Slide 1

MBA Strategies to Maximizing Inventory ROI

Phernell Walker, MBA, ABOM

Slide 2

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- Master in Ophthalmic Optics
- Master in Business Administration
- Bachelor of Science in Business
- Associate of Science in Opticianry
- Past Adjunct Professor – Pacific University College of Optometry
- ABO & NCLE Certified
- Author of text-book, *Pure Optics*
- Joe Bruneni Award in Optics, Association of Schools Colleges of Optometry
- Beverly Meyers Achievement Award in Ophthalmic Optics

Slide 3

Contact Information

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Slide 4

Agenda

- What is inventory?
- Inventory Management
- Merchandising
- Methods of Inventory Calculation
- Optical Inventory Benchmarks
- Best Practices

Slide 5

Business Plan

- Executive Summary
- Mission Statement
- Company Background
- Product Description
- Marketing Plan
- Competitor Analysis
- SWOT Analysis
- Operations
- Financial planning
- Timeline

Slide 6

Implement Your Plan

- Evaluate the frames currently in stock
- Vendor Expectations
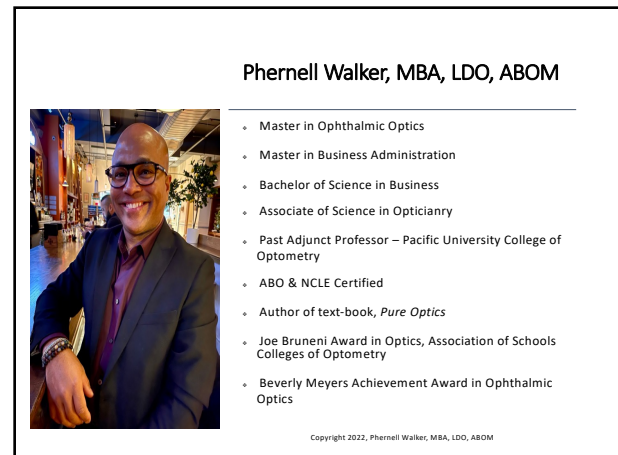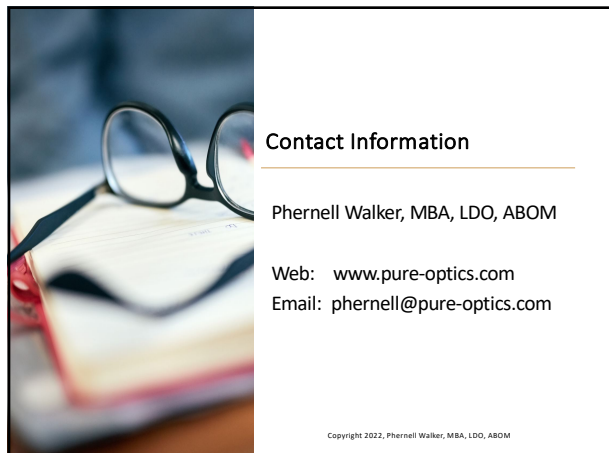- Inventory Mix
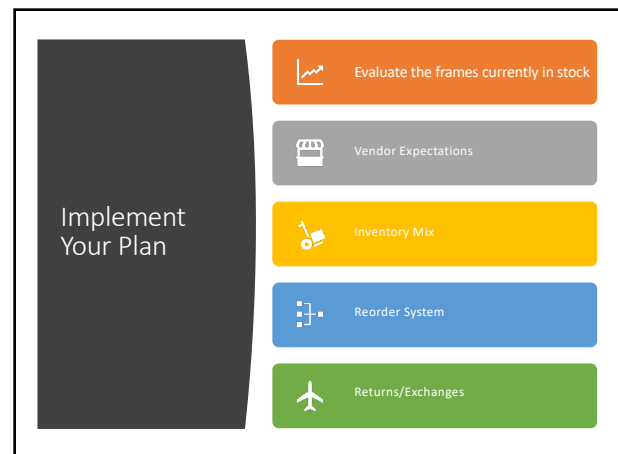- Reorder System
- Returns/Exchanges

What is Inventory?

