \$1.00 you invested in the "Beatles Score" inventory

The Secret Weapon:



*Let's use these tools to
manage our entire
music product inventory
with a*

"1-Page Solution"

BIG AL'S HOUSE OF ROCK & SCHLOCK
INVENTORY ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007

	A	B	(A - B) C	(C / A) D	E	(B / E) F	(A/TotalA) G	(E/TotalE) H	(C / E) I
	<u>Sales</u>	<u>Cost of Goods Sold</u>	<u>Gross Profit (\$)</u>	<u>Gross Profit (%)</u>	<u>Average Inventory</u>	<u>Inv Turns</u>	<u>Sales as % of Tot Sales</u>	<u>Inventory as % of Tot Inv.</u>	<u>(GMROI) Gr Margin ret on inv</u>
Guitars - electric	\$ 300,000	\$ 235,000	\$ 65,000	22%	\$ 330,000	0.71	12%	21%	\$ 0.20
Guitars - acoustic	125,000	85,000	40,000	32%	40,000	2.13	5%	3%	\$ 1.00
Basses	100,000	67,000	33,000	33%	40,000	1.68	4%	3%	\$ 0.83
Amps	150,000	110,000	40,000	27%	105,000	1.05	6%	7%	\$ 0.38
Drums and percussion	150,000	115,000	35,000	23%	110,000	1.05	6%	7%	\$ 0.32
Keyboards	300,000	213,000	87,000	29%	190,000	1.12	12%	12%	\$ 0.46
Pianos and organs	425,000	240,000	185,000	44%	440,000	0.55	17%	28%	\$ 0.42
Band and orchestra instruments	100,000	75,000	25,000	25%	55,000	1.36	4%	4%	\$ 0.45
Recording equipment	275,000	200,000	75,000	27%	105,000	1.90	11%	7%	\$ 0.71
Microphones	50,000	35,000	15,000	30%	10,000	3.50	2%	1%	\$ 1.50
Sound reinforcement	175,000	95,000	80,000	46%	15,000	6.33	7%	1%	\$ 5.33
Effects	75,000	55,000	20,000	27%	25,000	2.20	3%	2%	\$ 0.80
Print Music	110,000	65,000	45,000	41%	55,000	1.18	4%	4%	\$ 0.82
Accessories	130,000	70,000	60,000	46%	30,000	2.33	5%	2%	\$ 2.00
TOTALS	\$ 2,465,000	\$ 1,660,000	\$ 805,000	32.66%	\$ 1,550,000	1.07			\$ 0.52



Any
Questions?



friedman kannenberg

and company pc

91 South Main Street

West Hartford, CT 06107

Tel – 860.521.3790

Fax – 860.561.4339

Website – www.fkco.com

Email – alan@fkco.com