

Optimizing Profitability

Through Merchandise Management

Ways to reduce your input dollars for industrial and linen rentals

By Troy Lovins

Merchandise management is probably not even on the radar for most of you right now. After all, the key indicators typically used to measure merchandise performance are looking good at the moment—stockrooms are full, collection charges are up, and inputs are down. Unfortunately, many of these metrics are artificially affected. Events like the economic downturn have driven high levels of quit items, quit wearers, quit accounts and inventory reductions that have forced product back into plants. This has also resulted in a short-term reduction of required input dollars and artificially increased recovery collections.

I recently heard a general manager say, “My merchandise results are great. My inputs are the lowest I’ve seen in years, and our recovery revenue is also very good.” This mindset indicates why now is the right time to make changes and gain an advantage over competitors while improving your financial performance. You should focus on making changes to internal behaviors that reduce input dollars, while business is slower and there are fewer orders to fill. Once economic recovery begins, the negative behaviors currently in place will have an even more dramatic impact on your bottom line. Therefore, it’s imperative to begin improvements, while the current impact of changing processes is reduced. The first step in optimizing profitability through proper merchandise management is to focus on reducing input costs.

“Based on today’s economy, textile rental companies can’t afford

not to focus on reducing input dollars,” says Kenny Stewart, the general manager for the San Antonio location of Service Uniform. “Rental rates are staying the same and our costs are going up exponentially. The increase in cost of goods is not proportional to the cost of inputs. If you aren’t controlling the inputs, the money is going right out the door.”



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San Antonio, TX

Decreasing the input dollars for industrial launderers

Shift dollars to customer-centric investments

Every company has its own grading system for garment conditions, and stockrooms request brand-new pieces of uniforms for different reasons. How does your company decide where to spend dollars on new pieces? Sure, there are times where these funds go toward Adds, Increases and Exchanges, followed by Renewals/Revamps (wholesale exchanges of new uniforms for current inventory to gain a new agreement). Sometimes those orders can’t be helped. But, have you considered the comparative ROI on these items versus RAN (Replace as Needed) items? We often forget about these items, but if we are properly investing in customers’ inventory as we go along, there should be no need for a customer to request a whole new inventory when it is time for a renewal.

“Investing in a customers’ inventory along the way saves a lot of money in the long run,” says Bill Risher, general manager for Logan’s Uniform Rental in Shelbyville, KY. “If you keep up the appearance and quality of their uniforms as you go along, it means you don’t have to spend a lot of money when your service agreements ends to potentially invest in a whole new inventory of new styles, colors, etc.”

At the end of the day, it's easy to forget how important proper measurement truly is for new wearers. Ensure your team makes the short-term sacrifice to spend more time up front with new wearers to save time in the long run for route reps, the plant and ultimately, your customers.

I often ask members of service teams what they'd estimate as the average length of time a new wearer remains active on the invoice. The responses typically range from six months to two years. Would you believe the answer is approximately 13 short weeks? (Don't believe me? Think about the turnover in your less-desirable plant positions. Ask your route reps how many times they've delivered uniforms for a new wearer only to find the employee didn't even last a whole week.)

By contrast, the typical employee averages seven years of service. If a new uniform is going to be ordered, who deserves to wear it? Providing a new garment to a seasoned employee to replace worn items represents an investment and leads to customer satisfaction and loyalty. From a financial standpoint, regularly replacing the garments of long-term employees—sometimes even investing “new” dollars on these upgrades—typically means no reissuing of new garments when contract renewal time comes around. Think about changing how both your production team and your route reps think about these items by referring to them as “Customer-Centered Investments” or “CCIs” instead of RAN items.

