

Smart stock sell-through



How many of your business purchase decisions are based on analysis and how many on gut feelings? asks Alex Davis

Probably 54 per cent of NEG members reading this article do not carry out proper statistical analysis to help in making frame buying decisions. I quote 54 per cent because this is the number not measuring frame stock turn in a recent survey of practitioners undertaken by Stepper in the UK*. However, the fact is that analysing stock sell-through, measured in stock turn, is the only way to make informed purchase decisions, meet customers' needs over time and maximise profitability.

Feel free to buy frames based on what you like – as long as you like them because they meet customer's needs, have a good stock sell-through and generate a good profit. You cannot afford to 'like' a frame for any other reason. Emotion, aspiration, instinct, sympathy or coercion have no place in frame buying.

A rational, analytical approach to stock and buying will make a significant improvement in your business. Having worked in a business with up to 150 practices, I know the positive impact proper analysis of frame sales can have on the bottom line. This impact can happen very quickly. It requires a little time and a lot of discipline.

MEASURING STOCK SELL-THROUGH

To effectively measure stock sell-through, you need to consider what you want to get out of any analysis. I've read of ideal stock turns of four per year. If you knew this for your practice, what would be the value of this information to you? I'd argue: not a lot. OK, so it might go up over time and you're doing well. Or, it might go down and you're not doing so well.

Stock sell-through figures are as individual as a practice. This is nice to know but of limited value for decision making. What is important to you is relative stock sell-through of different products and how this is moving over time. But relative to what? You need to decide what you want to



Choose frames you like because they meet your customers' needs

measure. Measure meaningful groups of frames that you can compare the sales performance against within your practice. This will, in turn, influence how you organise and merchandise your frame product. It's a great discipline, which also helps your staff and your customers understand your frame offering.

The following is a simplified example of measuring stock turn:

1. Plan your frame showroom into key frame areas (categories) to allocate relative frame stock levels.
2. It is most useful to calculate this using your merchandising system so your final stock plan makes sense within the showroom. Most systems are arranged in 'drops' of approximately 14.
3. If you have 30 drops, this gives you an ideal stock level of $14 \times 30 = 420$.
4. From this, you will need to carve up your drops into key categories, with stock weighted depending on the nature of your practice. Typical categories are: children and teens, voucher, women, men, designer and rimless.

EXAMPLE: WOMEN'S STEPPER PLASTIC

Let's take the women's category as a worked example. Say of the 30 drops, six are allocated to women. Of those six drops, one

is Stepper. There are, therefore, 14 pieces of Stepper to monitor. In this case, I would recommend dividing the stock into seven metal and seven plastic. As the characteristics and appeal of metal and plastic are different, the relevant stock turns need to be measured. We will look at plastic.

Each category, drop and sub group needs to be measured.

- Category: Women's
- Drop: Stepper
- Sub-group: Plastic

As you sell a women's Stepper plastic, make a note on a spreadsheet (preferably electronic). At the end of each day, reorder by what you have sold. If you sold two women's Stepper plastics, reorder in this sub-group (it doesn't need to be the same model, just the same category/drop/sub-group). Repeat this process daily, making a note on your spreadsheet and re-ordering to maintain the sub-group of seven.

At the end of three months analyse your results. Let's say in this period you sold five women's Stepper plastic frames. As you sold each one, you replenished your stock so your stock level of this sub-category remains seven. Now you can begin to analyse stock turn and project your three months results



Model SI 30888 from the latest Stepper collection for women

into an annualised stock turn. Sales in three months (one quarter year) would equal 20 sales in a year (five x four quarters).

A stock turn is given by dividing the annualised sales for this sub-group (20) by your maintained stock level for this sub-group (seven) – so $20/7$. The projected annualised stock turn for this sub group is, therefore, 2.89. Make a note of this figure and as each quarter ends, repeat this exercise. This will allow you to compare quarterly performance and see whether it is improving or worsening. As each quarter builds, you will develop a more robust stock turn figure.

PITFALLS AND MAXIMISING RESULTS

If you run promotional activity such as a sale, be aware that this will potentially affect your stock sell-through; increasing it but at a commercially detrimental price, possibly causing a switch sale from a frame that would have sold on its own merits at full price. You will need to be aware of this and make an allowance for it.

Where analysing stock sell-through begins to add value within your business is when you compare all your sub-groups. It is the comparative data that is important to you as a business tool. To help analyse figures, sort them into highest to lowest stock turn order. Now you have a true insight into how your frames are performing. You may have some very revealing surprises.

You can now look at your under and over-performers and make some important decisions. Under-achieving frames are the weakest performers in your practice. You need to ask yourself why you are stocking them in such high quantities, or stocking them at all. This can be a harsh, or disappointing revelation, but the correct action needs to be taken.

Star performers are the stars in your practice, but you need to look at why. Did you have very low stock levels during this period? Whatever you discover, it is most likely that you need to increase your stock of these frames. However, be strict and work on a one in, one out basis. You can only increase in this area as you decrease your under-performers.

There's one more element to add to this equation. How much profit did these sub-groups generate? This needs to be shown in relation to stock sell-through. For example:

- Sub-group: Women's Stepper plastic
- Average stock: seven pieces
- Value: £245
- Average profit per piece: £70
- Stock: seven
- Stock turn: 2.89
- Profitability per annum: £1,416.10

The above example shows that the stockholding cost of generating £1,416.10 of profit per annum is £245. For comparative purposes, this needs to be seen as a ratio of: $£1,416.10/£245 = 5.78$, with 5.78 being the comparative figure. From this, you can look at the relative profitability of all the sub-groups within your practice. The higher this figure, the better. Include this profitability score in your sub-groups analysis tables to assist you in your stock turn analysis. You will tend to find these are closely related.

FINAL HINTS AND TIPS

So, to maximise stock sell-through:

- Organise your stock into meaningful categories, groups and sub-groups
- Once organised, maintain stock numbers in these groups
- Measure sales and review every three months
- Identify under-achievers and star performers
- Take action by increasing or reducing frame sub-group stock profiles in accordance
- Be mindful of the profitability of sub-groups

In following the above guidance, you will be successfully analysing stock sell-through

and the relative profitability you need to manage your stock as you move forward. Many suppliers offer a next day delivery service so you can replenish stock as you go along. This is most helpful when trying to manage your stock in this way. Replenishing 'just in time' also helps with cash flow.

It's good to see sales representatives from frame companies so you can evaluate new styles and keep abreast of current trends and developments. But, give your star performers priority when organising sales visits from frame companies. Your stock plan will also help you remain focused on the needs of the business, rather than just buying what you want.

Above all, good business information is everything and your business is unique. Understand the facts and figures for your business and work with knowledge not instinct.

* Stepper (UK) online customer survey, November 2016, and telephone/visit survey December 2016.

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STEP IN THE RIGHT DIRECTION

From a sample of Stepper customers in the UK*, we asked questions regarding stock sell-through in a recent online survey. Although a surprising proportion (54 per cent) admitted to not measuring stock sell-through, for those who did, Stepper performed particularly well.

It was good news for Stepper, as 65 per cent noted the Stepper frames were measured to be either the best or among the best frame collections for stock turn. Then when making buying decisions, 50 per cent said that stock sell-through was very important in deciding to buy Stepper. For the remaining 50 per cent, this was quite important.

Fifty per cent of respondents ordered frames as they sold them in preference to waiting until they saw a frame representative. In addition, we discovered an average Stepper stock turn of three, with individual practices managing a stock turn as high as 4.5 for Stepper products.