

Developing an Inventory Plan for a Retail Jewelry Store ... by Abe Sherman

This article assumes you have already determined your company’s *total* inventory budget and have a well-developed Inventory Hierarchy. The next steps in the planning process will be to allocate that budget by department, category (or subcategory) and price point.

Each department of your store contributes to sales and gross profit in different amounts and each, therefore, should have its own budget. Contained within a department are categories and sometimes sub-categories. Also, price points perform differently from one category to the next; therefore, your plan will call for different allocations by price. Finally, margin will vary from price point to price point as well as one category to the next so the plan must take into account each of these variables.

There are basically two options for creating your budget; you can create a budget by using turnover (or turn) or GMROI (Gross Margin Return on Inventory). When using turnover, your budget will consider the Cost of Goods Sold (COGS) over the previous 12 months. When using a GMROI goal, your budget will consider Gross Profit, also over the previous 12 months. Due to the fact that gross profit percentages differ widely from category to category and from price-point to price-point, I am a strong believer in creating your budgets using GMROI, since your gross profit is going to dictate your investment.

GMROI is actually a measurement of the combination of turnover and gross profit margin, and there is a direct relationship between those two numbers. As gross profit decreases, turns must increase in order to maintain the same return on your investment. Take the example of the supermarket, which works on low margins, but turn their inventory turns many times. This combination, low margin-high turn, is exactly the opposite of jewelry’s high margin-low turn model. The result of these two metrics, turn *and* margin, produces your gross margin return on inventory, or GMROI. Once it is understood how simple GMROI is to calculate, most people would prefer to use *it*, rather than a turn goal, to create their inventory budgets.

Take these two categories for example. Sales are nearly identical, but the cost of goods sold (COGS) is nearly \$20,000 higher for *Dia Stud Ear* than it is for *Dia Semi-Mt Ring’s*. The COGS is *higher* because gross profit margin is *lower*. The difference is in the margin, 52% compared with 43%, which is commonplace within your categories and as you will see, even occurs within the same category, but by price point.

Figure 1

Category	SALES			COST OF GOODS		INVENTORY			Turn	PROFIT		
	Sales	Units	Avg Ticket	Cost	Avg Cost	Cost Onhand	Units	Avg Cost OH		GP\$	GP%	GMROI
Dia Semi-Mt Ring	\$251,497	94	\$2,676	\$120,384	\$1,281	\$157,762	146	\$1,081	0.76	\$131,113	0.52	\$0.83
Dia Stud Ear	\$250,124	110	\$2,274	\$141,909	\$1,290	\$65,836	67	\$983	2.16	\$108,215	0.43	\$1.64

Should your budget call for just a one-time turn, you may see the benefit of simply using COGS to determine your budget; \$120,000 for *Semi-Mt’s* and \$142,000 for *Dia Stud Earrings*. However, when you look to the numbers in the right-hand columns, GP\$, GP% and GMROI, you’ll find additional information that may influence that decision.

While *Sales* are nearly identical, this jeweler is generating \$131,000 in gross profit in *Semi-Mt's* compared with \$108,000 in *Dia Stud's*. Now take a look at the inventory they are carrying in order to produce that gross profit. There is currently \$66,000 of *Dia Stud* inventory, which is generating \$108,000 of GP. In other words, for each dollar owned (\$66,000), \$1.64 of gross profit is being generated. It is *this* relationship, gross profit dollars compared with current inventory, which produces GMROI. Simply stated: **How much gross profit are we generating for every dollar of owned inventory we have?**

Each of these categories is producing near identical sales, but the performance results are quite different. For every dollar we own of *Dia Semi-Mt's*, we are generating 83 cents of gross profit. However, in our *Dia Stud's*, we are generating \$1.64 of gross profit for every dollar we own. As you study what is happening here, you will see the relationship between turnover and margin. *Semi-Mt's* has a relatively high margin, but low turns while *Dia Stud's* have a relatively low margin, but much higher turnover.

