

## Departmentalizing and Inventory Management in a Retail Store

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The breaking down of a retail store into departments can have a number of benefits to the retail operation. Included in these benefits is the ability to help organize and manage your store's inventories more effectively. More importantly, it can contribute significantly to the overall profitability of the store.

The following are suggestions on the basic steps that could be followed in organizing a retail store by departments:

Categorize the merchandise into groupings of "Like" kinds of merchandise. Examples of this could include grouping all giftware together, all housewares together, all food related products together, etc.

Assign a stock number to each item in the store which would follow some logical sequence and then be recorded to avoid potential duplication.

Ticket all merchandise to include all or part of the following:

- department numbers;
- a stock aging number/letter to help you to know when the stock came into the store;
- retail price; and
- other suggested coding/combinations could be: supplier, style, size and colour, cost stock keeping unit (S.K.U. number).

Set up the cash register to record sales based on the department breakdown.

Set the record keeping up to match to the departments.

Merchandise the sales floor to the departments.

Plan and analyze sales and purchases to the departments.

**NOTE:** The breaking down of a store into departments should be done keeping the following in mind:

- break the groupings down to the level that relevant information is provided to you on their individual department performances;
- do not break them down to levels so small that they do not make sense;

- ensure that the work, cost and time in managing this system is not greater than the benefits you want from it;
- ensure your cash register (point of sale) and your record keeping system (management information system or M.I.S.) have the ability to handle these department information breakdowns; and
- ensure all staff members are aware of what you are doing and the importance of it.

The following are additional points to be noted in this process:

All stock should be organized on the sales floor according to these departments, keeping the groupings in proximity to each other, re-ticketing the stock if necessary, and then taking a physical inventory by department to establish an inventory cost by the department. At year end, a closing inventory would also be taken by department.

If the record keeping system has been set up properly, purchases should also have been recorded by the departments.

A point to keep in mind when organizing by departments is to remember that it is not always a cut and dry procedure, particularly when you have suppliers shipping a range of merchandise that may cover different departments, and invoicing all on one invoice. Your option in these situations is to manually pull the information off the invoice by department, or more simply, to order merchandise on separate purchase order numbers done by department. A cost of goods sold and gross margin can then be calculated for each department. The department's performance can then be measured. If successes or problems are identified, the category can be analyzed for the reasons.

Once the categorizing to these levels has been completed, a system of reordering should be put in place. Reordering in many situations is done by the "eyeballing of the inventory" method but this method may not give you the accuracy and control you may require and want.

A more reliable way is to set up a manual item stock records system. It can be very basic and record information by department, manufacturer, season, item, item cost, and retail and units sold. Regular stock counts can take place weekly, monthly, etc. as the product turnover dictates. Departments can then be summarized at determined intervals for analysis from the stock counts. If completed for departments at least once a month, an extension of the units and cost can give you an estimate of the dollar inventory on hand. If a physical inventory is done, a comparison between what should be there and what is actually there can also be done. If there is a shortfall, a stock shortage or shrinkage is created and the cause should be determined.

This basic system can be taken one step further to include a plan to estimate sales for a product and project quantities to buy, thereby attempting to reduce potential stock outs. A potential danger is to overestimate projected sales quantities which may create stock problems. A key part of this total process is the use of purchase order forms, including order numbers, shipping and cancellation dates, item listings, costs, terms, shipping instructions, and whether or not substitutions will be accepted. At the same time, it is important that all merchandise arriving into the store is checked against the invoice and the purchase order.

Stock counts should be done by staff familiar with the products areas, and should include identifying damaged or problem stock for action, housekeeping, etc. Sales representatives from companies can potentially also be a source of help. Counts can be done on a rotational basis with other departments through the month, and do not have to be done all at the same time. A caution is to not get this to the level that it does not make sense, and thereby requires time and effort that the results cannot justify. As well, it should also be watched that staff do not get so involved in counting of stock that customers are ignored.

Computer inventory link-ups to cash registers, if workable, can be of benefit. An evaluation of the system, labour and other associated costs should be weighted against the benefits needed, and the performance of your current manual system. It may not be advisable to convert your system. A manual system should be established first. Get it working and be comfortable with it before considering moving to a computer system.

From this, category and individual item sales and purchase planning can now be done. This can be referred to as a "Buying Plan". This can help to identify planned dollar purchases by month and by department and can be broken down to make allowances for purchase of basic items, promotional items, seasonal placing, and opportunity buys. This would be maintained on an ongoing basis and be adjusted, for example, based on sales results, stock levels, shipping problems, etc.

Once the purchasing requirements have been established, they can be now worked into the basic cash flow planning process to determine requirements. To this point, this has been a bottom up process. It is conceivable that cash flow limitations from a top down look can restrict or force a reconsideration of purchasing requirements. This would then have to be worked back down, and decisions made accordingly.

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Prepared by: Government of Saskatchewan

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For further information regarding starting a business, contact the

**Canada-Saskatchewan Business Service Centre**

#2 - 345 3<sup>rd</sup> Avenue South

Saskatoon, Sask. S7K 1M6

Phone: **306-956-2323** Toll-Free: **1-800-667-4374**

E-mail: [saskatchewan@canadabusiness.sk.ca](mailto:saskatchewan@canadabusiness.sk.ca)

Web site: <http://www.canadabusiness.ca/sask/>

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