

BIG BANG BOOT CAMP: "Fiscal Fitness for your Print Dept" Part 1 – Core Work



*Presented by
Bob Kohl & Alan Friedman*

Part I – Core Workout

1. Operations Efficiency
2. Seasonal Product Forecasting
3. New Issues
4. Returns to Suppliers
5. Clearance Bin Analysis

Part II – Physical Floor Work (*this afternoon's session*)

1. Customer Special Orders
2. Holding Product For Customer Pickup
3. Customer Returns
4. Print Department Sales Events

1. Strengthening Operational Efficiency



1. Operational Efficiency | ■

- a) Effectiveness & accuracy of your ordering practices
- b) Validity of historical sales data
- c) Ordering frequency
- d) Quantity ordered – too much or not enough?
- e) Dependability of receiving
- f) Dependability of suppliers

Alan's question to the audience: | ■

“How many people here feel they honestly know the “true value” of their print inventory ??”

1. Operational Efficiency

BIG AL'S HOUSE OF PRINT, INC. BALANCE SHEET DECEMBER 31, 2014

ASSETS	
CURRENT ASSETS	
Cash	\$ 10,000
Accounts receivable	40,000
Inventory	850,000
TOTAL CURRENT ASSETS	900,000
FIXED ASSETS	
Store equipment, furniture and displays	\$ 250,000
Less accumulated depreciation	150,000
	<u>100,000</u>
	<u>\$ 1,000,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 400,000
Accrued taxes and expenses	50,000
Credit line payable	200,000
Current portion of long-term debt	50,000
TOTAL CURRENT LIABILITIES	700,000
LONG-TERM DEBT	
	200,000
STOCKHOLDERS' EQUITY	
Common stock	\$ 50,000
Retained earnings	50,000
	<u>\$ 1,000,000</u>

BIG AL'S HOUSE OF PRINT, INC. STATEMENT OF INCOME DECEMBER 31, 2014

SALES	\$ 1,000,000	100.0
COST OF GOODS SOLD	550,000	55.0
GROSS PROFIT	450,000	45.0
OPERATING EXPENSES		
Salaries - officers	50,000	5.0
Salaries - staff	150,000	15.0
Rent	60,000	6.0
Advertising & promotion	40,000	4.0
Insurance	30,000	3.0
Taxes	25,000	2.5
Bank & merchant fees	18,000	1.8
Office expense	12,000	1.2
Telephone and utilities	11,000	1.1
Depreciation	10,000	1.0
Professional fees	8,000	0.8
Travel, meals and entertainment	4,000	0.4
Repairs and maintenance	2,000	0.2
	<u>420,000</u>	<u>42.0</u>
NET INCOME	30,000	3.0
BEGINNING RETAINED EARNINGS	20,000	
ENDING RETAINED EARNINGS	<u>\$ 50,000</u>	

1. Operational Efficiency

BIG AL'S HOUSE OF PRINT, INC. BALANCE SHEET DECEMBER 31, 2014

ASSETS	
CURRENT ASSETS	
Cash	\$ 10,000
Accounts receivable	40,000
Inventory	750,000
TOTAL CURRENT ASSETS	800,000
FIXED ASSETS	
Store equipment, furniture and displays	\$ 250,000
Less accumulated depreciation	150,000
	<u>100,000</u>
	<u>\$ 900,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 400,000
Accrued taxes and expenses	50,000
Credit line payable	200,000
Current portion of long-term debt	50,000
TOTAL CURRENT LIABILITIES	700,000
LONG-TERM DEBT	
	200,000
STOCKHOLDERS' EQUITY	
Common stock	\$ 50,000
Retained earnings	(50,000)
	<u>\$ 900,000</u>


BIG AL'S HOUSE OF PRINT, INC. STATEMENT OF INCOME DECEMBER 31, 2014



SALES	\$ 1,000,000	100.0
COST OF GOODS SOLD	650,000	65.0
GROSS PROFIT	350,000	35.0
OPERATING EXPENSES		
Salaries - officers	50,000	5.0
Salaries - staff	150,000	15.0
Rent	60,000	6.0
Advertising & promotion	40,000	4.0
Insurance	30,000	3.0
Taxes	25,000	2.5
Bank & merchant fees	18,000	1.8
Office expense	12,000	1.2
Telephone and utilities	11,000	1.1
Depreciation	10,000	1.0
Professional fees	8,000	0.8
Travel, meals and entertainment	4,000	0.4
Repairs and maintenance	2,000	0.2
	<u>420,000</u>	<u>42.0</u>
NET LOSS	(70,000)	(7.0)
BEGINNING RETAINED EARNINGS	20,000	
ENDING RETAINED EARNINGS	<u>\$ (50,000)</u>	