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Evaluate Your Inventory

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DOGS and DISCO

- Free second
- Discount
- Build special price packages
- Vendor buy back
- Donate

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YOUR FRAME REP WORKS FOR YOU

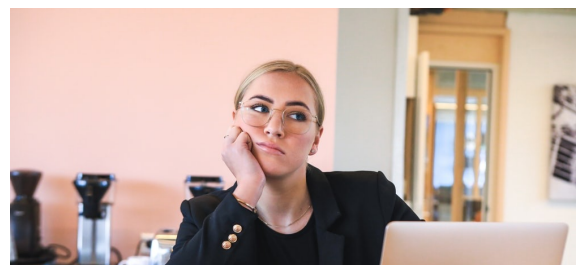| FIND	FIND A FRAME WHEN YOU NEED IT
OFFER	OFFER STAFF EDUCATION ON THEIR PRODUCT
SHOW	SHOW NEW PRODUCT
INFORM	INFORM YOU OF SPECIAL OFFERS
AGREE ON	AGREE ON HOW OFTEN THEY WILL SEE YOU

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PARTNERSHIP

VENDOR EXPECTATIONS

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Not This

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SET FRAME REP EXPECTATIONS

- BOOK APPOINTMENTS IN ADVANCE
- PHYSCAL COUNTS
- PULL DISCO FRAMES
- PULL FRAMES THAT HAVE NOT SOLD
- LEAVE A COPY OF THE RETURN AUTHORIZATION
- DO NOT SEND FRAMES WITHOUT APPROVAL
- BOOK THE NEXT APPOINTMENT

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INVENTORY MIX

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QUESTIONS TO ASK NEW VENDORS

WHAT DISCOUNT CAN YOU OFFER?	WHAT ARE YOUR RETURN/EXCHANGE POLICIES?	WHAT WARRANTIES DO YOU OFFER?
CAN WE GET FREE SHIPPING?	DO YOU OFFER TIERED BILLING?	DOES YOUR COMPANY OFFER CO-OP DOLLARS?

