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Features

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Increasing Profitability With Your POS System

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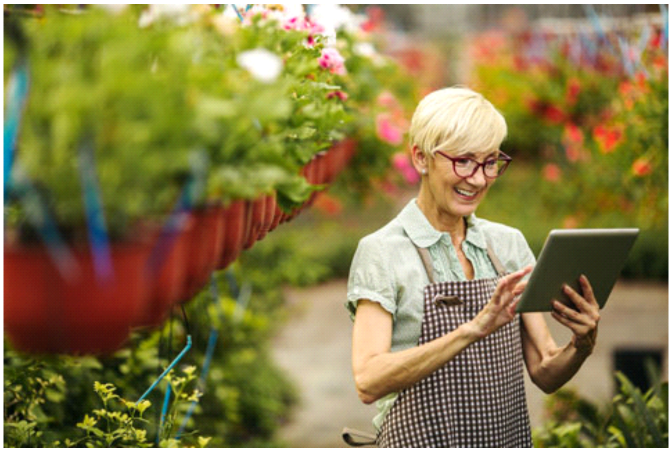


We all know the two common phrases that have started most business conversations: labor and supply chain disruptions. While we can all agree there have been significant supply chain challenges, what should business be focused on during these times?

Let's zoom in on the bottlenecks in production and distribution of products. The major challenges for buyers remain to secure inventory and maintain appropriate gross margin by understanding the true landed cost of incoming inventory.

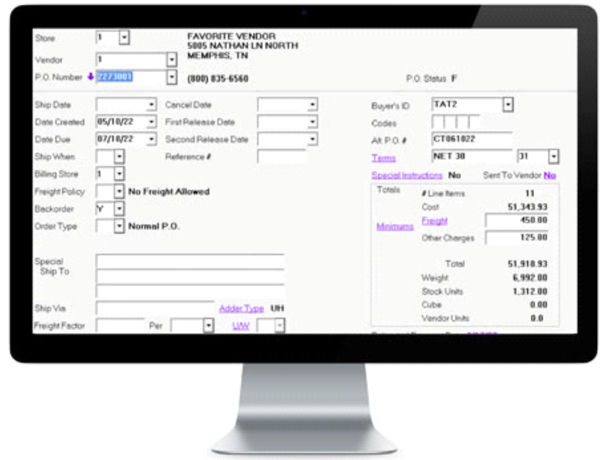
Not calculating the true landed cost into gross margin calculations is a large business risk. The decision to avoid this calculation is a growing gamble as suppliers undergo frequent price changes in the recent economy. Along with the increased pricing on the products, additional charges such as fuel surcharge, delivery fees or additional handling fees can have a dramatic impact on gross margin. The fees are causing new challenges for buyers to properly calculate the landed cost, with several customers having goals of 10% to target, which in previous years would seem high.

How to Make the Calculation Work

Once it's understood that tentative additional fees should be assessed on a purchase order, start working with the suppliers ahead of time to understand what additional fees will be passed on by vendors. Having as much information as possible will assist the buyers in being able to properly see the Margin by Item on a purchase order. If a vendor is unable to supply relevant information, the best method is calculating an average additional fee by vendor in a dollar amount.

For example, with Epicor Eagle, adding additional fees to a purchase order is simple and can even be dispersed to each item on the purchase order. The retail management software will update the cost per line item on the purchase order, which in turn will offer visibility to the gross margin. Epicor Eagle also offers the ability to adjust retail prices to a minimum desired gross margin during the purchase order receiving.

Here's an example; simple math will tell us that a $10 retail item with a cost of $5.50 and a landed cost of $6.50 breaks down to an initial gross margin of what could be an assumed 45% margin, but in reality is 35%. If businesses are building business plans on a 45% margin, but in reality are only receiving 35%, depending on when they discover the discrepancy, the miscalculation could harm the business health. Leveraging a reliable POS and retail management solution removes the risk.



Pictured: The interface on Epicor Eagle allows retailers to add in other charges when figuring the landed cost of products coming in. See the box on the right side of the image.

As long as buyers work within the goals of the business and have a clear understanding of landed costs (or can accurately forecast additional costs), this will offer them the ability to support the financial health of the business. At times, businesses need to get in product and are willing to take a one-time hit or hold pricing where it's required, but the key item is to have the visibility to the accurate gross margin before selling the inventory a store is bringing in.

Let's Talk Pricing

The next question that always comes up after businesses tackle landed costs is how often can we raise prices? As often as necessary, businesses need to have the visibility of pricing more today than ever. Under the worst circumstances, owners would sell an item below cost, which can occur if businesses are only reviewing replacement costs or vendor/distributor costs while omitting the additional fees being tacked on. So how often should you raise retail pricing? Every time the landed cost falls outside the business guidelines.

Technology offers businesses the ability to use their data to make better decisions. With the rapid changes happening every day with businesses procuring inventory, owners need insight into gross margin before it happens, not after the fact. Technology can offer ways to catch critical events as they occur, instead of weeks later viewing a report. An example of this is by using text alerts, pop-up alerts, monitoring dashboards for items being sold below cost, higher-than-normal changes in either retail or cost and reviewing high- and low-margin items. Due diligence, and defining roles and responsibilities are the key to success in maintaining proper margin control in businesses today.

The biggest challenge companies encounter today is with knowing the landed cost and tackling it before the product is received. Business leaders will be able to make better decisions, forecast more accurately, and empower their employees to be more productive and support the business goals and direction. **GP**

> Sam Kirkland recently sat down for a podcast with Ball Publishing's Senior Editor Bill Calkins, who hosts the Tech
> On Demand pod. They talked about consumer engagement and tactical ways to market your business and drive loyalty, as well as create key performance indicators and measurements to track results. Listen to the full podcast.

Sam Kirkland brings over 38-plus years of experience to his role as National Business Development Strategist at

Epicor Software Corporation. He joined Epicor in May 2011 following a merger with Activant Solutions Inc., where he served as a National Accounts Manager in the Retail Distribution Group. Sam joined then Triad Systems in 1984 when he started his career as a Field Engineer and worked through the ranks as a Senior Field Engineer and then a Regional Network Consultant before becoming one of Epicor's National Business Development Strategist. His 38-plus years have all been in the industries of Lawn & Garden, Firearms & Sporting Goods, LBM, Hardware Retail, and Farm Ranch/Home businesses. In his role at Epicor, he supports Epicor partners and builds strong programs to drive our partner's initiatives. Contact him at skirkland@epicor.com.