MANAGING INVENTORY

PREFACE

This guide includes a basic text that can be used for teaching or as a handout to current and potential home-based/micro business owners. It will provide the entrepreneur with education, information, and resource lists on purchasing raw product or business supplies for their business.

This curriculum can be adapted to meet audience needs and interests. This guide is developed for a 1 to 1-1/2 hour time period. Throughout the text, slides are indicated. These slides are listed in the Appendices.

Goal: To help current or potential home-based business owners identify wholesale sources for purchasing new products or business supplies that will help them prepare for success and profit in their businesses.

Objectives: As a result of this program, participants will:
- Learn where they can purchase raw materials and business supplies wholesale.
- Learn planning and management skills that will enable them to deal effectively with wholesalers.

HANDOUTS

Handout 1 — Managing Inventory Procurement/Buying Wholesale
Purchasing Inventory

The process of getting materials and supplies for production is an important function of any business where a product is produced from raw materials or where finished products are purchased for resale. Inventory decision-making involves knowing when to buy and how much to buy. The goal for inventory management is to maintain the smallest inventory possible to help control costs yet maintain a level that allows the business to provide on time delivery of products. There are several types of inventory including (1) raw materials, materials which are inputs to produce the finished product; (2) in-process goods, partially completed products; (3) finished goods, final products available for sale; and (4) supplies, materials consumed in the normal functioning of the business that are not a part of the final product. Important factors in the procurement process include timely acquisition, quality control, and cost control.

Timely Acquisition

Materials must be available when products are to be produced, sold, and/or used. Large companies have entire departments dedicated to ensuring that this happens. With small businesses, the materials buyer may also have many other jobs within the business, including that of production worker or retail sales clerk. The timely acquisition of inventory of any type requires planning and risk taking and ample time must be allowed for shipping and delivery. Maintaining accurate, up-to-date inventory records will help you to determine the stock level at which you need to reorder. Inventory records include the date of the last order, the amount received, the vendor from who the order was received, the price per unit, and other information which may be specific to your business. Software programs are available that can help you track inventory. As your business grows, you need to identify and establish an account with at least two suppliers of the materials needed to produce your product. The business must have a definite plan as to how the raw materials will be used in the finished product and where and how the product will be sold. Without planning, a great deal of production merchandise can end up on garage sale tables when the business owner changes strategic directions or is unable to sell finished products.

Risk Taking

Risk taking is often a necessary evil when operating any small business. A manager must not only determine what consumers will purchase, but when, where, how much, and at what price. Many outlets are available to managers to manage risk however, managers must remember that risks must be taken in order to move forward. Managers must keep in mind how much risk a business can successfully manage and at what cost. Methods that can be used to defer, but not eliminate risk exist. Some of these are product diversification, insurance, and price and market analysis. Also, careful business planning to keep costs under control can also be an effective way to manage some business risk.
MANAGING INVENTORY

QUALITY CONTROL

Quality and consistency of materials must be assured when selecting potential suppliers. Quality products cannot be produced from second rate or shoddy materials. Businesses large and small have been known to lose sales when quality has dropped because of poor quality materials. To the extent possible, review suppliers as you would potential employees. Consider their business history, service attitude of employees, materials quality, credit terms, and ability to deliver quality. Remember that your reputation will depend on those who supply you as well as how well you supply others. Where possible, visit suppliers before you make the first purchase. It may take time and some experimentation to find a supplier whose materials match your expectations for quality. Don’t assume that you must accept everything that comes along with every order. If the quality is not in keeping with what you ordered, contact the company. Keep notes as to when you called, with whom you spoke, and the outcome or action to be taken. Consistency of quality materials order after order will be important to long-term business success. Communication with suppliers when quality of materials does not measure up is important. When buyers give suppliers feedback on problem situations, it allows the supplier the chance to improve and can help to build a strong business partnership.

COST CONTROL

When small businesses first start, just determining where production materials can be purchased can be a major challenge. Initial purchases of supplies may be made at local stores at regular retail prices. In these situations it can be beneficial to visit with store managers or personnel about a discount. Even a 10 percent discount will help your bottom line. It will quickly become important to find materials of quality at as low a price as possible. When using purchased materials to make products for resale, a business may be entitled to an exemption from some taxes such as sales tax. You can check with the tax agency in your state to determine the forms needed to apply for any exemptions that might be available. You may also want to pursue competitive bids from various suppliers to get a better price. You will need to develop material specifications to submit to the bidders to help ensure the pricing is for the quality and service that you need for your business. A “low-ball” bid can sometimes mean low quality and poor service from the supplier.

Because of frequent or large quantity buying and/or a good record of payment, some businesses may build up considerable purchasing power with suppliers. They may be able to get special terms with respect to price or credit. When new businesses start, they have no track record with respect to volume buying or prompt payment and thus will likely not get preferred customer treatment. Be prepared to use a personal credit card or to send a money order or business check before merchandise is shipped. Cash on delivery (COD) may be another alternative to consider. Gaining preferred customer status may be achieved as your business grows and as you prove yourself to be a reliable business partner.