Require proper measurement for new wearers

Sure, every manual tells the sales team and route reps to measure new wearers, but over time, employees begin to rely more on their sight and experience than their tape measures. The problems start to occur when the measurements aren't quite right ... and it happens more than we'd like to admit. This is true both for the sales teams when ‘onboarding’ a new customer and for route reps when adding new wearers. From a client's point of view, not only does the error reflect poorly on your company, their perception of your turnaround time becomes skewed. For example, even if your production team turns around new items in one week, look at the amount of time that gets wasted from a customer's standpoint. The new wearer starts and meets with the sales or route rep. Those clothes are delivered the following week. A week later, the customer tells the route rep that the uniform didn't fit, so the route rep requests an exchange. It is another week before the order is properly filled. So, you think your plant is turning out items in one week, while the customer sees it taking four. (These four weeks are particularly relevant when you recall the average new wearer is only around for 12.7 weeks.)

“Proper measurement of new employees is vital,” says Risher. “First, it gives the customer the confidence that you know what you

are doing and that you are the expert. Secondly, not only do you greatly reduce cost by not having to order new uniforms, names, emblems, etc. but you also don't waste the time of your RSR, stock-room employees, and potentially a manager if you've upset the customer.”

Ron Wolanin, service director for the Denver location of Service Uniform summed up by saying, “If you aren't properly measuring your new wearers, you're spending twice as much time and money to make your clients half as happy.”

To avoid wasted time and energy spent by your route rep and the plant, proper measurement is imperative. Since pants typically are the most troublesome and expensive item to fit, have new wearers actually try on a pair to determine their true size. Did you know that 80%–85% of men have an actual inseam between 29-by-31 inches? Try having a full size run of prewashed pants available to each delivery truck with one leg hemmed to 29 inches and the other to 31 inches. By trying on the pants, you guarantee a much more accurate fit. Like the length of the left leg? Well, order a 29-inch. Need a length between the two options? Order a 30-inch. At the end of the day, it's easy to forget how important proper measurement truly is for new wearers. Ensure your team makes the short-term sacrifice to spend more time up front with new wearers to save time in the long run for route reps, the plant and ultimately, your customers.



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Decreasing the Input Dollars for Linen Rentals

Consider the ‘physical’ inventory

Guess the difference between the average amount of physical inventory in a customer's location vs. what actually appears on their invoice. Did you guess an additional 23%–35%? It's hard to believe that customers aren't paying for a third of what they use. Can you afford to collect one-third less revenue? Don't believe the facts? When was the last time you had a plant manager ask for more apron inputs? Are they disappearing into a black hole in your plant, or are they going to your customers? Try an unannounced physical inspection on 2-3 of your customers. You

might be surprised and disappointed by what you find.

Doing physical inventories is a pain, and route reps tend to give additional rental items away to avoid confrontation. But that means letting a significant amount of your income walk out the door and stay there. We recommend creating a schedule for route reps to have

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full physical inventory done for all their customers within a 30-day period. Then, have the route manager begin random inventory checks each week to ensure that you continue to collect revenue on all rental items.

Once your route rep has taken physical inventory and identified items that you are not being compensated for, they should have a conversation with the customer. We recommend an “amnesty” period for 2-4 weeks, where neither customers nor route reps are penalized for the surplus physical inventory on hand. Then, allow the customer to decide whether they would like to adjust the invoice to reflect the fees associated with these additional items, or if they would like to return the excess inventory back to the plant. Whether you get the money or the, inventory, it’s a win-win situation if handled correctly. Make sure you explain to customers that having accurate inventories allows you to maintain competitive pricing.

“Many times when we do physical inventory, we are surprised at how much inventory is in the field,” says Stan Schlotthauer, general manager of Crown Linen Service Inc., Mexico, MO. “Doing physi-

cal inventories allows us to reclaim merchandise, assess accurate losses, hold the customer accountable for what they are using and keep an accurate inventory so we are spending our dollars appropriately.”

Whether your company focuses on industrial or linen rentals, it’s imperative to reduce your input dollars. While the stockroom and service teams are less busy filling orders, we should focus our energy on training and coaching the behaviors that will produce sustainable results now and for years to come. **TR**



Troy Lovins owns Performance Matters, a strategic consulting company dedicated to the rental laundry industry. He has over 20 years of industry experience from independents to regional and national textile rental companies. For details or to sign up for the Performance Matters educational e-newsletter, go to www.performance-matters.com or call 803/897.0044.