When developing your inventory budgets, if you wanted to set a GMROI goal of \$1.00, for example, you would need to lower your inventory in *Dia Semi-Mt's* to \$131,000, while you could raise your *Dia Stud* inventory to \$108,000 to achieve the same GMROI result. You can see why you may want to drop your semi-mount inventory down to improve your return on investment, but does it make sense to increase your diamond stud inventory by more than \$40,000? Not necessarily. In fact, this is an excellent example of why your GMROI goals will likely be different in different categories. Diamond studs are expected to turn much higher than semi-mounts and therefore higher GMROI can be expected, which should be your goal. When we 'drill down' into this data further we will be looking at each category by price-point. *It is at the price point level where the opportunities will be found and where the decisions of inventory planning will be made.* In fact, it will be at the Category/Price Point level where you will decide how much GMROI you will need.

Thinking Retail

Professional merchandisers never mark up from cost – they buy into a retail price point while hitting their margin goals. This is a very important distinction. Independent retailers typically use a range of mark-ups depending on the cost of an item and the category; loose diamonds margins are going to be very different than sterling silver margins for example. The problem with this is the inventory is going to have prices all over the board, and more significantly, *there is no planning taking place to organize your budgeting or buying.* It is not practical to create a merchandising plan when you are using a mark-up-from-cost strategy.

A mark-up strategy leads to odd prices

Take for example three different diamond pendants – the first costs \$195, the second costs \$200 and the third costs \$205. If a 2.5 markup (60% GP) is used, the item that costs \$195 will have a retail of \$487.50 and the \$200 item will be priced at \$500 retail, whereas the item that costs \$205 will retail for \$512.50. Do you really think that \$487.50 or \$512.50 are "good" retail price points? *When pricing from retail*, however, your buyers are looking for items that will retail for, say, \$499 with their goal to achieve a 60% overall gross profit margin. Each of these items would therefore *retail for the same price*, in this case \$499 (or \$500 if you don't like ending your prices in 99's). No one ever *plans* to carry inventory that retails for \$487.50; this result happens by using a calculator, not a merchandising plan.

In fact, with the rollercoaster prices of metals and melee we have been experiencing over the past few years, these cost swings can happen with a single item within several months! The result is you will have the same or similar items in your showcases with retail prices that make no sense to the consumer. For multi-store operations, this problem will be exacerbated as the number of scenarios for re-ordering the same item on different days into different stores will make pricing a nightmare. When you begin with the retail price, establish a gross profit goal and buy the items within the category price-point to hit that retail, the only thing you'll have to monitor is the increases and decreases of the cost of goods.

When metal prices increase significantly, you will have to make some decisions relative to the gross profit in each of your price points. How much of an increase in the cost of goods can you stand before you have to raise your retail prices? Obviously as cost of goods goes up, gross profit goes down, assuming the retail price is left unchanged. When developing your merchandise plan, however, the price points will not change, but the merchandise carried within each price point may have to move to different price points.

Let's say that the diamond pendants we used in our example above were purchased at \$1,500 gold a year ago and that gold is now approaching \$1,900. The current replacement cost of that pendant is now \$225, and using the same 60% GP, your retail would be \$562.50. As a merchandiser you have to make a decision about what to do with that item. Will you accept a lower GP and keep its retail at \$499, or will you raise its price? And if you raise the price of that item, what price will you make it? Will it be \$562.50 according to a 2.5 markup, or will it be moved to another key price point, such as \$599?

These decisions are going to be made on a case by case basis. With items that are competitively shopped (whatever the hot styles of the day are), you may want to keep the \$499 price and accept a lower margin. Other items will be marked up to a new price point. The distinction between these two decisions will be based on how shop-able the item is, how competitive you want to be and the perceived value of the item.

Perceived Value

Perceived value is a tough thing to grasp when you are dealing with jewelry because jewelry is a blind item. There are too many variables with jewelry. Two pieces can look the same, but slight changes in the gold weight, melee weight and gemstone qualities can make significant differences in the prices of the two items. Only by putting this inventory side-by-side can the consumer compare the items. Perceived value isn't a theory – and with the movements in metal and melee prices, it will be necessary to periodically review your inventory for perceived value. Items that sell very well at \$500 can stop selling when priced at \$750. The difference in performance is because of perceived value – the customer just doesn't see that item as being worth \$750. Being sensitive to the salability of an item as its price changes is an important job of the merchandiser/buyer.