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REODRER SYSTEM

PHONE ORDERS: DAILEY – WEEKLY – MONTHLY   WAIT FOR THE REP APPOINTMENTS   ORDER AT SHOWS

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EXCHANGES AND RETURNS

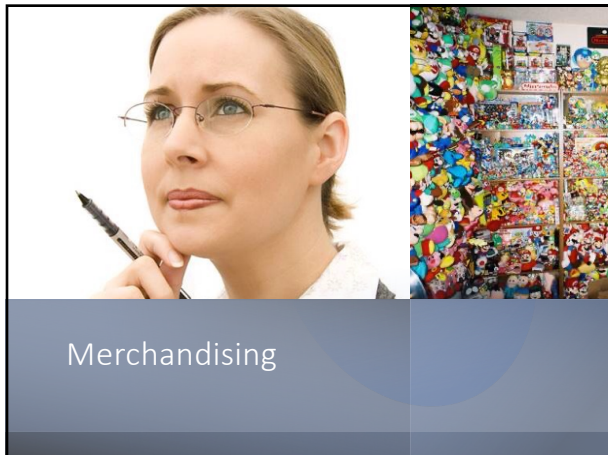EXCHANGE FRAMES ACCORDING TO YOUR PLAN   KEEP TRACK OF RETURNS

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FRAME MIX EXAMPLE

BOARD SPACE	MEN 30%	WOMEN 45%	KIDS 10%	SUN 15%
400	120	180	40	60
600	180	270	60	90
800	240	360	80	120

Adjusted based on MSA and patient demographics

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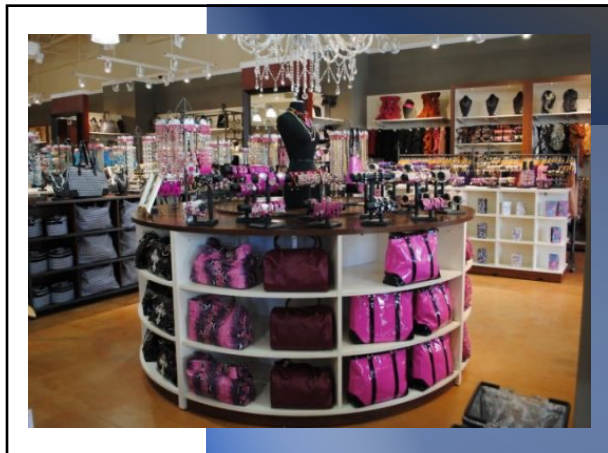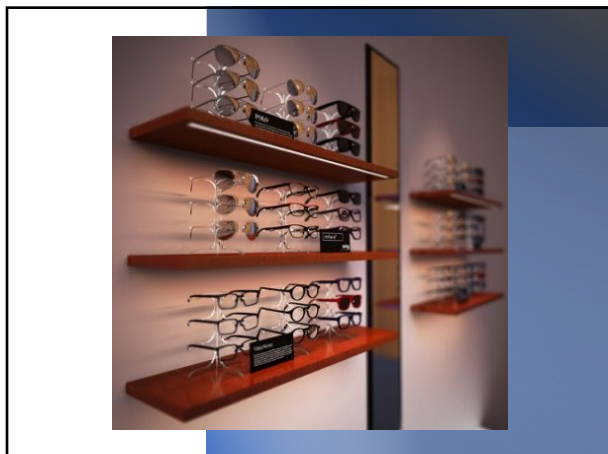Merchandising

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Would You Buy Frames Here?
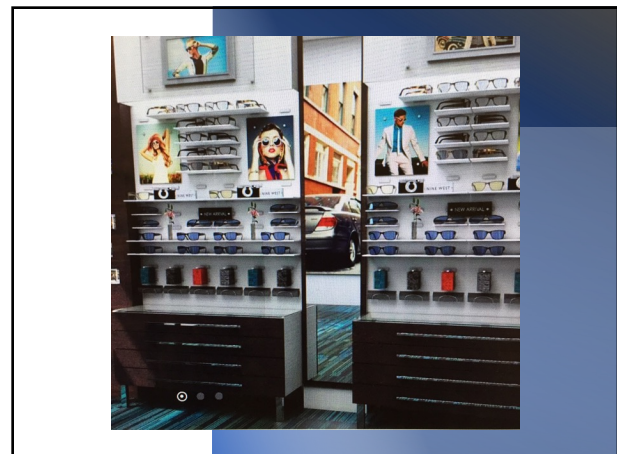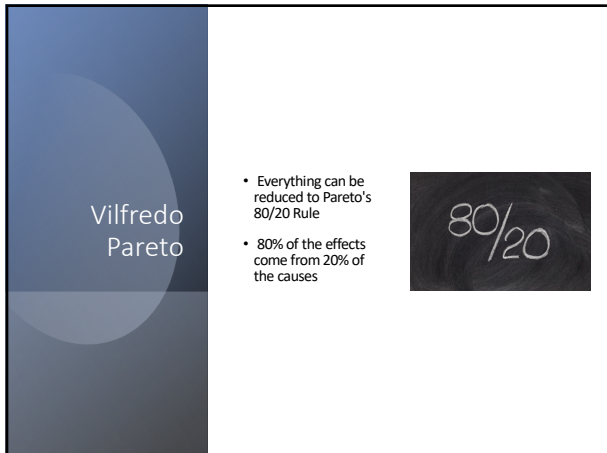
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WHAT IS "P.O.P." AND WHERE DO I GET IT?
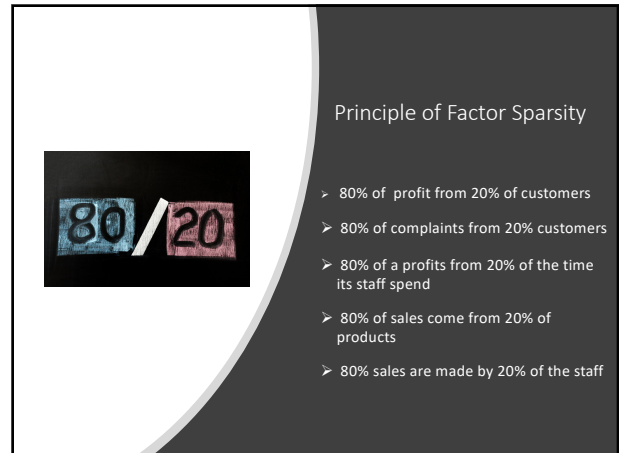
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HOW DO I ACHIVE THE PERFECT INVENTORY?