1. Operational Efficiency

- ❖ Remember (especially with print)...
“You’ll never really know how much profit you’re making from the product you sell until you take into account the stuff you DON’T sell.”
- ❖ You can’t possibly know your true bottom line unless you take frequent & thorough inventory counts & valuations

2. Building “Seasonal Product Forecasting” Skills





2. Seasonal Product Forecasting | ■

- a) Inventory turn goals
- b) Benefits of stock orders
- c) The “when” & “how many”
- d) Sell-through vs. supplier payment
- e) Supplier trade terms & discounts
- f) Deals in odd times of the year

Rule of Thumb | ■

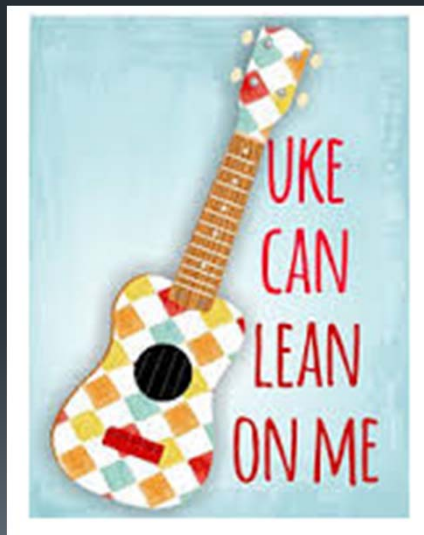
Buy the product
(or the quantity of the product)
ONLY IF
you know you can sell it all
in “X” days or less,
where “X” is equal to 360 days
times your gross profit percent.

Alan's Rule of Thumb

STEP 1 - CALCULATE YOUR G.P. %		
Selling price (10 books x \$100)	\$ 1,000	100%
Cost of good sold (10 books x \$60)	600	60%
GROSS PROFIT	\$ 400	40%
STEP 2 - CALCULATE THE DAYS TO SELL		
No. of days in the year		360
x Gross Profit Percent (%) per above		0.40
# OF DAYS TO SELL THE PRODUCT		144

If you can sell it all in 144 days or less, BUY IT.
If you can't or aren't sure, DON'T BUY IT.

3. New Issues



3. New Issues

(a fantastic “protein shake”)

- a) Importance of new issues
- b) Picking new issue publishers
- c) Evaluating new issues from a standpoint of...
 - i. Customer needs & satisfaction
 - ii. Supplier support
 - iii. Financial return

What makes “Print Music” so profitable ??

- Unlike every other segment of music retailing, “print music” customers rarely negotiate the price they pay for print music – they simply pay the retailer the price printed on the product
- Most publishers sell their print music product to retailers at a 30% to 40% discount off the publisher’s list price printed on the merchandise
- Furthermore, if the retailer commits to buying new issues and/or participating in marketing programs, the publisher will increase the discount to 45% to 55% off their list price
- All these pricing factors practically guaranty the retailer a gross profit margin of almost 50% - which is almost unheard of (nowadays) in other music retailing product segments

What are "New Issues"?

- "New issues" are this year's newest print music products that publishers produce to sell to music retailers who, in turn, sell to the print music buying public
- They are deemed essential products to keep inventory "fresh" and "appealing"
- But because they are "new" products, they are "unproven" in their demand
- Accordingly, publishers will offer retailers greater "buying discounts" if they agree to commit to ALL the new issues within a product category (i.e. piano methods)

- "New issues" can **absolutely** make you **more profitable** by "lowering" your acquisition cost of inventory, and...
- ... "New Issues" can **spur sales growth** by keep inventory "fresh" and "appealing"
- BUT, "New Issues" can make your **inventory levels grow** because they are "unproven" in their demand, and...
- ... "New Issues" can further the **hurt to your cash flow** if you they aren't sold on a timely basis, and are now adding to an already bulging inventory level

What are the causes of "too much print inventory"?

According to the retailers...

■ New Issues !!

According to the publishers...

- Retailers love their inventory
- A lack of "merchandising" knowledge
- Retailers don't grow their market
- Retailers lack inventory mgt skills
- Retailers lack financial knowledge
- Retailers don't "partner" with publish.

