

Effective Inventory Management

Performance Analysis Tools In Sage ERP MAS 500 Help Distributors Optimize Inventory

As the competition for customers grows, distributors find themselves faced with shrinking profit margins. In this environment, carefully managing stock levels and understanding the true profitability of each product becomes critical. In this article, we examine best practices for analyzing inventory performance, and discuss the tools available within Sage ERP MAS 500 that can help you maximize profitability.

The Balancing Act

For every inventory item, an optimal stock level balances customer availability needs with net profit. Achieving an optimal stock level requires you to maintain sufficient levels of inventory to satisfy customer expectations of product availability. At the same time, distributors seek to stock precise amounts of each item to maximize net profits. Powerful and flexible reporting tools are needed to measure progress in achieving these goals. Without the right information, the distributor is at risk of either failing to satisfy the needs of the customer or stocking excess inventory and reducing net profitability.

The Four Metrics Of Inventory Performance

To get a complete picture of Inventory



Performance, we look at four key areas: Customer Service Level, Inventory Turnover, Return On Investment, and Adjusted Gross Margin. Sage ERP MAS 500 tracks these metrics to assist managers in pinpointing successes and identifying areas for improvement. Here we discuss each in turn.

Customer Service Level—The customer service level measures how often

items must be in stock when customers require them. The customer service level is calculated using this formula: *Number of line items for stocked products shipped completed by the promise date, divided by the total number of line items for stocked products ordered.*

This formula is applied only when the entire quantity ordered is delivered on or before the promise date. If the customer orders 10, and the distributor ships 10,

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they receive credit toward achieving the customer service level. If the customer orders 25, however, and only 24 units ship before the promise date, there is no credit. There is no partial credit for shipping 24 out of 25 because the customer will have to find that last unit somewhere else.

Inventory Turnover—If a distributor annually sells \$10,000 worth of a product line, is it wise to purchase the entire \$10,000 at one time? Or could a company buy some, sell it, and then buy some more with the money made selling the initial quantity?

In the first case, a substantial sum becomes tied up for a year. In the second case, the initial investment in inventory for the product line is less. The balance of the \$10,000 not invested in stock for this product line can be used for other purposes. Inventory turnover measures the number of times the distributor sold or turned stock during the past 12 months. Inventory turnover is calculated with this formula: *Cost of goods from stock sales and transfers during the past 12 months divided by the average inventory value.*

If the total cost of goods sold for the past 12 months is \$6 million and the average full inventory value is \$1 million, the distributor has achieved six inventory turnovers.

Return On Investment—Many companies are fixated on the goal of maximizing inventory turnover. However, higher margins can make a distributor successful with fewer inventory turns. Take the example of distributors that specialize in stocking hard-to-find, slow-moving products. These distributors are successful because they command a premium price. Return on investment (ROI), calculated by multiplying inventory turns by

the average gross margin shows us that high margins can compensate for low inventory turns. If an inventory item turns over four times a year and earns a 30 percent average gross margin on each sale of the product, a return on investment of 120 percent is achieved. However, the same return on investment value can be achieved if the inventory item turns only twice, but achieves 60 percent average gross margin:

$$\begin{aligned} 4 \text{ turns} \times 30\% \text{ average margin} &= 120\% \text{ ROI} \\ 2 \text{ turns} \times 60\% \text{ average margin} &= 120\% \text{ ROI} \end{aligned}$$

On the other hand, lower margins reduce ROI if a higher number of turns do not make up the difference. All other things being equal, the item that achieves the target return on investment with the fewest inventory turns is the more profitable item. Carefully examining return on investment allows quick and easy comparisons of the overall performance of several product groups or product lines.

Sage ERP MAS 500 ROI reporting can help you analyze the balance between turnover and profit.

