



Liquidation Logic:

A case study on transforming inventory into cash flow

Discussions of basic principles that can help eBay sellers more confidently liquidate excess inventory.



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Table of Contents

Executive Summary.....	1
Inventory Liquidation Logic	2
Market Research is the Key to Successful Liquidation.....	2
eBay Product Liquidation Tips	3
Market Research Can Provide Business Owners with Professional Level Information	4
Determine Your Liquidation Value	4
Determine The Cost of Liquidation	4
Choose the Best Type of Listing.....	4
Choose the Best Time to Liquidate.....	6
A Charitable Donation May Be the Best Solution.....	6

Executive Summary

At one point or another, almost any small business is confronted with a problem: excess inventory and a lack of positive cash flow. Keeping pace in today's fast-moving and unpredictable marketplace isn't easy. Usually liquidation is just a normal step that comes about in the regular course of business. Sometimes it is because a company is in need of an effective turnaround or exit strategy from one area of their market or from the business arena altogether.

Whether you are using eBay listings in the process of reorganizing, transforming, liquidating, or going out of business, a little market research and strategic thinking can make a significant difference in the amount of positive profit you are able to generate.

Regardless of the type of business you have or what you want to do with your business; keep it, sell it, retool it, expand it, downsize it, change it, or simply retire from it, you'll be able to do so much more profitably using accurate information when making liquidation decisions. Careful market research is probably the most effective solution to help you get the information you need to generate cash by liquidating unwanted inventory.

Inventory Liquidation Logic

Excess inventory liquidation is a challenge that must be overcome to create a successful turn-around or exit strategy.

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It is a well established fact that businesses simply can't survive without cash flow. Cash is the lifeblood of any business and is the vital component that keeps a business financially healthy. Similarly, the function of your inventory is to generate sales and ultimately money. Inventory can be properly characterized as a business' money sitting on a shelf. Success comes from maintaining a proper balance between the right amount of merchandise and probable customer demand. Often finding this balance can be compared to finding the proverbial “needle in a haystack”.

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eBay has been a tool for retail storefronts to liquidate excess inventory effectively. It is also a great tool for eBay based businesses to effectively multiply sales, turn inventory quickly into cash, and to recover the maximum value for items sold. The goal of both these groups is the same: maximize the net worth of business assets and generate positive cash flow with a “liquidation” business strategy.

Market Research is the Key to Successful Liquidation

It is generally accepted that the main reason many new businesses fail within the first few years is not the lack of money, but in failing to find and implement key information and knowledge. Success is often determined by simply knowing how to make correct decisions based on correct information (including accurate market research) and by implementing an effective business plan. Remember, if you fail to plan, you probably should plan to fail.

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Imagine that you have a hundred items to sell. Do you list them individually or all at once? How about in small lots? What lot size will generate the most profit? All of these questions would be difficult to answer without proper market research.

Accurate market research will help you know:

- **How to get the best response to each and every listing.**
- **How to sustain your sales volume and keep customers coming back.**
- **How to maintain the highest profit margin with minimum expense.**

This report will discuss some tips to generating and executing an effective liquidation strategy. Market research is key in this effort and will help you reduce your time, effort and risk. It is important that each of these strategies and tips are customized for your store and implemented correctly.

eBay Product Liquidation Tips

Rarely does anyone begin a business planning to one day sell off a large portion of their assets, but the reality is that it happens all the time. Many eBay sellers undertake this task with very little effort toward researching best practices. It is amazing to see so many business owners go it alone without this important information since they often have a good amount of cash tied up in the inventory, and since converting this inventory to cash can be critical to his or her business and financial future.

The following tips are aimed at helping people understand a bit more about the process of liquidating inventory in a profitable and professional manner.

Market Research Can Provide Business Owners with Professional Level Information

Although this may be your first liquidation experience, it's a routine occurrence for professional liquidators. These businesses make money by selling off excess inventory in a relatively short period of time and by developing a plan that is tailored to fit each individual business. Accurate market research can help you obtain the type of information that these professionals use. Also, good research will be customized for your business and product. Inventory problems often are the result of a lack of information concerning color, size, trends, and customer preferences. The same market research that could have potentially helped sellers avoid the need to liquidate can ultimately help them maximize profits as they dispose of slow-moving or outdated merchandise.