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Vilfredo Pareto

- Everything can be reduced to Pareto's 80/20 Rule
- 80% of the effects come from 20% of the causes

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Principle of Factor Sparsity

- 80% of profit from 20% of customers
- 80% of complaints from 20% customers
- 80% of a profits from 20% of the time its staff spend
- 80% of sales come from 20% of products
- 80% sales are made by 20% of the staff

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Analytics - Know Your Customer

- anticipate your customers wants and needs
- Ability to pre-determine inventory mix and count based on past results

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Inventory Essentials

- Unique Item Identifiers (UPC)
- Units of Measure (Qty)
- Assigned Cost of Goods (COG)
- Accurate Beginning Count
- Point of Sale Software for Tracking
- Established Inventory Policy
- Compliant Staff
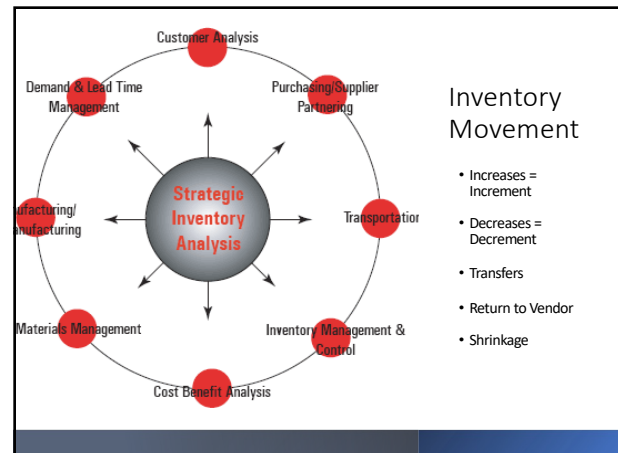- Organized Location Plan

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Why Track Inventory?

- Most Costly Investment
- Primary KPI
- Primary impact on P & L
- Determine Shrinkage

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Inventory Movement

- Increases = Increment
- Decreases = Decrement
- Transfers
- Return to Vendor
- Shrinkage

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Inventory Physical Counts

- What is the importance of Physical Counts?
- What is the best frequency to perform physical counts?

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Inventory Buying Methods

Assume that you purchase 100 frames at the beginning of the year for $45.00 each.

The total investment on those frames is $4,500.

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By the Numbers

If each frame was sold for $179.95 within a year, your gross profit on all 100 frames is $13,495.*

*See incredibly small legal sized print below for any attorneys that may be in the room.
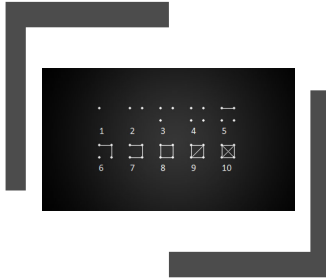
($17,995 revenue - $4,500 investment)

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COGS

The inventory investment costs a total of $4,500 to produce $17,995 in gross revenues in the course of one year.

Cost of Sales (COG) = $4,500.
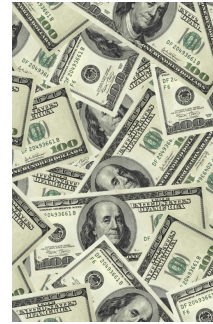
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Best Method

- Most efficient way to manage inventory
- Order 25 frames every three months vs. ordering the 100 frames at the beginning of the year.

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Bottom Line

The initial investment for the inventory was reduced from $4,500 to $1,125 (that is 25 frames x $45

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Common Misconception

- A common purchasing misconception is that
- *"frames don't really have a shelf life."*

- Nothing could be further from the truth!

