STRATEGIES TO HELP WHOLESALERS DEAL WITH EXCESS INVENTORY

BY STUART NUSSBAUM

As new tariffs on consumer products went into effect in 2019, importers began doing everything they possibly could to mitigate the impact. One key strategy involved bringing in goods earlier, as well as purchasing in excess of projections to get ahead of the proposed higher tariffs.

However, when the U.S. Census Bureau reported advanced retail sales for the first 11 months of 2019, the report was not encouraging. With few exceptions, retail sales were down, flat or up modestly. While general merchandise store sales were up 1.4%, department stores continued to struggle, with sales down 5.4%.

As such, importers are finding themselves in an unfavorable position of having swollen inventory levels that are greatly affecting their financial condition. Problems related to having too much inventory include tying up cash flow (the life- blood of a business), lower profit margins due to needing to sell the inventory at deep discounts, space constraints, storage costs, and disposing of unsaleable goods in a manner that is not good for the environment. UBS also noted in September 2019 that inventory growth for consumer product categories such as apparel, footwear and accessories have outpaced sales growth for four quarters running, thus predicting higher discounting and lower gross margins. Following are some potential strategies to help wholesalers deal with excess inventory.

Bundle Items

Grouping certain products together and selling them for a slightly lower price than if bought separately is an effective method to entice buyers to pick up items that are not moving. There are multiple ways to do this, such as bundling units of the same item, complementary products and matching slow-moving items with faster moving ones. Your business will benefit both from the increase in average order and clearing out the excess inventory without a big hit to profits.

Sell Online

If you already have your own ecommerce site, then you can create sale product pages to offer your customers excess inventory items at a discount. If you don't have your own site, then you can try to sell items on sites such as Amazon, eBay and Etsy. Using these marketplace sites will give you the ability to reach many more customers, but you must be careful of the steep fees these marketplaces charge. And, with excess inventory you are already most likely offering the goods at a considerable discount, so your margin will be quite low.

Surplus Inventory Liquidation Companies

Every consumer product category has liquidation companies that specialize in taking a company's slow-moving items and selling them in another market so as to not have an impact on that company's current distribution markets. Liquidation companies normally are selective as to which items they want to purchase and offer much lower price points, so chances are there won't be much gross margin on these sales.

Liquidation Auctions

In the last decade there have been a growing number of liquidation companies that conduct online auctions. They don't purchase goods up front, instead allowing you to display goods on their website, with a sale only happening when a purchase is made. Upon such a sale, these liquidation companies earn a fee for the service.

Strategically Discount

This is the most popular option because it requires the least amount of work and appears to be the quickest resolution, although it does have an effect on margins. Lowering the price on your excess inventory can entice additional purchases. Products can also be sold to specific off-price retailers like TJ Maxx. Marshalls, Burlington and Ross Stores. These types of retailers have been doing well, even in the current economic climate. However, it's important to be strategic about this type of sale, start with a small discount and continue from there.

Donate the Inventory

Getting a tax deduction for a charitable contribution is a "feel good" option for companies looking to move excess inventory. A C Corporation donating inventory to an eligible charity can deduct the cost of the inventory donated, plus half the difference between the cost and fair market value of the goods, with a limit of twice the cost if meeting certain criteria as stated in the IRS Code.
Partnerships, LLCs, Sole Proprietorships and S Corporations can get a deduction of the cost of donated inventory.

Final Thought: Although the new tariffs may have contributed greatly this past year to a company's excess inventory position, ordering the right amount of product to prevent surplus inventory and minimize out of stock items is difficult to master. Implementing a good inventory management system and an efficient value stream process from order to cash will be invaluable towards operational and financial success.

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