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Inventory is challenge for stores during the holidays

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At Caramel on U Street NW, Sarah Watkins is trying to anticipate demand as she manages her inventory. (Dayna Smith For The Washington Post)

Potomac native Adam Hanin learned an important lesson last Christmas: Don't stock it before you know they are ready to buy.

As owner of National Jean Company clothing stores in Reston and Bethesda, Hanin typically buys merchandise in the sweltering heat of August to fill his shelves for the holiday season. But that backfired last year when the financial crisis erupted and consumers abruptly shut their wallets, leaving Hanin and the rest of the retail industry stuck with an excess of merchandise that ate away at their bottom line.

This year, Hanin was more conservative in forecasting sales. He delayed buying many products to get a better sense of demand. And he ordered more clothes that can be worn -- and sold -- year round rather than seasonal items with short shelf lives.

"The inventory that we brought in matched what the expectations were in terms of business," Hanin said. "Now there's a better understanding of where things lay."

The recession has forced the retail industry to recalibrate how much merchandise it should have on hand. During economic boom times, stores could afford to take a chance on quirky items in every size and color. Now many are playing it safe by ordering smaller quantities and sticking to products they know will sell. According to a survey by consulting firm BDO Seidman, 60 percent of retail executives said too much inventory poses a greater risk than not having enough.

"There was this thought process that if you don't have it, you can't sell it," said Mark Ellenbogen, audit partner at BDO Seidman. "Last year a lot of them got burned by having too much."

Research firm Sageworks estimated that inventory at privately held clothing stores dropped 1 percentage point to about 35 percent of total assets over the past three years. At publicly held retailers, Sageworks calculated a decline of 5 percentage points to 24 percent of assets.

Some companies, though, have cut their inventories by far more, as much as 20 percent.

The smaller selection led some retail experts to warn that holiday shoppers may have a tough time finding sizes or styles. But with just days left before Christmas, many stores seem to be well-stocked, said Scott Krugman, spokesman for the National Retail Federation, a trade group.

"A lot of retailers have been able to adapt to changing demand," Krugman said.

But what matters most to shoppers is not the state of the industry but whether they can find what they're looking for, said Laxmiprasad Putta, general manager of merchandise visibility for Checkpoint, which helps stores track their inventory. Often, he said, customers walk away when the item they've been hunting for is not on the shelf.

"Do they have the right inventory on the sales floor when you or I are walking the store?" Putta said.

Sarah Watkins, owner of the Caramel clothing boutique on U Street NW, said she has placed orders to restock several popular products, such as belts and accessories, for arrival at the tail end of the holiday shopping season. She also held off on ordering some holiday cocktail dresses until she could assess demand.

Watkins said she senses some people are beginning to shop again, so she ordered the dresses and is selling them for less than \$100 each. Now she's looking at spring and summer clothes -- and still playing it safe.

"The way the economy is now," she said, "it is really difficult to predict."