When placing an order with a company, specify whether you will accept substitutions. Keep a copy of material ordered from suppliers and check your copy against the packing slip and/or the invoice for accuracy when the goods are received. Know the company’s policy
on returning incorrect items or damaged items. You also need to be familiar with the supplier’s policy on back-orders. Some suppliers require minimum orders and will not back order if the item is out of stock. You may also be able to specify no back orders when you order. This will allow you the option of obtaining the material from another supplier.

Keep track of items that sell well and discontinue carrying those items that are slow movers or are not profitable. Slow movers tend to tie up money that could be used for more profitable strategies and storage or shelf space that could be used to stock more.

When materials purchased will be resold in another product form, the business will probably buy from wholesalers. Wholesale is the business that sells to the retailers, and wholesale prices are generally much lower in order to allow the retailer to make a profit. Purchasing materials wholesale may be the difference between a business earning a profit or incurring a loss. Finding a wholesale outlet for needed materials and supplies can sometimes be challenging. Paging through the yellow pages may be fine for some supplies such as food wholesale houses or packaging sources, but generally a great deal more “leg work” must be done to build successful links with suppliers. This effort may require spending time in the public library to sort through the maze of suppliers, contacting businesses that use similar materials, and networking with supply houses. Most wholesale businesses will require proof that the order is being placed by a legitimate business. They may require the initial order to be placed on the business letterhead and can mandate that you place a minimum order.

**Cost Control Resources.** Finding supply dealers and wholesalers will require an investigative attitude. If you live near a metropolitan area, relevant information may be as accessible as the Yellow Pages. In addition to the Consumer Yellow Page Directory, there may be a business-to-business directory for your community, published either by the telephone company or some other private company. If available, these will usually have a more complete list of wholesalers, distributors, and manufacturers. The Internet Yellow Pages can also be a good resource for locating wholesale distributors. Also read publications related to your business. They often provide information on what is available and who has it. Schools, guilds, professional organizations, and trade publications related to your product can provide suggestions for suppliers. References such as the Gale Encyclopedia of Associations lists organizations and publications that can also be useful.

**Industry Directories.** Each industry usually has at least two major information sources available to help you locate suppliers. Trade associations are important links between producers and raw materials suppliers. The National Directory of Trade Associations (available at local libraries or the Department of Commerce, Field Service Library) is published annually and
lists associations by name, address, and phone number. Manufacturers and suppliers who sell by mail or online furnish catalogs, price lists, and other ordering information. It is most important to remember that to purchase wholesale, you will need to be a legitimate business, complete with resale tax number. Resale tax numbers are obtained by registering your business name with the state tax commission or similar entity in the state where your business is located.

If you need more information on which magazines, newsletters, technical journals, and other publications are available, ask your local librarian for Ulrich’s Periodical Index and Standard Rates and Data (SRD) or go online at www.ulrichsw.com. Ulrich’s is a comprehensive list of all periodicals published for general circulation around the world. It would also tell you the name, address, and phone number of the publisher. The Standard Rates and Data publications will provide advertisers the information needed to place ads in the various media. There are several volumes of the SRDs, each covering a specific advertising medium. The two major categories cover the consumer and farm publications and the industrial publications. These are the two volumes in which you will most likely find the magazines you need. The magazines are listed alphabetically and by subject.

The Thomas Register of American Manufacturers, a multi-volume directory available in most libraries, will include a listing of products in alphabetical order with the name and addresses and phone numbers of companies who manufacture them (information may be listed by subject, names of manufacturers, alphabetically, or by brand name of the merchandise). This registry is updated annually. Depending on the goods you are seeking, you may be able to buy directly from a manufacturer or be referred to a supplier near you. The Thomas Register also is available on the internet at www.thomasregister.com. McRae’s and Connover Mast are other register sources. McRae’s is similar to the Thomas Register, but on a smaller scale. Connover Mast is a publishers’ directory that is also on a smaller scale than the Thomas Register. Sweets deals exclusively with construction and other items relating to that industry. It includes manufacturer information as well as building codes for the different states.

WHERE TO FIND BUSINESS SUPPLIES

The preceding discussion has concentrated on purchasing supplies (raw materials) for the product to be manufactured or finished products for resale. Wisely purchasing business supplies will also help your profit and loss statement. Again you want the best quality for the best price, and all should have a coordinated professional image.

Business supplies are everywhere. The trick is to find the place that will offer you a combination of the best merchandise, the best delivery, and the best price. Before you decide to buy anywhere, shop around and see what’s available. You might tell store managers the amount of business you have to offer. In many cases, you could be offered a discount on large purchases. Here are a few places to look:

1. **Discount and Warehouse Stores:** Depending on what you need, a discount store often has excellent products and very low prices.
2. **Department Stores:** Generally speaking, department stores will be more expensive
than other suppliers. However, these stores may offer better service contracts and delivery. If you plan to buy office furniture, for example, you may want to wait for department store sales.