Aged Inventory and Perceived Value

Later in this article, we will provide a link to a video we created to explain re-merchandising current inventories. Owned inventory is usually priced at the time of purchase but too often the price isn't changed relative to current cost. Price volatility will be evident as new merchandised is purchased, however, older inventory sits in the showcases alongside the new product. Because the older merchandise was likely purchased at lower metal prices, comparisons have to be made between the older and newer product.

The re-merchandising video address the issue of perceived value, comparing the aged inventory with newly purchased merchandise and how to re-adjust the perceived value. Just because an item is aged, doesn't mean we have to put it on sale! It also doesn't mean we will *automatically* raise the price to coincide with current replacement cost. Aged inventory is an opportunity to fill in the holes you may in your merchandise plan; some items will increase in price while other items will decrease in price. You already own the merchandise, some of it for quite some time... the re-merchandising process will help you utilize this inventory more efficiently.

Drilling Down Into Price Points

It is vital to see how each category performs at the *price point level*. You should be thinking about two things: Which price points are our customers already buying and which price points are opportunities to grow sales.

In Figure 2 below, we show a sample of Dia Semi-Mt's with 18 retail price points. Notice that each price point has been assigned a gross profit goal. It is up to the merchandiser/planner to develop an overall gross profit goal for the company. Then the overall gross profit goal has to be allocated into each of the departments and categories within each department. The last level of planning is the price point within the category.

Generally, as the retail prices increase, margin decreases. Figure 2 below is merely an example of what the beginning of the planning process looks like. You will be determining your retail prices and gross profit margins; although these price point examples should be adequate for most businesses. Also, we have two versions of this exercise. The first version will allocate a gross profit margin by price point across *all categories* within a department. The second, which we will look at later on in this article, has a gross profit margin specific to *each category and each price point*. But let's get the basics down first.

What you see below is a grid showing the retail price points, a GP% and an average cost. We call this process the *Inventory Planning Model™* (IPM), which has been developed for you in Excel. You can easily adjust your retail price points, gross profit margins and quantities based on your company's goals. Contact us for a free copy of the Inventory Planning Model™ by emailing info@bigjewelers.com.

One of the biggest challenges jewelers have is buying without a plan. The IPM was intended to create a *structure* to your planning process, but it is not expected to handle anything outside of your core merchandise. Branded lines will typically have their own budgets, as will very high-end merchandise. However, for the bulk of your every day product, this process will give you all of the structure you need. (I will address how to use this when dealing with brands later in the article.)

When you increase gross profit margin, the Average Cost of the item will drop. If this seems obvious please keep in mind that many people who haven't done this job before are not familiar with the relationship between retail, gross profit and cost of goods sold.

The fundamentals of a merchandise plan

Figure 2

		Dia Semi-Mt Ring			
		GP%	AV COST	QTY	BUDGET
\$	299	55.0%	\$135		\$0
\$	399	53.5%	\$186		\$0
\$	499	53.5%	\$232		\$0
\$	599	53.5%	\$279		\$0
\$	699	53.5%	\$325		\$0
\$	799	52.0%	\$384		\$0
\$	899	52.0%	\$432		\$0
\$	999	52.0%	\$480		\$0
\$	1,299	52.0%	\$624		\$0
\$	1,499	52.0%	\$720		\$0
\$	1,599	52.0%	\$768		\$0
\$	1,799	52.0%	\$864		\$0
\$	1,899	51.5%	\$921		\$0
\$	1,999	51.0%	\$980		\$0
\$	2,499	51.0%	\$1,225		\$0
\$	2,999	51.0%	\$1,470		\$0
\$	3,499	51.0%	\$1,715		\$0
\$	3,999	51.0%	\$1,960		\$0
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Creating a Budget


Let's revisit the data in Figure 1. *Diamond Semi-Mt Rings* sold just over \$120,000 at cost and generated roughly \$131,000 in gross profit dollars. Here is where your first decision has to be made; do you want to use a *turn* goal or a *GMROI* goal? This isn't something you should take lightly just because it's easier to calculate inventory turns. I recommend you use gross profit to start your goal setting/inventory planning process. Currently, this store is generating 83 cents of gross profit for every dollar they own in inventory.

