

By Robert Cass

## The Incredible Shrinking Inventory

Maintain sizeable profits with a checks-and-balances system for buying, selling and housing your products.

IT HAS BEEN A WONDERFUL YEAR AT YOUR SPA: You have a menu of amazing treatments, fantastic customer service and your clients are singing your praises. This should all add up to a tidy profit, right? Hopefully yes, but not necessarily. According to a 2002 National Retail Security Survey, in 2001 approximately \$31 billion was lost due to inventory shrinkage. This is just one of the reasons that if you don't have some basic standard practices in

place for purchasing, receiving and inventory control, you could be losing some of the hard-earned money you've invested into your retail and professional product stock without even realizing it.

Purchasing, receiving and controlling inventory are key elements in preventing shrinkage and maintaining the profitability of any spa operation, but if your protocols are too rigid, staff may feel that you don't trust them. As a leader of your spa operation, it's important for you to develop a concrete system for handling inventory that provides the proper care and protection for your business, while respecting the integrity of your employees. With a few simple guidelines, you can firmly establish standard procedures and clearly demonstrate to your team that you're simply building a system in which you can trust everyone.

### Purchasing

Typically, an ideal day spa inventory purchasing procedure works in three steps:

1. The manager/owner creates a Purchase Order (P.O.), either manually or on a computer, set up in advance with all of the supplier information.
2. The P.O. is signed by a designated manager/owner. This is an important step because it places the accountability on the senior member of the team, who should be well-educated on the expectations of the company.
3. The order is placed via fax or e-mail. Avoid verbal ordering whenever possible, as it lends itself to human error and problems. "A clear, legible order that contains all the necessary information helps us efficiently deliver only the items our customers want and on the timeline they need," says Cristina Ramirez, vice president of Intercosmetics Spa & Beauty Supply ([www.intercosmetics.ca](http://www.intercosmetics.ca)).

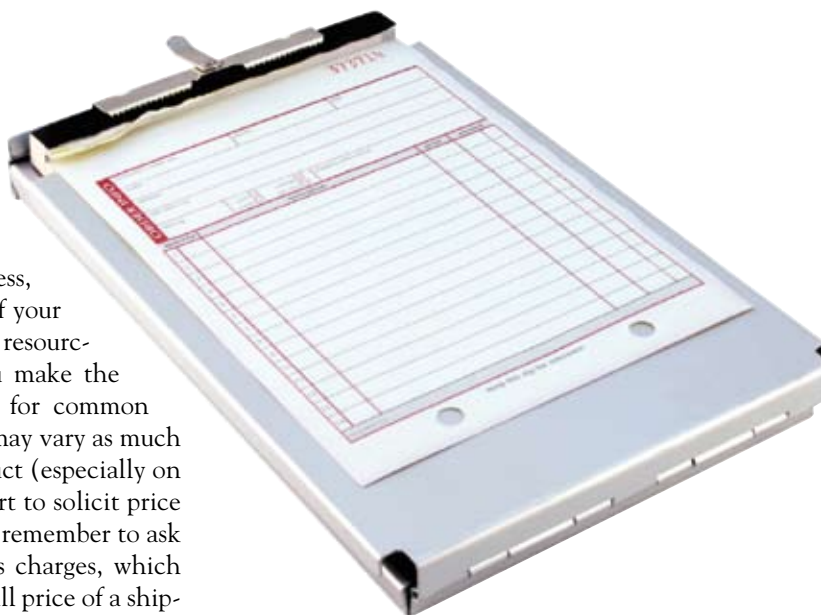


Purchasing procedures go smoothly when there's a well-established system to support them. To set up an organized purchasing system for your business, begin by determining the needs of your particular spa. The size, scope and resources of your business will help you make the right choices. When purchasing for common items, do your homework. Prices may vary as much as 20% to 30% for the same product (especially on larger items) so it's worth the effort to solicit price quotes from several vendors. Also remember to ask about shipping costs and customs charges, which can make a difference in the overall price of a shipment and therefore alter your buying decision.

Once you've found a group of suppliers that work for you, concentrate on building strong relationships with them. This will enable you to gain loyalty and minimize deliveries and accounting paperwork. Ramirez has seen strong relationships benefit both suppliers and spa owners. "When we had a few loyal clients ask for help on order forms, we decided to [go above and beyond] and create custom order forms just for them," she says. "Now they can quickly send us orders without having to make a phone call, and we get all the information we need to efficiently deliver the products."