3. **Office Supply Mail or Online Order Houses**: These can be a good choice for your business needs, particularly if they offer speedy delivery. These types of firms usually have a complete catalog available online.

4. **Stationery and Office Supply Stores**: These suppliers might be a bit more expensive than other establishments, but may have a larger selection of specialty merchandise than other types of outlets.

5. **Local Printers**: These people usually provide excellent work quickly, and their prices are generally competitive.

6. **National Business Supply Store**: These suppliers often offer a large variety of inventory in more urban areas as well as online ordering.

### ASK FOR DISCOUNTS

Vendors may publish price lists showing the full prices of the various items in their lines and a series of discounts they offer. Or, you may have to ask for them. Several discounts may be available, depending on your particular situation. Some of the more common types of discounts that are available include:

1. **Trade Discounts**: Trade discounts are offered to buyers who are willing to perform certain functions for the seller. The advertising, shipping, and inventory costs mentioned above are three examples of why you may be given this type of discount. For example, if you will handle the shipping, you may get a percentage knocked off the stated price, assuming you can do it for less cost than the seller.

2. **Quantity Discounts**: This is a very common discount that gives you a lower per-unit price for a larger order. Some vendors will allow you to accrue your orders (lump orders together over a given period of time, such as six months) to qualify. Others will discount their prices order by order. Still others will give you the price break on the invoice or send you a check for a volume rebate.

3. **Seasonal Discounts**: Seasonal discounts are offered for ordering during a less busy time of the year, such as a markdown on winter jackets in February and March.

4. **Cash Discounts**: Cash discounts are normally given for the prompt payment of bills. While this type of discount could apply to cash-with-order purchases, it typically applies to credit orders with payment terms. Many companies will allow cash discounts for payments made within 10 to 30 days after the purchase. These terms may appear on your invoice as, for example, 2/10 EOM. This means a two percent discount may be taken if the invoice is paid by the 10th of the month, but full payment is due by the end of the month. Check with your suppliers for details of the discounts they offer.

5. **Competitive Bids**: Another method of obtaining prices from potential suppliers is through the solicitation of competitive bids. This is the process most governmental bodies and many large companies use in getting prices for the goods or services they require. As with price lists, be sure of what is and what is not included in the price (particularly the services that might be required for the product(s) being purchased or delivery and shipping costs). This method and negotiation, discussed below, is
better for getting prices on more expensive items or large purchases.

6. **Negotiation**: Negotiation is the third way of establishing a price for the item or items you need to buy for your business. Some people tend to look at negotiation as merely price haggling, but price is only one factor. While price may be the most crucial issue to you, it may be to your benefit to use others as “bargaining chips.” You may press hard for a better delivery schedule you do not really need and then “back off” on this in order to secure a better price.

Negotiations with a potential supplier are quite similar to labor negotiations. You can use many of the same techniques. For example:

1. In the first part of your discussion, try to figure out just what the other person really needs and press hardest on those items to get what you really need.
2. Let the other person state his/her position first. It may be a pleasant surprise.
3. Hold discussions in your office or some other place of your choosing. Familiar surroundings really help you feel more comfortable.
4. Keep pressing the supplier to justify his position—“Why does the price have to be that?” etc.
5. Listen to what the other person is saying. And just as important, listen to what he or she is not saying.
6. Remember that you are trying to create a long-term relationship with this person. If he or she feels that you’re taking unfair advantage, the relationship will suffer.
7. Never agree to anything you are not asked to. In other words, don’t give it away.

The objective of negotiation is to reach an agreement both parties can live with and be happy with. There are any numbers of publications at your local library that will provide additional information on procurement. Ask the reference librarian for assistance.

**REFERENCES**


**GLOSSARY**

**Procurement**: To obtain, acquire, purchase supplies needed.

**Raw Goods**: Unfinished materials used in manufacture or assembly.

**Wholesaler**: Person who sells goods in large quantities either for resale by a retailer or as inputs into a manufacturing process.

**Trade Association**: An organization of people with common interest in a particular business or industry that enables them to share pertinent news and developments.
MANAGING INVENTORY PROCUREMENT/BUYING WHOLESALE

The process of getting material for production

Timely Acquisitions
- Includes planning so time is allowed for shipping and delivery
- Involves risk taking. Without planning excess inventory could end up not being used if the business owner changes focus of his business

Quality Control
- Quality of Materials
- Consistency of Materials
- Communication with Suppliers

Supplier Identification Resources
- National Directory of Trade Associations
- Ulrich’s Periodical Index
- Standard Rates of Data
- Thomas Register of American Manufacturing
- McRae’s
- Conover Mast
- Business-to-Business Directory

Business Supplies
- Discount Stores
- Department Stores
- Office Supply Mail and Online Houses
- Stationery and Office Supply
- Local Printers

Discounts
- Trade
- Quality
- Seasonal
- Cash
- Competitive Bids
- Negotiations