Determine Your Liquidation Value

Liquidation value refers to the amount you can expect to recover in a sell-off type situation. Generally, this amount is at least 20 percent less than normal retail value. eBay sellers will need to use research to determine "eBay value" for items that they will be liquidating. It is foolish to begin the process of liquidation without knowing this value, especially on eBay. The end result could be that you simply dig yourself into a bigger hole. Once you know your liquidation value you can begin to formulate the most efficient and profitable strategy.

Determine the Cost of Liquidation

How many hours will be spent on a particular liquidation process? What is the value of that time? What are the fees that will have to be paid for the many options available to you? These factors have to be considered in your strategic plan. Let's say for example that you have 100 items to sell, and that you could make \$20 more per item if you sell them one at a time than you could if you offered them as a wholesale lot. Sounds great right? What if it takes you 2 hours to list each item and package and ship it after the sale, and that the associated fees of the listing and collection are \$10 per item. You really then are only making \$5 per hour for your efforts! Determining the true cost of liquidation is therefore, very, very important. Without market research you may not be able to know where these dollar amounts really lie for your particular product. You can see how you might be wasting a lot of time to get a small amount of money if you make some poor decisions due to the lack of information.

Choose the Best Type of Listing

The next step is to decide what type of listing to use. One, or a combination of several of the following types of listings, may be appropriate:

1. **Individual item sale** – Selling off inventory one item at a time with an emphasis on low or no reserve to ensure listing success.
2. **Small lot sale** – Combine product into groups of 3, 5, 10, 20, or whatever number is appropriate for the specific product and is acceptable to your customer base.
3. **Large wholesale lot sale** – Selling off an entire inventory in one or more very large lots.

Let's look at a real-life example from eBay. Let's say that you have a few hundred disposable Kodak Cameras that you want to liquidate by selling them on eBay. How do you do it? You have any number of choices when it comes to lot size. You may want to sell them one by one, in groups of 5 or 10, or maybe you just list them in one enormous lot. Without market data you will make a guess and roll the dice. Let's see what some actual listing data suggests that you do. We took some of the actual listings found on eBay over the last 30 days. Here is what we saw:

Camera Type	Lot Size	Price	Price per Camera
<i>Kodak Funsaver</i>	7	\$20.50	\$2.93
	4	\$10.70	\$2.68
	3	\$6.50	\$2.17
<i>Water & Sport</i>	4	\$32.00	\$8.00
	3	\$14.99	\$5.00
	1	\$5.00	\$5.00
<i>Powerflash</i>	10	\$23.00	\$2.30
	5	\$6.99	\$1.40
	4	\$9.99	\$2.50
	3	\$9.75	\$3.75
	2	\$.99	\$.50

Source: HammerTap 2006

You can see that what appears to be the “best” lot size differs significantly even within different types of disposable cameras. According to these few listings, Funsaver and Water and Sport Cameras perform best in somewhat larger lots. Caution should be used however, since the data indicates that the Powerflash cameras lost ground when the lot became too large or too small. Although this is just a small sample of data with only hints of suggestive trends, it clearly reveals two very important takeaway points:

1. Market research can have a significant influence on profit
2. Each individual product behaves in its own unique manner even within very similar categories.

Research is the best way to divulge these unique trends.

Choose the Best Time to Liquidate

Choosing the best time for your sale can ultimately be the biggest determining factor in its success. If possible, the season should be appropriate for the type of merchandise being sold. Snorkels, for example, will sell better in July than they will in December, when you'd be better off liquidating gloves and mittens.

A Charitable Donation May Be the Best Solution

It isn't commonly known that there are tax incentives for donating obsolete, closeout or liquidation inventory, however, Congress provides incentives under the tax laws to encourage donation of inventory to non-profit organizations. These laws provide an incentive to businesses for donating slow-moving items prior to marking down the price. By donating items that are sitting idle, donors can save the cost of other expenses related to maintaining the inventory, including the cost of warehousing, handling, and/or disposing of the items. It might be worth your while to work with your accountant or tax advisor to see if your best option is the benefit you would receive from the donation of excess inventory.

More information on this option can be found on the following websites:

<http://www.irs.gov>

<http://www.wastetocharity.org>

Ultimately, understanding and implementing the above steps with accurate market research is the most effective and efficient way to recover as much money as possible from unwanted inventory.

For more information please visit
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