Retail inventory management and accounting; a review of some basic principles of success

Ebrahim Sepehri

Department of Accounting, Payame Noor University, I.R. Iran

Abstract: The need for tracking and assessment of the retail materials and the challenges related to handling its features has become a leading force for the growth of retail inventory management systems. As a general rule, for tracking the company's whole products, every retail business needs to implement retail inventory management system. This paper has a concise focus on the basics of retail inventory management. Then the author takes a look to advantages and methods of the inventory management. Also a brief review of retail inventory accounting and components will be provided and at the end the paper ends with the ways for success in the retail inventory management.

[Ebrahim Sepehri. **Retail inventory management and accounting; a review of some basic principles of success.** *Life Sci J* 2012;9(4):3295-3297] (ISSN:1097-8135). http://www.lifesciencesite.com. 487

Keywords: Retail, Inventory, Management, System

Introduction:

Retail inventory management systems work based on controls and such controls apply to storage, retail turn-over, tracking inventory, shopping, ordering and receiving. Many scholars believe that a successful retail inventory management should have the following capabilities:

a. Tracking all of the business inventory
b. Makes you able to review your inventory accurately
c. Evaluate the strength or weakness of some products in selling process
d. Compares the shopping amounts of all the products

The top 4 capabilities are considered to be the building stone of the retail inventory management systems.

There are four common types of retail inventory management systems; electronic suppliers, barcode readers, point of sale terminals and inventory systems. Electronic suppliers update the amounts of the inventory via the internet. Barcode readers make it easy to quick track. Point of sale terminals; update the inventory based on a predetermined point of sale (Brinlee, 2012).

Some of the other business specialists argue that there are five advantages for using RIM over a system of inventory at cost. The does not have to "cost" each time. When retailers have many SKUs, keeping track of each item becomes difficult and expensive. It is easier to determine the value of inventory with the retail prices marked on the merchandise than unmarked or at coded cost prices. The second advantage for using RIM is that it follows the accepted accounting principal of valuing assets at cost or market value, which is lower. This system lowers the value of inventory when markdowns are taken but does not allow inventory's value increase with additional markups. When using RIM, the amounts and percentages of initial markups, markdowns, and shrinkage can be identified. This information can then be compared with historical records or industry norms. RIM is useful for determining shrinkage. The difference between the book inventory and the physical inventory can be attributed to shrinkage. The book inventory determined by RIM can be used in an insurance claim in case of a loss. The disadvantages of RIM are system that uses average markup. When markup percentages change during a period or when the inventory on hand at a particular time is not representative of the total goods handled in terms of markup, the resulting cost may be distorted. The inventory turnover, merchandise budget planning, open to buy, all these should be applied to the RIM category basis to avoid the problem. There are four steps in when calculating RIM. Calculate total goods handled at cost and retail, calculate retail reductions, calculate the cumulative markup and cost multiplier, and determine ending book inventory.

Retail Inventory-Level Planning consists of retail inventory method (RIM) which is an accounting procedure whose objectives are to maintain a perpetual. It also can book inventory in retail dollars amounts and to maintain records that make it possible to determine the cost value of the inventory at any time without taking a physical inventory. Also known as book inventory system or perpetual book inventory. Retailers also have another important choice to make the stock to sales ratio. The stock to sales ratio is derived directly from the planned inventory to determine monthly additions to stock in the merchandise budget plan.

Retailers generally think of their inventory at retail price levels rather than at cost. Retailers use their initial markups, additional markups, and markdowns, and so forth as percentages of retail. When retailers compare their prices to competitors', they use retail prices. The problem is that when retailers to design their financial plans, evaluate performance, and prepare financial statements, they need to know the cost value of their inventory. Retailers use physical inventories. This process is time consuming and costly. Retailers take physical inventories once or twice a year.

Factors of Success in Retailing

Knowing ourselves

Identify your interests, skills, abilities and limitations. It is more desirable to keep your current job than creating a new one. In order to be successful as a retailer, you need to be selfless. You must play a key role in marketing, sales, and directing staff. It is virtually impossible for one individual to take on all these responsibilities and accomplish successfully. You have to know where you can excel and where you will need help. This is why you need to identify and evaluate your strengths and weaknesses objectively.

Prospective Planning

Most businesses are managed by some people who do not have a thorough knowledge of their jobs. If you are not aware of the current inputs and outputs of your business as the owner of a specialized store, you are most likely to lose your job in near future. According to experts, a lack of a thorough and sound knowledge rather than money is the main cause of 80% of bankruptcies during the first 5 years. The key to your success is to know how to make proper decisions by implementing an effective business plan.

Knowing the Industry

If you fully understand the concept of profession, you will be able to benefit in a part of a large competition. Distinguishing features which can challenge your survival in the future include: competition, size, services, marketing, access, customers, suppliers, the competitors' pricing strategies, market, local businesses, vacancies in advertisement contexts, household average income, education, age group, ethnicity, and the number of potential customers.