While you may find it enticing to set a GMROI goal of \$1.50, for example, but I wouldn't recommend it... at least to begin with. Your merchandise plan has to be practical or no one is going to implement it. It would be very difficult to double the return on investment in a short period of time (less than a year), so why set yourself (or your team) up for failure. Furthermore, I know that this category requires more inventory than, say, Diamond Studs will, so I don't expect my return to be as high. Because this process should be achievable as well as practical, in this case, I'm going to recommend that our GMROI be \$1.00. In simple terms, it means that our inventory should be equal to our gross profit; in this case our inventory goal will be approximately \$131,000. Given that we have about \$158,000 currently in stock at cost, we are only \$27,000 overstocked.

Once we have our inventory goal (in this case \$131,000), the next steps are to allocate that budget by price point. The next step in the process is to examine sales in dollars and units by price point for this category.

Figure 3 shows this store's Sales, Cost of Goods Sold and Gross Profit and GRMOI by price point.

Price Point Analysis Report for BIG					
Categories: Dia Semi-Mt Ring					
Price Point	SALES	COST OF GOODS	PROFIT		
	Units	Cost	GP\$	GP%	GMROI
\$300-\$400	0	\$0	\$0	0.00	\$0.00
\$400-\$500	2	\$350	\$560	0.62	\$0.00
\$500-\$600	1	\$180	\$342	0.66	\$0.00
\$600-\$800	4	\$552	\$2,225	0.80	\$0.00
\$800-\$1000	2	\$800	\$991	0.55	\$2.48
\$1000-\$1500	10	\$4,811	\$7,131	0.60	\$4.90
\$1500-\$2000	12	\$8,784	\$11,627	0.57	\$2.63
\$2000-\$2500	13	\$14,986	\$14,220	0.49	\$2.55
\$2500-\$3000	17	\$20,750	\$25,606	0.55	\$1.13
\$3000-\$4000	20	\$33,491	\$34,341	0.51	\$1.44
\$4000-\$5000	7	\$16,268	\$15,309	0.48	\$0.35
\$5000-\$7500	5	\$15,377	\$13,467	0.47	\$0.28
\$7500-\$10000	1	\$4,035	\$5,295	0.57	\$0.79
Totals	94	\$120,384	\$131,113	0.52	\$0.83
Price Point	Units	Cost	GP\$	GP%	GMROI
		COST OF GOODS	PROFIT		

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When we think of Sales, we usually think about sales in the terms of *dollars*. The most productive price point for this store is \$3,000-\$4,000 for this category and it also happens to be the top producer by units sold. It's interesting to see the pattern of sales, especially when you look at it by units. Unit sales are very important to study, since this is telling the story of where your customers are spending their money in each of your categories. As you can see in Figure 3, sales under \$1,000 are pretty weak. Most of the business is being done between \$1,000 - \$4,000, and then sales drop off significantly once we get over \$4,000. Over \$7,500 this store sold only one item.

In and of itself, this information is useful, albeit incomplete. What we don't know by only looking at *sales* is what our merchandise selection looks like in this category. It's important to know what our merchandise selection was to make sure we had enough of a selection in the price point. Without inventory to choose from, your customers aren't going to buy anything, so few sales will be reflected. In order to see the entire picture, we need to expand our data selection and look at everything.

Most people look at the *overall performance of a category which can be very misleading* in terms of problems as well as opportunities. A buyer may be happy with an overall GMROI of 83 cents in the Dia Semi-Mt category – however, look at how this store is doing within the individual price points. For example, the \$1,000-\$1,500 price point is providing nearly \$5.00 of GMROI, which is much too high! As a general rule, when GMROI approaches \$1.50, you should be looking for growth opportunities, when GMROI approaches \$2.00, feed the category. At \$5.00, as in this example, the category/price point is screaming for inventory! Increasing inventory in this price point will increase sales immediately.

