

By John Kasun

The difference between the price you buy an item for and the price that you sell it for minus your overhead is your profit. That may be a slight oversimplification, but you get the idea. Based on this example there are three ways to increase your shops profit; reduce your overhead, increase your selling price or reduce your purchase price. For the most part the selling price of an item is determined by your retail competition and the law of supply and demand.

Lowering prices to increase sales sometimes seems like a good idea but it is important to remember that the overall goal is to make money. Reducing the selling price of any item below what the consumer accepts as a reasonable price is simply giving away profit which is the same as giving away money. When I operated my own archery shop I never reduced my prices unless I needed to purge my inventory of items in which I was either overstocked or which were poor sellers. I never reduced the consumer accepted selling price of any in demand item. An excellent example of this was several years ago when the Whisker Biscuit first hit the market. No one was ready for the demand by the consumer and Whisker Biscuit's



Business Break

Buying Groups

were in short supply. If you had them in stock you had a guaranteed sale. Reducing the price on this hot moving item simply meant you sold all you had but you failed to make as much money as you could have because you were guaranteed to sell them all regardless of the price.

With that being said, if you have minimized your overhead cost and maximized your retail prices the only way to further increase your profit margin is to reduce the purchase cost of your inventory. Fortunately there are several ways to minimize these costs. First there are the opportunities available when

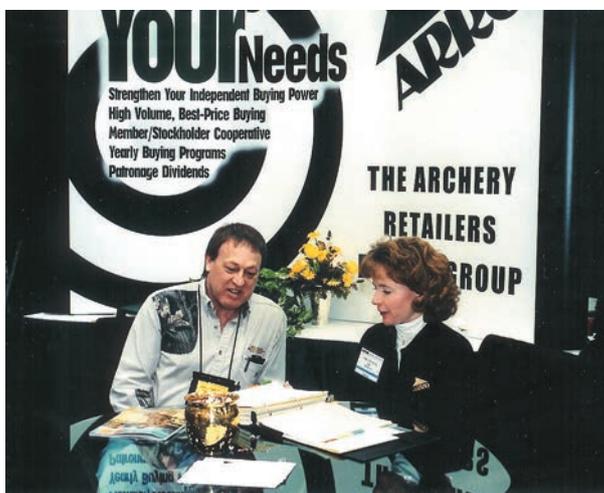
taking advantage of the early order buys offered at the trade shows. Second is volume buying from distributors to earn quantity discounts. Third is becoming part of a buying group such as ARRO, Sports Inc. or NABA, to mention just a few, and fourth is buying direct from the manufacturer. Of these four options the one that often seems the most attractive to many dealers is buying direct.

Buying direct can be a great money saver but it can also be a huge black hole for the medium or small sized dealer. If buying direct means

that you must severely limit the product choices you offer your customer in brands or models the savings could backfire. You also run the risk of loading up with what could be a slow moving item and may be forced to reduce your inventory at a loss. Buying direct only makes sense if you can still afford to offer your customers a variety of product choices and the quantity of product you must purchase to get the best price does not cause an imbalance in your inventory.

Each of the above mentioned cost-saving methods has their advantages for the retailer but there is one more often overlooked possibility that can play an important role in reducing your inventory cost. That possibility is the establishment of your own mini-buying group. Establishing your own mini-buying group has numerous advantages as well as some serious pitfalls but if approached with an open mind and with all the cards placed on the table it can benefit all involved. Let me tell you about my personal experience when as a shop owner I organized my own mini-buying group.

When operating my archery shop during the 60's and 70's I wanted to offer my customers a variety of product selection while keeping my inventory cost as low as possible. I purchased a limited number of items direct from the manufacturer and obtained the balance of my inventory from distributors. At that time for-



Formal buying groups such as ARRO are excellent ways for dealers to take advantage of volume discounts on a number of products without having to commit excessively large amounts of inventory dollars to any one product line. Self formed mini-buying groups reflect this same logic of group volume buying on a smaller and more specialized scale.



Offering customers a variety of items from which to choose without going broke can be challenging. Mini-buying groups give the dealer the advantage of a diversified inventory while allowing him to maintain the desired balance of his inventory dollars.

mal buying groups for archery equipment were not in existence. Most of the shops operating at that time were of similar size and we all shared the same problem of cost and selection.

The solution to our common problem seemed simple enough; pool our purchasing power in areas of mutual interest. I searched out several dealers within a two-hour driving distance of my shop that I felt I could trust. When all the dust had settled we had four dealers in our mini-buying group. While all of us carried some common lines we each had lines that were unique to our individual shops. A face-to-face meeting was arranged and we compared notes. The first thing we did was develop a list of items which each of us sold but did not sell enough of to buy direct or to take advantage of quantity discounts. By reviewing our individual usage we identified areas in which combined orders would result in a savings for us all.

Next we each looked at items that the other shops carried that we did not. When we found something that we liked or simply wanted to try we added a small quantity onto the shop's order that was buying the item in the largest volume. Some of these combined orders went to distributors where increased volume discounts were available and other combined orders were placed direct

with the manufacturer. In addition to lowering our per item cost we also saved on the shipping expense by combining orders. We placed the orders through the dealer whose volume generated the greatest savings, but we also tried to balance out the money being committed as equally as possible. We all trusted each other, but it was still business.

Some of the merchandise was ordered for a single delivery while other orders were programmed. We all agreed that when the merchandise arrived it would be divided and paid for prior to anyone taking delivery. Our buying group gave each of us the ability to expand our product lines and reduce our cost but it gave us one more major advantage that we had not anticipated, a form of inventory control. As the busy season approached and each of us ran into shortages our first contact was with the other members of our buying group. As happens with any business during the rush season we all ran into shortages and at the same time had some items in which we were overstocked. By working together we were able to trade products as required and bring everyone's inventory into better balance while providing a higher level of service for our customers.

Today's dealer has many more options available when it comes to realizing savings on their purchases, however the same principles our

buying group used years ago are still applicable today. Many people express concern when hearing of this concept for the first time, saying they objected to entering into a buying group with their competition. While forming your own mini-buying group with a competitor across the street makes little sense I think with a little thought you can find a dealer or two that you can work with who are located outside of the area your shop serves. While the mini-buying group concept is admittedly of little value to a large dealer it is ideally suited for small to medium sized shops.

Although it would be possible for several dealers to go together to purchase a bow-line direct from a manufacturer, this is normally not the case. Most of the items that best fit into this scenario are accessory items; add on sale items or special buy offers direct from manufacturers. Dealers who combine orders under these conditions can easily generate a nice profit bonus by simply taking advantage of the reduced purchase price.

In today's business climate it is important to take advantage of every possible opportunity to increase your profit margin. A mini-buying group could well suit your operation or you may just want to partner up with another dealer to buy a special close-out on bow cases or split a load of 3-D targets. In any case decreasing the cost of your inventory by any means makes sense and you may find that partnering up may just increase your profits as well.



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