Understanding the Customers

Do you listen to your customers? Plan your business in such a way that you give your customers what they want and you will see they will shop from your store and will contribute to your success.

Preserving Financial Records

If you do not know where your money goes, you will soon lose the game. In the game of business, which is played by computer and credits are dollars and cents, good financial records are similar to an airplane's navigation system which shows you the latitude, direction and speed.

Managing the Cash

No matter how unique your business is, it cannot survive without cash flow. It serves as blood and the vital power of your business. The money that goes into or out of your business guarantees the well-being of your business. The monthly cash flow bills indicates the amount of cash ate the beginning of each period as well as the one received from various sources and the reasons for spending money if you budget wisely and keep track of monthly income and expenditures, you will not need to worry about money.

Control of the Assets

The role of your assets is to create sales. All retail businesses need to manage their assets. It is your money sitting on the shelves and shows a big part of your assets. Small retailers who just see their shelves cannot create a balance between the true amount of goods and the customers' potential needs. The transactions made by such retailers will suffer by a lack of information about color, sixe, and the customers' attitudes and priorities. Without a proper control, assets will be outdated and remain in the store, which will cost a fortune for retailers.

Pricing based on the Recognition of Retailing

To begin with, the initial price of your goods is a temporary account of what the customers tend to consume. Most stores use the "key stone" on their signs to raise prices of used goods and services. What they lack is a pricing strategy based on a case pricing for order, progress, and bargain goods. In order to succeed in sales, retailers have to focus on items, prices, and effectiveness and try to boost their sale by having entertainment and fun activities. In order to be competitive, pay attention to trade shows, take part in shopping groups, and look for producers who allow you to shop wholesale. By offering a new price wisely set you will be able to attract more customers, increase your average sales, and give more opportunities to your customers to visit your store.

Conclusion:

Retail inventory management is the one of success keys in the selling process in today's turbulent business. For making the business more competitive, the retail inventory management and accounting should be a successful task of any company. The key element success factors of retailing have been discussed in the paper. Following the mentioned rules may be a key and a way to successful retailing.

References:

1. Robert E. Carpenter & Steven M. Fazzari & Bruce C. Petersen, 1994. "Inventory Investment, Internal-Finance Fluctuation, and the Business Cycle," Brookings Papers on Economic Activity, Economic Studies Program, The Brookings Institution, vol. 25(2), pages 75-138.
2. Mian, Shehzad L & Smith, Clifford W, Jr, 1992. "Accounts Receivable Management Policy: Theory and Evidence," Journal of Finance, American Finance Association, vol. 47(1), pages 169-200, March.
3. Smith, Janet Kiholm, 1987. "Trade Credit and Informational Asymmetry," Journal of Finance, American Finance Association, vol. 42(4), pages 863-72, September.
4. Kahn, James A, 1987. "Inventories and the Volatility of Production," American Economic Review, American Economic Association, vol. 77(4), pages 667-79, September.
5. P.A. Tinsley, 1971. "On ramps, turnpikes, and distributed lag approximations of optimal intertemporal adjustment," Special Studies Papers 15, Board of Governors of the Federal Reserve System (U.S.).
6. Scott Schuh, 1996. "Evidence on the link between firm-level and aggregate inventory behavior," Finance and Economics Discussion Series 96-46, Board of Governors of the Federal Reserve System (U.S.).
7. Robert E. Carpenter & Steven M. Fazzari & Bruce C. Petersen, 1994. "Inventory (Dis) Investment, Internal Finance Fluctuations, and the Business Cycle," Macroeconomics 9401001, Econ WPA.
8. Holtz-Eakin, Douglas & Newey, Whitney & Rosen, Harvey S, 1988. "Estimating Vector Autoregressions with Panel Data," Econometrica, Econometric Society, vol. 56(6), pages 1371-95, November.
9. Newey, Whitney K & West, Kenneth D, 1987. "Hypothesis Testing with Efficient Method of Moments Estimation," International Economic Review, Department of Economics, University of Pennsylvania and Osaka University Institute of Social and Economic Research Association, vol. 28(3), pages 777-87, October.
10. Levin, Andrew & Lin, Chien-Fu & James Chu, Chia-Shang, 2002. "Unit root tests in panel data: asymptotic and finite-sample properties," Journal of Econometrics, Elsevier, vol. 108(1), pages 1-24, May.
11. Lucas, Robert E., 1977. "Understanding business cycles," Carnegie-Rochester Conference Series on Public Policy, Elsevier, vol. 5(1), pages 7-29, January.
12. Kenneth D. West, 1985. "A Variance Bounds Test of the Linear Quardractic Inventory Model," NBER Working Papers 1581, National Bureau of Economic Research, Inc.
13. West, Kenneth D, 1986. "A Variance Bounds Test of the Linear Quadratic Inventory Model," Journal of Political Economy, University of Chicago Press, vol. 94(2), pages 374-401, April.
14. www.harvarduniversity.edu Business Resources (Retailing).
15. www.askjeeves.com (Steps of Retail Inventory Method).

10/30/2012