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Physical Inventory Count Sheet

Sheet No.			Date		
Performed By			Department		
Inventory No.	Item Description	Purchase Price	Quantity	Location	

What About Consignment Inventory?

- Consignment Inventory does not have a Cost of Goods

- The COG's will be assessed once the inventory in physically decremented

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Revenue / Avg. Inventory = T.O.

- Revenues
- Avg. Inventory
- T.O. = Turn Over

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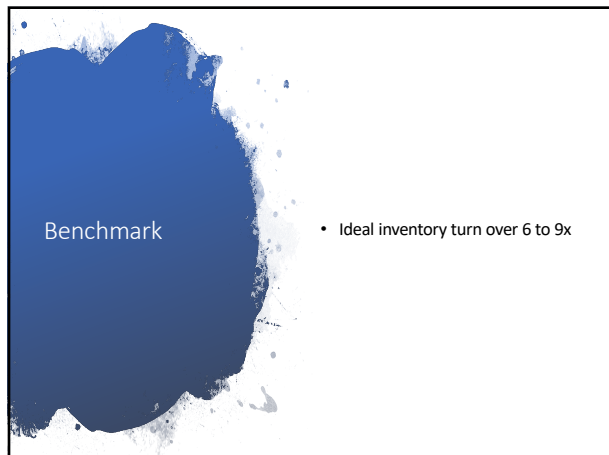Frame Rev. $66,000 (in 3 months)

Valuation $42,000 / 3 = $14,000

Turn Over = 4.71

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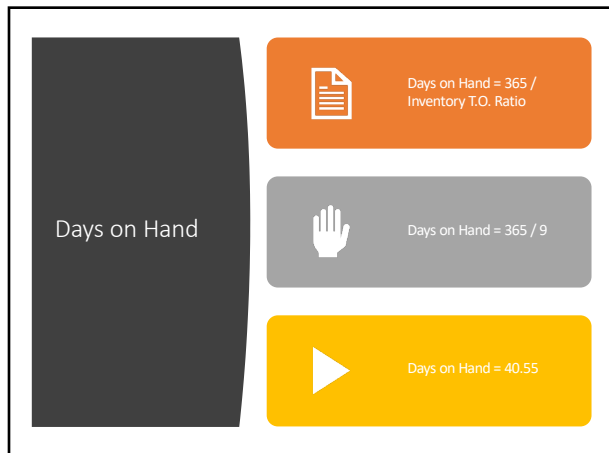## Benchmark

- Ideal inventory turn over 6 to 9x

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Inventory Days on Hand

Days on Hand = 365 / Turn Over

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Days on Hand

Days on Hand = 365 / Inventory T.O. Ratio

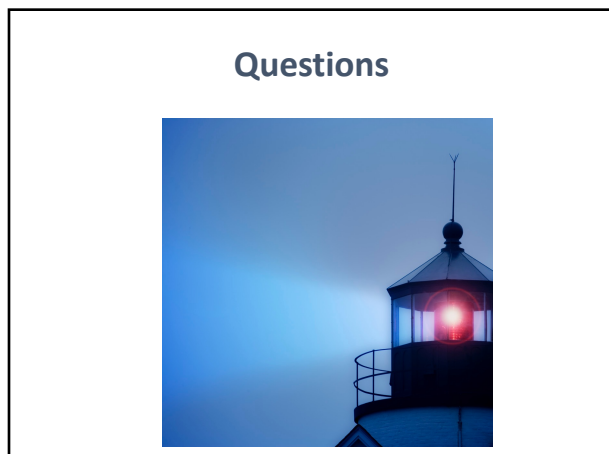Days on Hand = 365 / 9

Days on Hand = 40.55

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GMROI

GROSS MARGIN DOLLARS / AVERAGE INVENTORY COST = GMROI

GROSS MARGINS ON FRAMES = $140.00 (AVG). X 500 FRAMES

AVERAGE INVENTORY COST OR VALUATION (MONTHLY) = $35,000

70,000 / 35,000 = 2 (NOT A TRUE 3 TIMES MARK UP)

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Questions

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