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Inventory Control Series: Buying Strategies: Live vs. Hard Goods

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It's the same. Only different. The continuity lies in the principles and foundations of merchandise management. After that, they diverge.

In either case, while there are huge differences between live goods (stuff that has or had roots) and hard goods (stuff without roots), living close to the Merchant's Mantra of "Never Buy What You Can't Sell Before You Have to Pay for it" will go a long way to keep any retailer in the black. This is the same.

Some more of the same: The nemesis of mismanaged merchandise is the care and feeding of excessive inventory. We measure merchandise performance by all sorts of indicators, none of which accurately attribute the cost of watering or dusting or aging directly to the cost of goods.

Imagine this: Every time you touch a piece of merchandise, whether a plant or a trinket, the associated cost is 50 cents. That's much more accurate than you'd like to believe. There's a certain amount of moving merchandise that's necessary to move merchandise. The excessive movement is where the cost is. It's also true that not moving merchandise that isn't moving has a cost. So there's a cost of not touching merchandise that's about the same amount every month it collects dust.

These costs add up faster in live goods. Take the cost of goods of an item. Let's use $10.00 as a nice round amount. The item is priced at $25.00 for a 60% gross margin. Not bad, if it turns. You see, there's no margin until the merchandise turns. What happens before it turns? There's a cost for that. If this item is watered just once daily at the cost of 50 cents for the wage and wage benefits paid to the person doing the watering (including the owner) plus the cost of water, this adds up incredibly fast. The margin is erased very quickly. In only 30 days there's no longer a margin. Now we begin losing money. In another 20 days we've doubled the cost of the item and it still hasn't sold. Thirty days to nothing, 50 days to massive loss on that item alone.

Do the math on the number of items that aren't selling fast enough to earn the cost of goods, the cost of wages and benefits, the cost of operating expenses and the cost of profit. Those products that turn rapid fire are carrying a heavy load, aren't they?

I picked first on live goods, not because they're weaker or that I don't like them, as quite the opposite is true.

The problems with hard goods aren't fewer than with live goods. Hard goods that don't sell right away tend to stay around longer before we finally get rid of them. There tends to be more slow sellers as a percent of their total. They tend to cost more to buy, given the cost of travel associated with attending buying shows to find them.

So while the title of this article has to do with the differences between managing live goods and hard goods, there's less difference than you may have thought. The costs of doing it wrong are higher than you may wish to believe. They're there, just the same. Get over it and get real and make this work for you instead of against you.

Okay, so there are some inherent differences between live goods and hard goods. Let's peel back these smelly onions.

Live Goods

Plant Nerds (affectionate term)—Plant lovers tend to buy like they're planting a botanic garden. This means spending more time finding the obscure, unusual or even cool and different plants from places far and wide where transportation costs drive up the retail price or are ignored when pricing.

Minimum Quantities—Of 50, 10 or even five of plants of which all can't be sold before running out of spring customer traffic, leaving remnants to care for and ultimately discount or throw away.

Minimum Shipments—Order requirements of as much as $5,000, or as low as $500 cause buyers to add on to orders, whether there will be customer traffic to support the decision.

Procurement Costs—The cost of acquisition of live goods is typically (though not always) not as high as hard goods because much of the ordering happens when the sales rep comes to the store. Beware of the hidden opportunity costs of the buyer, who's also the main salesperson, being in the office meeting with sales reps instead of directing their employees or selling to customers.

Loss of Marketability—This is largely related to the hidden costs of watering that I referred to earlier. With watering comes leaching of nutrients, crowding of roots, passing of flowers and general degradation of plants. A good quick litmus test of the health of plant inventory is to rub the leaves between the finger and thumb. Anyone that knows plants will detect the differences in the thickness of the leaves of a nice healthy plant that just arrived from the grower's field to that which they've cared for, but also exhausted, its shelf life. These plants not only cost a lot of money to maintain, they're also prone to very high markdowns.

Hard Goods

Gifty Geeks (affectionate term again)—The pull of the market is more on the heart than on the head. Trending colors, textures and finishes. Cute factor, wow factor and the fun factor add up to multiple disasters with unbridled buyers or worse yet—synergistic buying teams.

Procurement Costs—The costs of traveling to and staying near the market multiplied by the synergistic buying and we're talking disaster of epic proportions—the stuff basements and storerooms are stuffed with and warehouses are built for.

I Want It Myself—Danger, danger, Betty Buyer. If you'd buy it yourself then what if you would do just that, instead? Oh, the minimum order. Enough said.

Fickle Consumers— It's convenient to blame the consumer when something doesn't sell. More likely the blame lies with the buyer who just doesn't see things the same way as the consumer because they're not as much alike as they'd like to believe.

Fads vs. Trends—Well, how do you know if something is going to be a fad or a trend? It's easy, wait to see. There's nothing wrong with being second to bring something home from the market. In most cases to your customers you'll still be the first, as far as they're concerned. Long-term trends are where it's really at. The biggest failure can be the failure to not take full advantage of the clear and open trends.

Seasonal Timing—The key to a great season is a long season. You can't move the end of most seasons. December 24 is the end of the Christmas season, for example. Spring can be a little more open ended, depending on where you're located and the weather, so take advantage of that. But when you aren't prepared for spring to begin earlier than normal, you lose weeks of valuable selling season.

Customer Psychographics—Your customer may appear to be like you, but may not be like you at all. Demographics are hard facts about customers, such as their ZIP code, income, whether they like blue or pink. Psychographics are their values. Values are invisible to the untrained eye. What type of car do they drive? There's a valley of difference between values of people who drive BMWs and Volkswagens and they're both German companies. The biggest mistake buyers make is to buy for their own pocketbook (at wholesale cost) and values. What would the customer value? What would the customer pay? How many customers do you have that are in that range? Do you need to buy for multiple ranges of customers in your customer base? I know, that's too much work and way harder than the way you do it. And your results probably show this.

So choose your poison: Live goods vs. hard goods. Both have advantages and disadvantages. I've chosen to focus the content of this article on the inherent, obvious and not-so-obvious problems of them. Call me negative if you will. If it helps you, I don't care.

My goal is to get my friends in this amazing business out of the red of losing money where the largest portion of mistakes can be prevented and into the black of profitability by helping you recognize the fallacies in both types of merchandise. Use this to make wiser decisions and guide yourself to greater success. Carry on. **GP**

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