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Use ILSA to Your Advantage

Item-level scan audits (ILSAs), which itemize exactly what convenience-store managers have in stock, can cause inventory levels to rise. While it defies logic, there are reasons why this happens in convenience stores.

Retail vs. Item-Level Audits

Typical retail inventory audits in convenience stores combine items into general categories such as candy, cigarettes, beer, etc. At times, a c-store manager may have thousands of dollars of excess inventory, but he doesn't know which specific items within each category are overstocked. In contrast, ILSAs are supposed to help solve this problem of excess inventory.

An ILSA provides an itemized breakdown of inventory in the convenience store. For example, instead of combining all products into one dollar figure for candy, an ILSA lists the piece count and cost and/or retail dollar amount on hand for each specific SKU: e.g., Regular Size Snickers Dark bars, 170 pieces, $151.30; Regular Size Peanut M&M's, 146 pieces, $129.94; King Size Baby Ruth bars, 93 pieces, $129.27, etc. Because ILSAs provide detailed inventory counts, ILSAs should make the overstock problem disappear.

An examination of our database of 51,573 convenience-store audits (for our largest 16 clients over the past 12 months) contradicts the point that overstocks are disappearing. In fact, we are seeing inventory creep at an annualized rate of 3% or more, depending on the convenience chain. That represents a lot of money and creates a vicious cycle.

> C-store managers are embarrassed or **afraid to admit** they are overstocked because of the resulting financial loss.

Most vendors will take back unsold guaranteed product over a limited time frame. Many c-store managers are not willing to spend the time necessary to make returns, so products accumulate.

Dead inventory eventually comes straight off the c-store's bottom line. It's a vicious cycle: C-store managers are embarrassed or afraid to admit they are overstocked because of the resulting financial loss; without intervention, the problem only gets worse.

Paying Some Attention

Why aren't more upper-level managers addressing the vicious cycle and solving this costly problem? One theory is that executives are just too busy; they have many competing priorities.

From a capital standpoint, if a chain of 100 convenience stores could reduce its inventory by $25,000 per store annually—a very reasonable number—that chain could save $2.5 million in retail dollars (about $1.25 million in company dollars) to spend elsewhere.

Inventory issues need to be addressed at the c-store manager level, not the executive level. Manager training will go a long way toward stopping the vicious cycle:

- ▶ Make paying attention to inventory issues a priority a few times a year.
- ▶ Educate c-store managers about the dangers of automatic stock replenishment.
- ▶ Educate c-store managers that a vendor's great deal may not be appropriate for that particular store.
- ▶ Benchmark your auditors at least once a year so they don't get too cozy with store managers and are tempted to overlook excess inventory.

Convenience store chains can save—and make—millions of dollars by stressing the importance of quickly reviewing audit reports to gauge the amount of inventory needed. That is using an ILSA to your advantage.

Toolbox

- Detailed item-level scan audits, or ILSAs, can actually cause inventory levels to rise.
- Quickly reviewing audit reports and providing training to c-store managers can save convenience chains millions of dollars.
- Some store managers will allow unsold inventory to accumulate because they lack the training or the patience to return unsold inventory, or to order wisely.
- Inventory issues are generally not addressed at the executive level.