Figure 4

Price Point Analysis Report for BIG												
Categories: Dia Semi-Mt												
Price Point	SALES			COST OF GOODS		INVENTORY			TURN OVER	PROFIT		
	Sales	Units	Avg Ticket	Cost	Avg Cost	Cost On Hand	Units	Avg Cost OH		GP\$	GP%	GMROI
\$300-\$400	\$0	0	\$0	\$0	\$0	\$150	2	\$75	0.00	\$0	0.00	\$0.00
\$400-\$500	\$910	2	\$455	\$350	\$175	\$0	0	\$0	0.00	\$560	0.62	\$0.00
\$500-\$600	\$522	1	\$522	\$180	\$180	\$0	0	\$0	0.00	\$342	0.66	\$0.00
\$600-\$800	\$2,777	4	\$694	\$552	\$138	\$0	0	\$0	0.00	\$2,225	0.80	\$0.00
\$800-\$1000	\$1,791	2	\$895	\$800	\$400	\$400	1	\$400	2.00	\$991	0.55	\$2.48
\$1000-\$1500	\$11,942	10	\$1,194	\$4,811	\$481	\$1,454	5	\$291	3.31	\$7,131	0.60	\$4.90
\$1500-\$2000	\$20,411	12	\$1,701	\$8,784	\$732	\$4,417	8	\$552	1.99	\$11,627	0.57	\$2.63
\$2000-\$2500	\$29,206	13	\$2,247	\$14,986	\$1,153	\$5,573	8	\$697	2.69	\$14,220	0.49	\$2.55
\$2500-\$3000	\$46,356	17	\$2,727	\$20,750	\$1,221	\$22,566	27	\$836	0.92	\$25,606	0.55	\$1.13
\$3000-\$4000	\$67,832	20	\$3,392	\$33,491	\$1,675	\$23,877	23	\$1,038	1.40	\$34,341	0.51	\$1.44
\$4000-\$5000	\$31,577	7	\$4,511	\$16,268	\$2,324	\$43,910	37	\$1,187	0.37	\$15,309	0.48	\$0.35
\$5000-\$7500	\$28,844	5	\$5,769	\$15,377	\$3,075	\$48,745	32	\$1,523	0.32	\$13,467	0.47	\$0.28
\$7500-\$10000	\$9,330	1	\$9,330	\$4,035	\$4,035	\$6,670	3	\$2,223	0.60	\$5,295	0.57	\$0.79
Totals	\$251,497	94	\$2,676	\$120,384	\$1,281	\$157,762	146	\$1,081	0.76	\$131,113	0.52	\$0.83
Price Point	Sales	Units	Avg Ticket	Cost	Avg Cost	Cost On Hand	Units	Avg Cost OH	TURN OVER	GP\$	GP%	GMROI
				COST OF GOODS		INVENTORY				PROFIT		



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Figure 4 is an expanded view of the same data and shows Sales, Cost of Goods Sold, Inventory On Hand, Turnover and Profit, including GMROI for every price point under Dia Semi-Mt's. For example, you can see that under \$1,000 retail, this store sold a total of 9 items, but currently there is only one on hand (the 2 items that cost \$75 each are just solitaires and don't mean too much). Does it make sense that we have so few sales in the under \$1,000 price points? No. Clearly we are under-inventoried in these price points.

However, when we look at our inventory relative to our sales in the \$5,000-\$7,500 price point, we see we have roughly 6 years worth of inventory in stock! Do you think this company planned to have 32 semi-mounts with only 5 sales? Again, the answer is no. Conversely, we see a much healthier inventory balance in the \$3,000-\$4,000 where the store sold 20 and they have 23 on hand. I doubt this company's buyers *planned* to be out of stock in the <\$1,000 price points. I doubt also that they *planned* to have 6 years worth of inventory in stock in the \$5,000-\$7,500 price points. However, without the development of a specific plan, their merchandise selection will never reflect consumer activity nor will they be able to grow sales in the price points that are under-inventoried. You can't sell from an empty apple cart and if all of your money is tied up in non-performing inventory, you won't be able to buy more apples!

Remember, the data in Figure 4 demonstrates the good, the bad and the ugly of analysis at the *category level*, relative to *key performance indicators* and *why analysis at the category level isn't sufficient*. Margin is okay at 52%, and we know our GMROI is just fair at 83 cents, but as we drill down into the *price point levels*, we see where our problems (and opportunities) are.

We understand that semi-mounts require a significant investment and that our turnover in this category is going to be a challenge. However, we can also see by the performance exactly where our customers are spending their money and where we need more (and less) inventory. As you develop your merchandise plan, it is at *this level* – category/price point, where you will be allocating (in this case) your \$131,000 budget goal.

