

Overbought or Overstocked: Know the Difference

RITCHIE SAYNER



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During regular reviews of merchandising data, you will undoubtedly run across categories that appear problematic for a variety of reasons. Two typical areas of concern are being overstocked or overbought.

When you notice that a classification is out of line with the inventory plan, a determination must be made if the category is overbought or overstocked. "Overbought" and "overstocked" are two completely different problems, although they share potentially similar results. Careful review and corrective action should be considered if needed.

Overstocked

If the on-order matches up reasonably well when compared to the planned receiving numbers, and the open-to-buy still appears negative several months out, you are not overbought, but overstocked. An overstocked situation can be rectified by returns, stock-balancing for products in a different class, and promotional efforts designed to drive additional sales, such as spiffs, contests, trunk shows, and – of course – permanent markdowns. This is also the time to review how the category got overstocked in the first place, which could include a negative sales trend, receiving more inventory than was ordered, not taking timely markdowns, or accepting deliveries at the wrong time.

Overbought

An overbought situation requires a complete review of what is coming in by brand, size, style and color. Most stores I see that are overbought are also "over assorted," resulting in too much of everything or a whole lot of nothing, depending on your viewpoint. I do

believe that the receipt of new goods, timed well, is the lifeblood of any retailer. My preference is to move older stock out as quickly as possible to make way for the new, assuming that incoming purchases are reasonably in line with the inventory plan. I do think it is also



important to "test" new vendors and styles. I would allocate perhaps up to 10% of my open-to-buy (OTB) for testing new vendors. A very general rule of thumb, depending on the classification you might be buying for, could be 50% of OTB reserved for ongoing lines you know you are going to carry, 20% for size fill-ins and reorder, 20% for off-price opportunities, and 10% for testing new lines.

Fixing the Problem

If you encounter an overbought situation, work first on the biggest problem areas with the earliest ship dates. One common cause in stores that are constantly overbought is that often they try to carry too many brands. Though well-intended in terms of providing a wide variety, too often this merchandising

approach leads to the line not having any meaning to the store, and vice versa. Also look for duplication in styles, colors, and price points, and modify or adjust shipments. Duplications are simply superfluous inventory that will end up in the markdown room. Next, look for lines that have consistently **not** performed well from a GMROI perspective (Gross Margin Return on Investment) and modify those orders. If the overbought situation is simply due to backup orders of strong sellers that have been placed to reserve stock, this is less severe – as long as you really do have a system in place to review the orders prior to them being shipped.

Consider a boot or sandal class that appears overbought for an upcoming season. The most prudent way to approach the class is to minimize carry-over going into the off season. We are in an unbelievably competitive market, in which all customers have access at their fingertips to the largest shopping center in the world at all times – the internet. Dusting off last year's mistakes or overbuying for the next season is the least viable alternative (there are exceptions, but few good ones). Yes, margin is lost when merchandise is marked down, but GMROI, turnover, cash flow and sales are jeopardized when old merchandise is carried over from season to season. Which would you rather have? ■

Ritchie Sayner is vice president of business development at RMSA Retail Solutions, and author of Retail Revelations: Strategies for Improving Sales, Margins and Turnover, available through Amazon. He can be reached at rsayner@rmsa.com. To follow him on Facebook, please go to [www.facebook.com/Ritchie Sayner](http://www.facebook.com/RitchieSayner).