



Part of the Podcast Series

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Buying Right Generates Profit

Knowing how to buy right can become a competitive advantage.

Merchandise Management: the process by which the retailer attempts to offer the right quantity of the right merchandise, at the right place, at the right time, and for the right price.

Implication in the phrase “**selling generates revenue, but buying right generates profit**”: the buying function is the most critical factor in the success of a retailer. Yet so many retailers focus on selling.

Small retail businesses

- ❖ **Assortment**: price and assortment do not maintain a sustainable competitive advantage and loyalty. Assortment builds a competitive advantage only when a retailer can claim exclusivity of merchandise. Competitors can sell the same type of products.
- ❖ **How to maintain low prices**: inventory management within your budget constraints.

Merchandise management issues:

Involves a merchandise planning + buying system

- How is the buying process *organized*?

The majority of small businesses don't have a process. Focus on *Category management*: to maximize sales of a specific category. You can end up with the right price and wrong quantity or even the wrong price without a plan.

- How do retailers determine the profitability of their merchandise decisions? (i.e. "The right price")

Keystone pricing: When the market establishes an expected price.

Profit path: High margins and low inventory turns

Turnover path: Low margins with high inventory turns

Time issue: Is the supplier dependable? Will he deliver his product when he says he will? A late shipment can mean lost sales.

Summary: Thinking through the buying process can be an integral part of your business' success. Having a buying system in place can help ensure success.

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