After determining your budget and analyzing the price points, the next step is to fill in the *Inventory Planning Model™* for that category. You should also have a *gross profit goal* for each of the price points within this category, in addition to the GP goal for the category. As you look at the price points in Figure 5, you will see more price points in the inventory plan than appear in the analysis above. That’s due to our segmenting some of the price ranges in the analysis report into more incremental price points. For example, in the analysis, we were looking at sales between \$1500-\$2,000, which appear in our plan as \$1,299 & \$1,499. A single *price range* in our analysis may have *more than one price point* assigned to it.

Figure 5 is an example of how to allocate your budget by price point, margin and number of SKU’s.

Figure 5

		Dia Semi-Mt Ring			
		GP%	AV COST	QTY	BUDGET
\$	299	55.0%	\$135	3	\$404
\$	399	53.5%	\$186	3	\$557
\$	499	53.5%	\$232	5	\$1,160
\$	599	53.5%	\$279	5	\$1,393
\$	799	52.0%	\$384	6	\$2,301
\$	899	52.0%	\$432	6	\$2,589
\$	999	52.0%	\$480	6	\$2,877
\$	1,299	52.0%	\$624	9	\$5,612
\$	1,499	52.0%	\$720	9	\$6,476
\$	1,799	52.0%	\$864	6	\$5,181
\$	1,999	51.0%	\$980	12	\$11,754
\$	2,499	51.0%	\$1,225	12	\$14,694
\$	2,999	51.0%	\$1,470	12	\$17,634
\$	3,499	51.0%	\$1,715	9	\$15,431
\$	3,999	51.0%	\$1,960	9	\$17,636
\$	4,999	51.0%	\$2,450	6	\$14,697
\$	7,999	51.0%	\$3,920	2	\$7,839
\$	9,999	51.0%	\$4,900	2	\$9,799
©2012 BIG			122		\$138,033

This merchandise plan is comprehensive and very specific. It reflects how the consumers are spending their money and gives us a roadmap for which price points we want to stock, what our margin goals are and how to keep our budget in line. As you can see, this plan calls for \$138,000 in inventory, but our budget was for \$131,000! I did this on purpose to demonstrate the nature of planning. If you are going to force yourself to adhere to strict budgets based on GMROI, you may want to carve out another \$7,000 from this plan.

However, remember that this store currently has nearly \$158,000 in stock and you would have some work ahead of you to make adjustments in the inventory mix. The biggest challenge in the planning process isn't building the merchandise plan, nor will it be buying new merchandise, but will be dealing with existing inventory. Once you have a plan in place, speak with your suppliers to see if any stock balancing can help get you to your plan. With the right inventory in the right price points in the right stores, sales will increase. As sales increase, you will be ordering more merchandise *in those price points* and be a better customer!

Variance from Plan

It shouldn't take more than a couple of hours to create a budget and merchandise plan for each category – the *Inventory Planning Model™* is very easy to fill out. After creating your merchandise plan, you're on-hand inventory isn't going to match the plan; it never does. But before you start buying new inventory, you're going to use the inventory you *own* to fill in the plan! Click on this link to review the video on how to re-merchandise your on-hand inventories: www.bigjewelers.com/balance-to-buy/

This video will demonstrate how to line up the inventory you own by category & price point, how to leave space in missing price points and how to separate your aged inventory. When you have your inventory laid out as described, you will see how to use your owned inventory to fill in the price points to match your plan. Some of your inventory will increase in price, while other inventory will decrease in price. This has much more to do with the perceived value of your owned inventory relative to new styles and costs rather than what you paid for the item.

The final step in the planning process is to begin to buy new inventory where you have the very best opportunities to grow sales. As we saw in our example above, Dia Semi-Mt's under \$1,000 is a great opportunity for this business and would be among the first places to buy new inventory. Some people may choose to finish the planning process for their entire company before they started buying, feeding those categories with the best opportunities for growth. Others may choose their top five categories to begin with and plan (then buy) those first, then move onto the rest of the categories. Either way works for me.

Dealing with Brands

The *Inventory Planning Model™* was designed for the core inventory of a jewelry store. The question of how to implement this in stores that are heavily branded comes up often. Jewelers have used the IPM for a single brand as well; working with their reps to create a comprehensive selection for the brand's categories and price points, rather than just working with a budget. Both buyers and sales reps have appreciated the structure of a merchandise plan.

