OPERATIONS

Big Money Lurks Inside the Storeroom

BY PAT MIGNOGNO

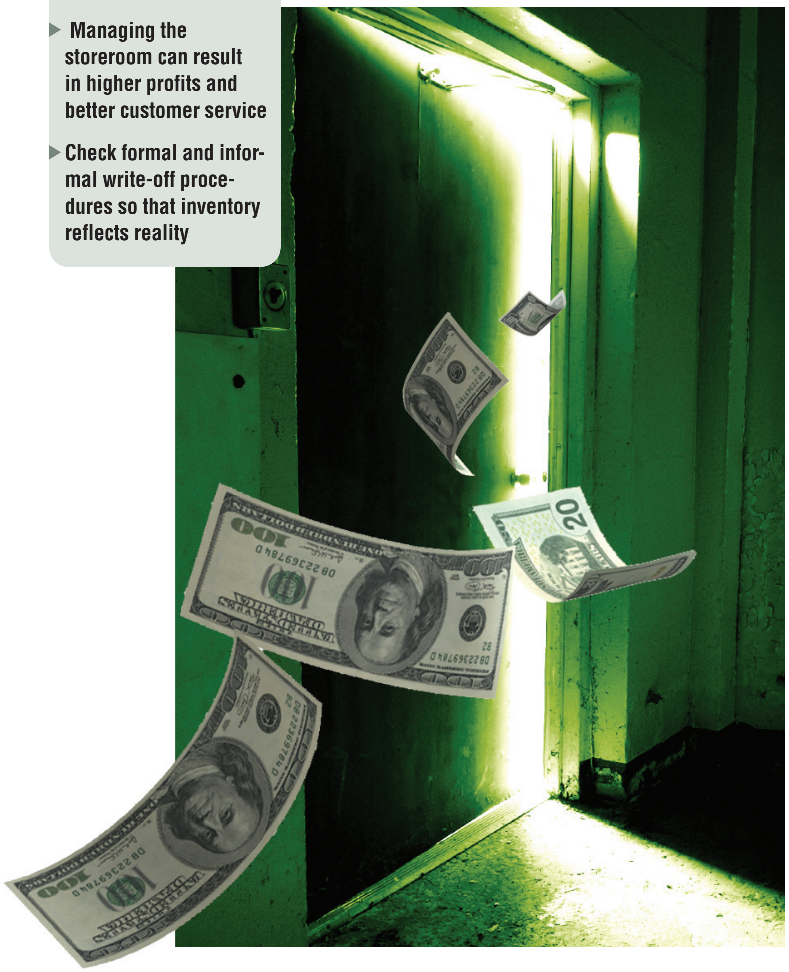
thegist

- On average 20 percent of storage areas have at least $500 in unsellable product
- Managing the storeroom can result in higher profits and better customer service
- Check formal and informal write-off procedures so that inventory reflects reality

Inside the storeroom, profits are going to waste when expired or damaged products unfit for store shelves are not properly managed. Examples of product waste uncovered by recent convenience store audits have found:

- Thirty cases of cigarettes damaged by a leak in the roof. The oldest cases had been in the storage area for at least nine months while additional cases continued to be added each month. Value: $36,000.
- Five shippers of candy ruined because they melted in the 120-degree temperature of the outside storage area. Value: $500.
- Two shelves of food products consumed by mice over a period of several months. Value: $300.
- Cardboard cases of soft drinks left on outside displays, damaged by rain, moved into the storeroom and subsequently forgotten about. Value: $250.

According to convenience industry auditing firm Quantum Services, more than 20 percent of storerooms contain at least $500 in expired or expiring product. In fact, it's not unusual to find some stores with more than $1,000 in expired or expiring product that goes to waste.



The Root of the Problem

Retailers tend to ignore the storeroom or outside storage areas for various reasons, such as:

- Customers don't see those areas
- In some cases, employees don't see those areas
- Without a practical plan, it can be difficult to manage storage areas

When product is sitting in storerooms, it's not just store profitability that is at stake. Customer satisfaction also suffers needlessly when out-of-stock items are actually in stock, but not on store shelves. For example, according to Quantum Services data, the average inventory level in a store is $76,000. The average percentage of product in storage areas is 7 percent. This equals more than $5,300 of inventory that is not available for purchase.

Intentions Versus Reality

Many operators justify the amount of "extra product" by referring to the profit margin they intend to receive because they got a deal on the product. In reality, the margin may look good > 16

> 14 on paper, but retailers may not realize the margin until the product sells. Unfortunately, in many cases, the product may be seasonal or has a limited shelf life, and is likely to expire or become damaged. Oftentimes products inside the storeroom may get pushed aside and forgotten about as new products come in, or products are moved to an outside shed and ultimately expire.

Making Things Worse

Once the product is out of code or damaged, what happens next? Many companies implement a process to write off the merchandise. This way, they know where the product went and how much money was lost. However, this also begs the question of whether the process is followed, or if an overzealous employee cleans out the storeroom and throws away old product without writing it off?

Another problem is that many companies limit write-offs to a maximum each month of about $50, for example. While it may not be a written policy, it is often the unofficial policy because store operations do not want to take too big a "hit" to their profit and loss statement. Retailers optimistically think they can write off a little each month and eventually get rid of the unsellable product. But unless the real problems are addressed, the unsellable product sitting in the storeroom increases each month. In both of those cases, the loss eventually shows up as shrink.

What Can Retailers Do?

Here are eight suggested steps retailers can follow to "clean up" the storeroom and put money back on store shelves:

1 Establish a vendor return policy. If the product comes in damaged, notify the vendor and get credit immediately. Don't let damaged product sit in the storeroom with the intention of notifying the vendor.

2 Have clear write-off policies. Managers should check for outdated or damaged product and prepare a write-off slip. Once reviewed by store supervisors, the product should be disposed of immediately.

3 If there are formal or informal limits to the amount that can be written off each month, change this policy now. Once the product is unsellable, it should be written off.

4 Consider store sales and the store footprint when determining distributions (sometimes called force-outs) of product. For example, a store with a small back room or limited sales floor may be find it difficult to accept — and then merchandise — four Halloween candy displays, therefore turning that special promotion into profit loss.

5 Contact suppliers to determine if arrangements can be made for more frequent deliveries (just in time). Often a slightly higher delivery charge is minor compared to the loss of expiring products.

6 Track inventory turns and establish targets by category. Look for slow-moving product and replace it with something else.

7 Organize the storage areas so it is easier for store managers to see what's in the storeroom without wasting time "hunting" for products.

8 Communicate to employees that out-of-date products must be treated as if they were money. They cannot be taken home or simply discarded.

There is money waiting inside the storerooms. Don't let it go to waste.

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