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Buying Always Makes More Money Than Selling!

Gray Stone Advisors' Monthly INSIGHTS provides thought-provoking strategies to help your business survive and thrive. Monthly insight and discussion focuses on strategic aspects of leadership, operations, business success, and key metrics related to aviation operations, aviation sectors support, specialty retailing and distribution and logistics sectors.

in•sight [in-sahyt]

- noun

- clear or deep perception of a situation
- a feeling of understanding
- the clear (and often sudden) understanding of a complex situation
- grasping the inner nature of things intuitively

<Dictionary.com <http://dictionary.reference.com/browse/insight>>.

Buying makes more money than selling? How can that statement be true? As an industry professional, you are in the business of **selling** the products and services your customers want, right? You know that profitable sales success requires prudent purchases. This article will discuss how smart buying can give you the best opportunity for profit.

Profitability depends on maintaining the lowest cost of doing business, combined with a reasonable and competitive price for your products and services. So, how do you minimize the cost of goods and services? Ah, that's the age old question that bedevils every business operation ... large and small! Before we get to the 'wizardry' of making money by spending money, I want to make sure both new and experienced business professionals are on

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the same page. Defined below, are a few common business terms we'll use:

Net Sales – The total amount of all sales, less returns from customers.

Cost of Sales (sometimes referred to as *Cost of Goods Sold*) – The total cost of the merchandise you sold (the actual cost of the products, freight to ship the merchandise from the vendor to you, etc.)

Gross Margin – That's what's left when you subtract Cost of Sales (CoGS) from Net Sales. This 'remainder' is the money that you use to pay the recurring operating costs for your business, including Rent, Labor, Utilities and so forth. We will lump all of these costs into one total called *Operating Costs*.

Net Profit – This is result of subtracting your Operating Costs from your Gross Margin. Hopefully, it's a positive number; it's usually not very big. Our goal, in this article, is to help you increase the size of your Net Profit number, both as a percentage of Net Sales (Net Profit divided by Net Sales = Net Profit Percentage) and in absolute dollars.

OK! With the business terms defined, we can talk & understand the language of business. Now, how do we make this knowledge work for us?

In this article, we focus on one of the many steps of profitable business management: - Buying Merchandise for Resale, otherwise known as Procurement.

Here's the basic premise – if you buy an item for \$5 and sell it for \$10, you have a \$5 Gross Margin. If everyone buys and sells for the same amount, everyone is on equal footing with regard to Gross Margin. Your degree of profitability depends completely upon your ability to control your operating costs.

Just for a minute, imagine that you can buy the same item for \$4, but no one else can. The accepted retail price is still \$10. Now, YOU have choices.

You can sell the product for \$9 and keep the \$5 Gross Margin. Your competitors can either match your price and make less Gross Margin (remember, their cost is still \$5), or give you a pricing advantage with your

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product priced at \$9, and their product retailing at \$10. Either way, you win by utilizing your Competitive Advantage.

Is it actually possible to pay less for the same items that are carried by your competitors? ABSOLUTELY!! This basic principle has enabled Wal-Mart to grow into the retailing giant it is today. Remember, if **you don't ask, the answer is always 'No'!** You may think some of the following ideas are a bit outrageous or unconventional. However, these practices can save you money, improve your Gross Margin, and increase your Net Profit.

Let's explore a few ways you can achieve a Competitive Cost Advantage. Let me introduce "Joe"; he will be our vendor in the following examples. He enjoys your account, wants to keep your business, and, if you ask him to 'work' to keep your business –he will likely do his best to keep you happy.

1. Simple Cost Reduction (Concession) –

"Joe, at what quantity can you reduce your 'per each' price to me?" Note that you are not asking Joe 'if' he *can* reduce the 'per

each' price. Instead, you have implied he **will** reduce the price – it's just a matter of 'how much' and 'when'.

2. Effective Cost Reduction (Free Goods)

– "Joe, instead of reducing your price, which may be hard for you to do, how about giving me one free piece for every 9 that I buy?" In effect, you get a 10% reduction in cost, but you have to sell all ten pieces for this method to work. So, what's the financial impact? Let's say that each piece costs \$5 and retails for \$10. You sell all 10 pieces at \$10 (\$100 Sales), but you only paid for 9 pieces at \$5 (\$45 Cost), so your gross margin is \$55 instead of the normal \$50. You have just improved your Gross Margin by 10%. Hold all of your other costs steady and you have just increased your Net Profit substantially!

3. Advertising Allowance (actual cost reduction or free goods) – Effective

Advertising and Promotion are essential in keeping your operation visible to your customers, as well as alerting new, potential customers of your operation's presence. Advertising is expensive; ask your vendors

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to help. You can ask for a promotional credit on your bill, but typically, the vendor will offer you merchandise as an advertising allowance. Remember, you must be able to sell it, within a reasonable period of time, for it to be of value to you.