Planning Across Multiple Categories

Figure 6 is an example of multiple categories using the same gross profit by price point, regardless of the category. Notice the *average cost* for all inventory selling for \$499 is \$200 *regardless of the category*. The average cost is based on a 60% GP and will change as you change the GP in the *Inventory Planning Model™*.

Figure 6

	GP%	Dia Fashion Rings			Diamond Pendants			Diamond Earrings		
		AV COST	QTY	BUDGET	AV COST	QTY	BUDGET	AV COST	QTY	BUDGET
\$ 99	52.0%	\$48		\$0	\$48		\$0	\$48		\$0
\$ 129	55.0%	\$58		\$0	\$58		\$0	\$58		\$0
\$ 149	55.0%	\$67		\$0	\$67		\$0	\$67		\$0
\$ 179	55.0%	\$81		\$0	\$81		\$0	\$81		\$0
\$ 199	60.0%	\$80		\$0	\$80		\$0	\$80		\$0
\$ 249	55.0%	\$112		\$0	\$112		\$0	\$112		\$0
\$ 299	55.0%	\$135		\$0	\$135		\$0	\$135		\$0
\$ 349	60.0%	\$140		\$0	\$140		\$0	\$140		\$0
\$ 399	55.0%	\$180		\$0	\$180		\$0	\$180		\$0
\$ 499	60.0%	\$200		\$0	\$200		\$0	\$200		\$0
\$ 599	60.0%	\$240		\$0	\$240		\$0	\$240		\$0
\$ 699	55.0%	\$315		\$0	\$315		\$0	\$315		\$0
\$ 799	55.0%	\$360		\$0	\$360		\$0	\$360		\$0
\$ 899	55.0%	\$405		\$0	\$405		\$0	\$405		\$0
\$ 999	55.0%	\$450		\$0	\$450		\$0	\$450		\$0
\$ 1,299	55.0%	\$585		\$0	\$585		\$0	\$585		\$0
\$ 1,499	55.0%	\$675		\$0	\$675		\$0	\$675		\$0
\$ 1,599	55.0%	\$720		\$0	\$720		\$0	\$720		\$0
\$ 1,799	55.0%	\$810		\$0	\$810		\$0	\$810		\$0
\$ 1,899	55.0%	\$855		\$0	\$855		\$0	\$855		\$0
\$ 1,999	55.0%	\$900		\$0	\$900		\$0	\$900		\$0
\$ 2,499	55.0%	\$1,125		\$0	\$1,125		\$0	\$1,125		\$0
\$ 2,999	55.0%	\$1,350		\$0	\$1,350		\$0	\$1,350		\$0
\$ 3,499	55.0%	\$1,575		\$0	\$1,575		\$0	\$1,575		\$0
\$ 3,999	52.0%	\$1,920		\$0	\$1,920		\$0	\$1,920		\$0
\$ 4,999	52.0%	\$2,400		\$0	\$2,400		\$0	\$2,400		\$0
\$ 7,500	52.0%	\$3,600		\$0	\$3,600		\$0	\$3,600		\$0
\$ 10,000	52.0%	\$4,800		\$0	\$4,800		\$0	\$4,800		\$0
\$ 12,000	52.0%	\$5,760		\$0	\$5,760		\$0	\$5,760		\$0
\$ 15,000	52.0%	\$7,200		\$0	\$7,200		\$0	\$7,200		\$0

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Planning Using Varying Gross Profit for Every Category

A more complicated version of the Inventory Planning Model™ process is to create the plan with specific gross profit margins assigned at the category / price point level, rather than planning at just the price point, regardless of the category. This is more time consuming, but ultimately, especially for multi-store operations, this is going to be an important goal for the buyer/planner.

Different categories will likely have different issues associated with them that would require strategic pricing. Diamond Stud Earrings, for example, might be priced at keystone because that category is very competitive and easily price shopped. However, Diamond Fashion Rings, for example, may have a higher margin due to the costs associated with sizing most of them at the point of sale.

When working with the Inventory Planning Model™ in Excel, as you change the gross profit margin the Average Cost automatically changes, so you don't have to do any math or create any formulas.

