

Inventory buying rules you should never break!

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Grow Your Business

presented by

Alan Friedman, CPA

Daniel Jobe

Friedman, Kannenberg & Company, P.C.





With so many inventory options to stock and so many places for customers to buy...how in the world do we **make money** selling inventory?



**“What” and “How Many” you buy depends ONLY
on your answers to these 4 questions:**

- Can I **sell** this product?
- Will I make a **profit**?
- How **quick** can I sell it?
- How fast will I have to **pay** my vendor for it?

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#1 Can I
sell this
product?



#2 Will I make a **profit**?

Selling Price	\$ 1,000	100%
Cost (incl. freight)	<u>(600)</u>	<u>60%</u>
Gross Profit	<u>\$ 400</u>	<u>40%</u>



#3 How
quick can
I sell it?

The answer...

as

soon as possible! Think in terms of 1-120 days (not 6+ months to sell)

Did you know a \$100 cost item becomes \$130 cost one year later??!!!!!!



#4 How
fast will I
have to
pay for it?





“ To sell it, at the highest gross profit, in the least amount of time, and never pay for it. ”



Alan's



**for buying
inventory**



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



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Alan's "Rule of Thumb"

Step 1 - Calculate your Gross Profit %

Selling price	\$800	100%
Cost of goods sold	<u>600</u>	<u>75%</u>
GROSS PROFIT	\$200	25%

Step 2 - Calculate the Days to Sell

No. of days in the year	360
(x) gross profit percent (%) per above	<u>25%</u>
# OF DAYS TO SELL THE PRODUCT	<u><u>90</u></u>

Step 3 - Now make the decision:

If you can sell it in **90 days or less, BUY IT!**

If you can't or aren't sure, **DON'T BUY IT!!!**



Fixing the Buying Mistakes you Just Made !

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Hey Alan & Daniel, you were right...I made a few buying mistakes and now I can't pay my vendors, my landlord or even my employees.

What am I **missing**?





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





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



Cost of goods sold	(\$ 600,000)
-----	-----
Avg. Inventory cost on hand	(\$ 300,000)

= Inventory turned “2 Times”

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



Gross Profit

(\$ 400,000)

Avg. Inventory cost
on hand

(\$ 300,000)

= GMROI of \$1.33

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



Most retailing experts
(across industries) suggest
a GMROI target of

\$1.50 or better

THE MUSIC STORE

SALES and INVENTORY ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 20XX

<http://www.fkco.com/gmroi-spreadsheet>

	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 instr.	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

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Need more help?



friedman kannenberg
and company pc

Contact **Meredith** after this seminar
to set up a meeting time

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ANY QUESTIONS?