"New issues" are just a convenient excuse for the typical retailer's...

- ...love of inventory
- ...lack of "merchandising" knowledge
- ...not knowing how to grow their market
- ...not knowing the true meaning of "service"
- ...lack of inventory management skills
- ...lack financial and accounting knowledge
- ...lack of foresight to seize endless opportunities to "partner" with publishers

Q: Should you buy “new issues”?

A: **YES**, as long as you: (1) print critical inventory reports, and (2) use those reports to properly monitor and manage your inventory...

Otherwise, **DON'T BUY NEW ISSUES**, as they'll just make your festering inventory & cash flow problems worse!

4. Staying On Top Of “Returns To Suppliers”



4. Returns To Suppliers |

- a) Importance of return privileges
- b) Realistic promotional goals
- c) Analysis and hidden costs
- d) Alternatives to returning product

The topic of “return privileges” begs three questions... |

- **Question #1:** *If you're allowed to return unsold product, why wouldn't you buy as much product as you hope to sell, even if you overbuy?*
- **Question #2:** *Is the cost to return unsold product “less than” or “greater than” the profit you made by carrying all of the “extra product” you indeed sold?*
- **Question #3:** *Where's dinner tonight and who's buying?*

Analysis of Product Returned

PURCHASE ACTIVITY

Cost of product you conservatively bought	\$	10,000
Cost of extra product you bought		<u>5,000</u>
TOTAL PRODUCT BOUGHT (AT COST)	\$	<u>15,000</u>

SALES ACTIVITY

TOTAL SALES	\$	20,000	100%
COST OF PRODUCT SOLD		<u>12,000</u>	<u>60%</u>
GROSS PROFIT	\$	<u>8,000</u>	<u>40%</u>

PROFIT ANALYSIS ON PRODUCT RETURNED

Sales price of extra product sold ($\$2,000 / 60\%$)	3,333	100%
Cost of extra product sold	<u>2,000</u>	<u>60%</u>
Profit of extra product sold	1,333	40%
Less: cost to return extra product not sold		
Restocking fee ($\$3,000 \times 20\%$)	<u>600</u>	<u>18%</u>
NET PROFIT OF EXTRA PRODUCT SOLD	\$	<u>733</u>
		<u>22%</u>

5. Clearance Bin Analysis

CLEARANCE BIN



- CLEARANCE BIN -
Priced To Clear! Out It Goes!

5. Clearance Bin Analysis | ■

- a) Tools to identify slow moving and/or dead stock
- b) Life span analysis
- c) Post-mortem evaluation
- d) “How to” clear out old stock

5. Clearance Bin Analysis | ■

Given every retailer's primary objective of...
paying as little as possible for product,
and then selling it all for the most profit,
in the least amount of time......should
retailers be making a regular practice of
blowing out stock for less than what they've
paid for it? And if “Yes”....then Why?

The Cost of Dead Stock

- You've been sitting on twenty (20) full orchestral arrangements of "My Heart Will Go On" for over 15 years. You paid \$50 each (for a total cost of \$1,000), hoping to sell them for \$100 each.
- You desperately need as many copies of "Frozen" as you can get your hands on...but cash is tight and there's a tight lid on purchases.
- Your local school music administrator pops in your store and is willing to pay you \$800 for all 20 arrangements.

Do you keep them or blow 'em out?

The Cost of Dead Stock

	Keep 'Em		Blow 'Em	
SALE OF OLD PRODUCT:				
Selling price (6 mos vs. now)	\$ 1,200	100.0%	\$ 500	41.7%
Cost	1,000	83.3%	1,000	83.3%
GROSS PROFIT	\$ 200	16.7%	\$ (500)	-41.7%
BUY NEW PRODUCT:				
0 - 90 days (\$1,000 - \$500)	\$ -		\$ 500	
91 - 180 days (\$1,000 - \$500)	-		500	
GROSS PROFIT	\$ -		\$ 1,000	
PROFIT RECAP:				
From sale of old dead stock	\$ 200		\$ (500)	
From sale of new fresh product	-		1,000	
TOTAL GROSS PROFIT	\$ 200		\$ 500	

The Cost of Dead Stock

By a show of hands, how many people can think of some product that's been sitting in the bin for over a year?

Remember this...

Any product that cost you \$1 on January 1st and is still sitting on the shelf on December 31st has now cost you 30% more, or \$1.30...!!!

Questions for our Personal Trainers?