Adjusted Gross Margin—Gross margin is the most common measurement of profitability. Gross margin is calculated using this formula: *Annual Sales Dollars, minus Annual Cost of Goods Sold, divided by the Annual Sales Dollars.*

However, the true profitability depends on the average value of inventory the company must maintain to generate sales of the item. Adjusted Gross Margin takes inventory carrying costs into account. The following expenses are normally associated with carrying inventory:

- 40% of the material handling expenses
- 40% of rent and utilities
- Insurance and taxes on inventory

- Physical inventory and cycle counting costs
- Inventory shrinkage and obsolescence
- Opportunity cost of the money invested in inventory

Typically, the carrying cost of finished goods inventory is 25 to 35 percent per year of the average inventory value. For this reason, it is better to use Adjusted Gross Margin, because it takes inventory carrying costs into account, when analyzing inventory performance. Here is the adjusted gross margin calculation used by Sage ERP MAS 500: *Annual Sales Dollars, minus Annual Cost of Goods Sold, minus (Average Inventory Value times Carrying Cost %), divided by Annual Sales Dollars.*

Performance Analysis Report

To facilitate management review, Sage ERP MAS 500 lists all four of these evaluations on a single report. This report can be printed for product stocked in specific warehouses, assigned to specific buyers, included in specific purchase or sales product groups, or assigned to specific product ranks.

The report is available in detail or summary format. The detail version lists analysis information for each of the selected items. The summary version provides a one-line summary for each warehouse, buyer, purchase product group, sales product group, and rank selected. This single report can help you take control of what is probably your largest investment.

Is your inventory optimized for maximum profitability? Give us a call with your questions. ✨

Calculating Use Tax With Sage ERP MAS 500

Use Tax is imposed by states to collect tax revenue on sales that do not take place in their state. The tax is meant to ensure that all purchases are taxed, whether purchased locally or from out-of-state sellers. Most states have some requirement for the calculation and payment of Use Tax.

This article will show how to set up, process, and pay Use Tax using Sage ERP MAS 500 Accounts Payable (AP). However, before following the procedures you must first create two General Ledger (GL) accounts to track Use Tax Payable and Use Tax Expense. A non-inventory item should be created for Use Tax Payable, with its default expense account being the Use Tax Payable account: select CI/Maintenance/Maintain Non-Inventory Items to create the item.

Set Up AP Use Tax

AP Use Tax only can be calculated if Purchases has been selected and *Track Sales Tax on Purchases* is selected in AP Options, so check that this option is properly set first.

1. Set up a Tax Class for Use Tax: Select Common Information (CI) Maintenance/Maintain Sales Tax/Maintain Tax Classes. Create a tax class and give it an Identifier that reflects it is to be used for Use Tax purposes. Save and close the window.
2. Set up a Sales Tax Code for Use Tax: Select CI/Maintenance/Maintain Sales Tax/Maintain Tax Codes. Enter a unique identifier for the Sales Tax Code and fill in the Description field. The grid should show all valid Tax Classes. For the Tax Class established for Use Tax in the previous step, mark the checkboxes in the Purchases and AP Use Tax columns. Select the appropriate Tax

Base from its drop-down box and enter the set percentage or rate to be used. Save and close the window.

3. Set up a Tax Schedule: Select CI/Maintenance/Maintain Sales Taxes/Maintain Tax Schedules. Create a unique identifier for the Tax Schedule and fill in the Description field. In the Tax Code column of the selection grid, add the Tax Code created in the previous step. Save and close the window.

4. Set up the GL Accounts: Select CI/Maintenance/Maintain Sales Taxes/Maintain Company Tax Information. In the Sales Tax Code field enter the tax code created for the Use Tax. Fill in the Registration Number field as appropriate. Do not enter anything in the Exemption Number field, or Sage ERP MAS 500 will not calculate Sales or Use Taxes at the voucher level. In the AP Sales Tax field, enter the GL Use Tax Expense account. In the AP Use Tax field, enter the GL Use Tax Payable account. The AR Sales Tax field will not be used; however, it still requires that an account be entered. In the non-recovery section, mark the checkbox for Expense to Item to include the amount of taxes in the item's total. If unmarked, specify a GL account to track the amount of taxes being expensed. Save and close the window.

5. Assign the Tax Schedule: Assign the Tax Schedule created in step 3 to all AP Vendors that sell items subject to Use Taxes. You can do this for each vendor on the Defaults Tab of Maintain Vendors or by assigning it to an AP Vendor Class.