Figure 7

		Diamond Fashion Rings				Diamond Pendants				Diamond Earrings			
		GP%	AV COST	QTY	BUDGET	GP%	AV COST	QTY	BUDGET	GP%	AV COST	QTY	BUDGET
\$	99	57.0%	\$43		\$0	57.0%	\$43		\$0	55.0%	\$45		\$0
\$	129	60.0%	\$52		\$0	48.5%	\$66		\$0	55.0%	\$58		\$0
\$	149	60.0%	\$60		\$0	52.5%	\$71		\$0	55.0%	\$67		\$0
\$	179	60.0%	\$72		\$0	52.5%	\$85		\$0	55.0%	\$81		\$0
\$	199	60.0%	\$80		\$0	52.5%	\$95		\$0	55.0%	\$90		\$0
\$	249	60.0%	\$100		\$0	52.5%	\$118		\$0	55.0%	\$112		\$0
\$	299	60.0%	\$120		\$0	52.5%	\$142		\$0	55.0%	\$135		\$0
\$	349	60.0%	\$140		\$0	49.0%	\$178		\$0	55.0%	\$157		\$0
\$	399	60.0%	\$160		\$0	52.5%	\$190		\$0	55.0%	\$180		\$0
\$	499	60.0%	\$200		\$0	52.5%	\$237		\$0	55.0%	\$225		\$0
\$	599	60.0%	\$240		\$0	52.5%	\$285		\$0	55.0%	\$270		\$0
\$	699	60.0%	\$280		\$0	52.5%	\$332		\$0	52.0%	\$336		\$0
\$	799	60.0%	\$320		\$0	52.0%	\$384		\$0	52.0%	\$384		\$0
\$	899	60.0%	\$360		\$0	52.0%	\$432		\$0	52.0%	\$432		\$0
\$	999	60.0%	\$400		\$0	52.0%	\$480		\$0	52.0%	\$480		\$0
\$	1,299	55.0%	\$585		\$0	52.0%	\$624		\$0	52.0%	\$624		\$0
\$	1,499	55.0%	\$675		\$0	52.0%	\$720		\$0	52.0%	\$720		\$0
\$	1,599	55.0%	\$720		\$0	46.0%	\$863		\$0	52.0%	\$768		\$0
\$	1,799	55.0%	\$810		\$0	46.0%	\$971		\$0	55.5%	\$801		\$0
\$	1,899	55.0%	\$855		\$0	46.0%	\$1,025		\$0	47.5%	\$997		\$0
\$	1,999	55.0%	\$900		\$0	46.0%	\$1,079		\$0	47.5%	\$1,049		\$0
\$	2,499	55.0%	\$1,125		\$0	46.0%	\$1,349		\$0	47.5%	\$1,312		\$0
\$	2,999	52.0%	\$1,440		\$0	46.0%	\$1,619		\$0	47.5%	\$1,574		\$0
\$	3,499	52.0%	\$1,680		\$0	46.0%	\$1,889		\$0	47.5%	\$1,837		\$0
\$	3,999	52.0%	\$1,920		\$0	46.0%	\$2,159		\$0	47.5%	\$2,099		\$0
Totals		57.5%		0	\$0	50.2%		0	\$0	52.4%		0	\$0

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Working the Plan

We are seeing an ever-increasing number of our clients using the IPM during trade shows. They tell us that this structure has completely changed the way they budget, buy and navigate the shows. Once the IPM is filled out, the buyers are using this *exact format for buying and not just planning*. They begin with a blank copy and just fill in what they want to buy when they attend a show or as sales reps come into the store. As they buy the inventory to fit the retail price points they are looking for, they decrease the open to buy for that category / price point. It's very efficient. When you get good at doing this, and have a bit more Excel knowledge, you can do the planning, variances and on-order columns within a single spreadsheet.

Anyone Can Do This Work

This may appear to be a daunting job at first, but anyone can do this work should he/she have even basic Excel skills. The *Inventory Planning Model™* has been built for the average jewelry store and I used a very generic, but comprehensive Department / Category / Price Point structure. Because it's built in Excel, you can add or remove categories or price points to suit your needs. Please don't hesitate to contact me with questions:

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