Retail Guide to Successful Cash Flow & Inventory Best Practices

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Introduction

In this guide you will learn the following:

- How to use a Credit Card to purchase inventory.
- The benefits of having a Business Credit Card.
- The Top Rated Small Business Credit Cards.
- The profitable way to mark up inventory.

Introduction

It’s critical to keep a retail store well stocked with inventory. But as a retailer, what do you do when your cash in hand is not sufficient to purchase the inventory you need to stock your shelves?

A great way is to rely on a credit card to buy the goods.

Over two-thirds of all small retail businesses rely upon credit cards to pay their expenses – including inventory purchases.

How to Use a Credit Card for Inventory Purposes

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The mechanics of purchasing inventory with a credit card are simple enough.

Here are a few basics:

1) Contact your supplier or your supplier's sales representative to make sure he or she **accepts credit cards** – not all do.

2) If your supplier is in a different state or a different country and the inventory purchase is for a larger amount than you usually charge, consider **calling your credit card company** and informing them of the transaction so they don't decline it as a security precaution.

3) Keep in mind when paying for inventory with a credit card the money you remit your wholesaler or producer no longer represents the true cost of the inventory you've just bought. When you buy something with a credit card, The credit card company is essentially loaning you money and charging you interest on that loan. That interest, then, is also part of what you're paying for your inventory. For retail merchants who operate on the margin with only a small difference between the cost of inventory and the price they sell it for, the interest they pay on credit cards can significantly undermine their profits. **Make sure to add this in your markup and keep your margins!!!**

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Business Credit Cards

A business credit card is a revolving line of credit established in your business’s name. If your business is new or has not established credit in the past, either through a bank or through paying suppliers, you will be required personally to guarantee the amounts charged to the business card.

In general, the interest rates you pay on business credit cards are higher than what you might pay for other types of business loans. So why get a business credit card at all? Because if you use the business credit card prudently as a tool to help manage cash flow, it has advantages.

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Business Credit Cards

Advantages:

Pay Off Your Balance and Avoid Interest: Most business credit cards offer a 21-day grace period before your payment comes through. Pay off your balance within the first ten days after using card for your inventory purchase and the interest you pay will be minimal.

Build Your Business Credit: A small business credit card is your first step towards building business credit which will allow you to become eligible for business loans or credit lines at much lower rates of interest, essential when it comes time to expand your business.

Keep Personal and Business Expenses Separate: Keeping business expenses and personal expenses separate is a Herculean task when they're both being charged to the same credit card – although when Tax Day rolls around on April 15, you and your accountant will wish you had. When you use a business credit card, your business expenses are automatically tracked separately. An added convenience is the year-end summary that most business credit card issuers provide with all your transactions neatly itemized by tax category.

Rewards Programs: Many small business credit cards are affiliated with rewards programs that offer discounts on a wide variety of business-related expenses including office supplies, software, and even phone expenses. A small business credit card affiliated with an airline will allow you to compile frequent flyer miles, becoming eligible for free air flights.

Top Rated Business Credit Cards

Highly rated options:

Capital One Spark Cash Credit Card: You'll get 2 percent cash back on every purchase, which adds up. You can also earn a one-time $100 bonus if you spend $1,000 within the first three months. The card charges a $59 annual fee (waived the first year), but that expense could be worth it, says Brian Kelly, founder of ThePointsGuy.com, a credit card comparison site. "If you're spending a lot, you make up for the small annual fee by raking in higher rewards," he says.

The Plum Card from American Express Business:
This card gives you more flexible payment options. Enjoy unique benefits like:
Early Pay Discount: Get a 1.5% discount on your payment by paying at least your minimum payment due within 10 days of the statement closing date, which you can use to reinvest in your business. Your discount will appear as a credit on your next statement.
Extra Days to Pay: Take up to 60 days to pay, without interest, so you can keep the cash you need on hand.
Set your Billing Cycle: For even more cash flow flexibility, you can choose whether to receive your bill at the beginning, middle, or end of the month.

(AS OF 12/1/12) Do further research using http://www.bankrate.com/credit-cards.aspx

Top Rated Business Credit Cards

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Best Rated Overall: Chase Ink

There are two types of Chase Ink cards to choose from: the Ink Cash and the Ink Classic. Either way, both cards are great all around. Right off the bat, you'll benefit from a signup bonus worth $250 if you spend $5,000 in the first 3 months. There's no annual fee and you'll earn 5% rewards in bonus categories. The Ink Cash earns, well, cash, and the Classic pays out in Ultimate Rewards Points. These points are easy to redeem, and since they can be used toward gift cards, they're practically as good as cash depending on your expenses. Both cards get 5% back on office supplies and cable/telecom services, with a $25,000 yearly maximum. The Classic gets you 2% on gas and lodging, and the Cash gets 2% on gas and dining, also with a $25,000 max. And overall, both cards offer 1% back on all other purchases. More specifically to small businesses, there's a 0% APR for 12 months, so you can take care of those early expenses and have a little extra time to pay it off.

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Adjusting Your Retail Prices

Adjusting Your Retail Prices

If you you will be using credit cards regularly for inventory purchases then you will have to estimate the interest you are going to end up paying, and factor that into the cost of goods. It's absolutely necessary because you cannot sell products below cost for any prolonged period of time. Whatever pricing model you use, it has to be in excess of your cost of goods and your operational expenses or else you will not be able to stay in business.

Question:
How do I mark up my inventory to stay profitable?

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Adjusting Your Retail Prices

Establishing Initial Margin

To discuss the retail concept of margin it is important to have a few definitions under your belts first. For starters:

• Cost Cost of Goods (COG): What you pay the vendor for products.

• Retail Selling Price of Merchandise: What your customers pay the store for these goods.

• Initial Margin $:The difference between retail and cost (Retail – Cost = IM$). When expressed as a percentage of retail (IM$ / Retail Sales Price = Margin %)

The Profitable Way to Mark up Inventory

In retailing to stay profitable you want to determine the correct margin that will be able to cover the cost of the inventory purchased (include any shipping, labor/payroll, etc), any interest from the credit card, and enough to make a profit.

There are three ingredients needed to figure out what your margin is and what the margin should be. If you know two out of three, calculate the third. Then, you can decide whether or not what you have to pay fits into your business plan. Let’s run through a few examples-next slide.

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The Profitable Way to Mark up Inventory

<u>When cost and retail are known and you want to find out what your margin percentage will be:</u>

Retail – Cost = IM$ / Retail = Initial Margin %

Example: If you buy a lamp for $6 and it retails for $15, Initial Margin % is 15 – 6= 9 / 15= 60% ($9 Profit)

<u>When cost and margin percentage are known and you want to figure out what the retail should be.</u>

(Note: Under the retail methodology, the selling price of an item is always 100%. Therefore, both cost and markup must equal 100%.)

COG% – margin % = 100 %

Example: If you know you want to maintain a margin of 75% on your children's clothing and a vendor offers you girls' pants for $5, the retail price you need to charge would be:

100% – 75% = 25%

$$\frac{5}{25\%} + \frac{15}{75\%} = \frac{\$20}{100\%}$$ (Retail Price) ***You make a $15 profit***

20 x .75 = $15 Mark up

<u>When retail and margin percentage are known and you want to find out what you can afford to pay the vendor</u>

Cost = Retail (100% – margin %)

Example: For your white sale event, you need full sheets to retail for $6.88 and you know that you want to work on a 39% margin. What can you afford to pay for each sheet? Cost is $6.88 (100% – 39% = 61%) = 6.88 x 0.61 = $4.20 payable to Vendor apa BUSINESS CONSULTING INC.

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