Process Use Tax

Once Use Tax schedules and accounts

are set up, and the tax schedule is applied to vendors, you are ready to process the AP Vouchers that are subject to AP Use Tax. Here are the steps to correctly enter vouchers with calculated use tax.

1. When processing vouchers, for each line item being purchased that is subject to Use Tax, select the Sales Tax tab for that line item and make sure the Sales Tax Class field indicates Use Tax.

Note: If a line item on the voucher is not subject to Use Tax, then assign another Nontaxable Sales Tax Class. Use Tax and Non-Use Tax line items may be mixed together on the same voucher.

2. Register and post the AP Voucher Batch. During the posting process, for each line item subject to Use Tax, Sage ERP MAS 500 will debit the appropriate Use Tax amount to the Use Tax GL expense account and credit the Use Tax Payable account.

Note: The voucher amount will not reflect the amount of the Use Tax because this tax is not remitted through the vendor, but directly to the taxing authority by you.

Pay The Tax Authority For Use Tax Incurred

1. Determine the amount of Use Tax to be paid by checking the amount posted to the GL Use Tax Payable account for the desired period of time.
2. Set up the appropriate Tax Authority as a Vendor. Create and Post an AP Voucher for the Use Tax amount to be paid. On the Process Voucher window, register and post the AP voucher batch.
3. Generate and post an AP check against the voucher to pay the Tax Authority.

Please contact us with any questions you may have about Use Tax. ✨

IN THE SPOTLIGHT:

eBusiness Suite Powered By RKL eSolutions

Sage is retiring the eCustomer and eSalesforce modules for Sage ERP MAS 500 and is replacing them with **eBusiness Suite powered by RKL eSolutions**, a Sage Endorsed Solution.

Like eCustomer and eSalesforce, the eBusiness Suite enables 24/7 eCommerce access for customers, salespeople, and employees. And it also can serve as a complete B2B and B2C eCommerce system. The eBusiness Suite uses updated technologies such as .aspx Web Pages and Web Services, and also enables credit card processing for Web Orders.

The Basic Edition of the eBusiness Suite is being provided at no charge to existing eCustomer and eSalesforce customers during the first half of 2011.

With the release of Sage ERP MAS 500 Version 7.4, currently scheduled for Q2 2011, the eBusiness Suite will replace the eCustomer and eSalesforce modules. Standard and Advanced Editions are available at an additional cost. Let's look at the features of each edition.

Basic Edition

The Basic Edition includes the following features and functionality:

- Over 100 attributes and events that can be used to configure the appearance and functionality of the website.
- Powerful security provides user access control at each level of the application.
- Full support of the Sage ERP

MAS 500 Item Price Matrix including Promotional Pricing.

- Filtering of Sales Product Lines by Login ID, for Customer Specific Price Lists.
- Inquiry screens can be exported to Excel.
- Order Inquiry Copy from an existing order to create a new order.

Standard Edition

The Standard Edition adds the following features and functionality:

- Ability to assign roles and users other than B2B Customers and Salespeople.
- Credit Card processing using the Version 7.3 Credit Card Processing module.
- Enter Order Quotes, Blanket Orders, Recurring Orders, and Transfer Orders.
- Generate an Order from a Quote.
- Release Blanket Orders.
- Supports multiple Sage ERP MAS 500 companies in one website and allows for a user to be assigned to multiple company codes from Sage ERP MAS 500 if needed.
- Display User Fields from Inventory, Accounts Receivable, Sales Order Header, and Sales Order Line.
- Financial Dashboard reporting including Year and Period lookup.
- Partial Web Services package.

Advanced Edition Features

- Ability to process sales orders and lines through pick/pack/ship/

invoice upon order creation (autoship functionality).

- Inventory Status Lookup.
- Customer Pricing Lookup.
- Full Web Services package.

Technology Platform

The eBusiness Suite powered by RKL eSolutions is compatible with Microsoft® IIS 6.0 and 7.0 using either 32 or 64 bit Windows® Server technology. Internet Explorer®, Firefox, Safari, and Chrome browsers are supported.

Give us a call with your questions. ✨

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