Some additional purchasing tips:

- Restrict access to your ordering/purchasing module. This will help prevent technicians from using your accounts to purchase products for use in treatments they're performing outside of your spa.
- Assign one person the responsibility of purchas-



Once the goods are delivered, the packing slip should be compared with the P.O. and merchandise received.

ing to ensure that items being ordered for your spa are necessary, timely and appropriate.

- Keep retail and professional lines separate to help maintain proper organization and tracking.

### Receiving

Once your purchasing system is in place, what do you do when the goods arrive? "We have a tremendous volume of stock in our retail operation

## Shrinkage Breakdown

The chart below indicates the areas of U.S. businesses that experience significant inventory shrinkage.

Source of Inventory Shrinkage	% of Loss*	\$ Lost
Employee Theft	48.5%	\$15.1 billion
Shoplifting	31.7%	\$9.7 billion
Administrative Error	15.3%	\$4.8 billion
Vendor Fraud	5.4%	\$1.7 billion

**Total Inventory Shrinkage: \$31.3 billion**

\*Total not equal to 100% due to rounding  
 Source: National Retail Security Survey, November 2002  
 (Based on 2001 retail sales and inventory shrinkage)

and strong receiving controls are crucial,” says Christine Pearson, spa director at Stillwater Spa at the Park Hyatt Toronto ([www.parktoronto.hyatt.com](http://www.parktoronto.hyatt.com)) in Toronto. “It

keeps us focused on good business practices and our suppliers stay on their toes because they know we’re watching.”

In an effective receiving system,

once the goods are delivered, the packing slip should be compared with the P.O. and merchandise received. If everything is correct, the receiver should sign the packing slip, indicating that the products are in good condition and the count is accurate, and send the goods to the storeroom. Inventory counts should be updated immediately to reflect the new stock.

If there’s a shortage, overage, damage, error or omission in the shipment, the problem should be reported to a manager/owner immediately to follow up directly with the supplier. Overage means you’re accepting goods you don’t need, which ties up cash flow, and shortage means you’re missing potential sales because you won’t have the product on hand. If a shortage goes undetected, you could also be paying for something you didn’t receive.

Some additional receiving tips:

- After you’ve received and verified a shipment, attach the P.O., invoice and packing slip for easy reference later, and store them in a file under the appropriate supplier.
- Don’t be afraid to refuse back orders if you realize they’re not needed.
- To maintain organization and prevent stock from “going missing,” designate one specific area for receiving.

### **Inventory**

Once your purchasing and receiving systems are in place, you must conduct monthly counts of retail and professional product stock to keep track of your inventory. “With the day-to-day demands of our spa, it’s critical that I know the inventory count is accurate so I know nothing is walking out the door without a

## Assign different people to perform the various duties related to each area and rotate job assignments.

sales receipt attached to it and I don't miss any sales opportunities," says Summer Ellis, spa director of Avia Spa & Salon ([www.aviaspa.com](http://www.aviaspa.com)) in Santa Barbara, California.

When doing an inventory count, a manager should be present with at least one other employee to reduce the risk of errors and eliminate opportunities for a dishonest employee to fudge the numbers. Inventory counts should be done blind, meaning the people counting shouldn't have last month's inventory numbers available. Once the physical count is complete, it should be compared to the theoretical count—last month's inventory plus purchases, minus sales. Ideally, these numbers should be the same, but if a problem or discrepancy occurs it's critical to correct it quickly.

Some additional inventory accounting tips:

- Coordinate count sheets with your storage area to make counting go faster.
- Update your records immediately after each monthly physical count. This will help keep your subsequent month's inventory accurate.
- Post sign-out sheets in storage areas so employees can record their use of professional products. Review these sheets monthly to ensure the usage was appropriate.
- Update your tracking system regularly to reflect a proper inventory.
- When issuing keys for storage areas, require signatures of responsibility and eliminate any extra keys.
- Review storage areas for security weaknesses. Be sure locks are in good condition and instruct your closers to check that storeroom doors aren't left open.

Once you have a system in place for purchasing, receiving and controlling inventory, assign different people to perform the various duties related to each area and rotate job assignments. The segregation of duties provides a system of checks and balances that increases the likelihood of accurate information and decreases the likelihood of theft. By implementing these policies and communicating clearly with your employees, you can prevent shrinkage from hurting your profits and enable your spa to continue performing amazing treatments and delivering top-quality service. ●

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