4. Event Sponsorship – Let your imagination run wild! You are creating opportunities for your customers, supporters of your customers, and potential new customers to identify with your brand. Event sponsorship provides a targeted audience, promotional tie-ins, and entertainment opportunities. Explore major events, community sponsorships, or ask one or more of your Major Vendors to sponsor an afternoon or evening class, and invite the vendors to be on hand to detail their products. Or, how about a charity fund raiser? Remember, the answer is always NO – unless you ASK!

5. Prompt Payment Discount (2% 15, Net 30) – ALWAYS ask for and take advantage of PROMPT PAYMENT DISCOUNTS. In this example (2% 15, Net 30), the vendor will allow you to reduce your payment by 2%, if you pay the bill within 15 days. Think of it

this way – If you could earn 2% on your investment of \$100 every 15 days (that's \$2 every 15 days) and you could do that for a year, you would earn \$48.67 for a \$100 investment, or 48.67%.

6. Free Inbound Freight – Freight can easily be 5% or more of the cost of the merchandise. Insist that the vendor pay the cost of shipping. Shift as many costs from you to someone else to increase your bottom line.

7. Model Allowance – Nothing sells product better than a well done model. Seeing, touching, feeling – its human nature. Ask your vendors to help you fund your model program. The impact – Reduced Costs!!! You are now employing the power of OPM – Other People's Money!

8. Staggered Payment Terms (1/3rd, 1/3rd, 1/3rd) – Have you ever heard the slogan – CASH is KING (or QUEEN, as the case may be)? Without getting into a lot of Finance mumbo jumbo, just know that it is really important to SELL your inventory BEFORE you have to PAY for it. Ask your vendors for

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extended terms. Offer to pay 1/3rd in 15 days, 1/3rd in 45 days and 1/3rd in 75 days. You must establish these payment terms with your vendor during the negotiation of the merchandise purchase. Once you have placed your order, your negotiating leverage is diminished. And, don't agree to payment terms that you can't or won't honor.

9. Consignment Inventory – You can't sell what you don't have. If the customer can't see it, he or she is not likely to buy it. But, you can afford to stock only a certain amount of merchandise. So, if there are some 'nice to have' items (and you know that there always are!), approach your vendors about putting these items in your business on a Consignment or Guaranteed Sale basis. Consignment means that you pay the vendor for the merchandise only when it sells or it is missing from your operation. Guaranteed Sale means that the merchandised is invoiced to you, and you might actually pay for it. However, if it doesn't sell within a specified period of time, the vendor will buy it back from you at the price that you paid for it.

10. Discount on 'Catalog Titles/'

Merchandise' – During a trade show, we all ask – “What's New??” In reality, anything that the consumer has not seen is NEW! Perhaps you have done well with a particular vendor's offerings—when the stock is depleted – ask for a 'Catalog Restocking Discount'.

11. Discount on Seasonal Merchandise –

In many businesses, there are Seasonal opportunities – ask your vendors for discounts on seasonal merchandise.

12. Sell E-Advertising to Vendors – Most companies embrace technology as a tool for improving communication with their customers. If you produce an E-Based Newsletter, give your vendors a chance to provide informational material and purchase advertising in your E-Newsletter.

We have discussed many different Buying Tactics in the aforementioned examples. Remember, to improve your Net Profit, you don't have to lower your Selling Price; you just need to lower your Buying Price! Your vendors can help. You just need to ask!

In the final analysis, profitable operation is

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about managing the Economic Balance. To be financially successful, you MUST tilt everything in your favor. Remember, you are the channel the vendor needs to get product to the consumer. Be BOLD! Ask!

The operation of any business endeavor is a lot more fun when it is PROFITABLE! And, it is down-right thrilling – when the profit keeps growing. Give some of these techniques a try. You just might be surprised at their effectiveness!!

About Gray Stone Advisors

Since 1996, Gray Stone Advisors has helped senior executives and corporations—large and small—develop and execute strategies for growth and sustainability, and successfully prepare for, implement and manage change.

Specializing in key business sectors – Aviation & Related Services, Specialty Retailing, and Logistics & Distribution - Gray Stone Advisors services include strategic assessment and planning, organizational development, tactical operations, business process research and benchmarking, project management and leadership training.

Gray Stone Advisors was formed in response to requests from business

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leaders and entrepreneurs seeking to enhance performance and manage change within their organizations. The consultancy's passion and talent for transforming chaotic, underperforming organizations into highly efficient operations, with a strong focus on the "End Consumer", has benefited companies throughout North America, Europe and Asia.

Our approach includes:

- Leadership Development, Communications Training, Mentoring & Coaching
- Performance Enhancement
- On-going Support and Consul
- Leadership/Staff Selection
- Bridge Leadership
- Education and Training Programs focused upon both the Host Enterprise and the Aviation Organization

We create value through our extensive experience, positive results, and our focus on your unique needs.

To find out more, contact

Gray Stone Advisors

info@graystoneadvisors.com

jlara@graystoneadvisors.com

1.865.357.5077

www.graystoneadvisors.com