

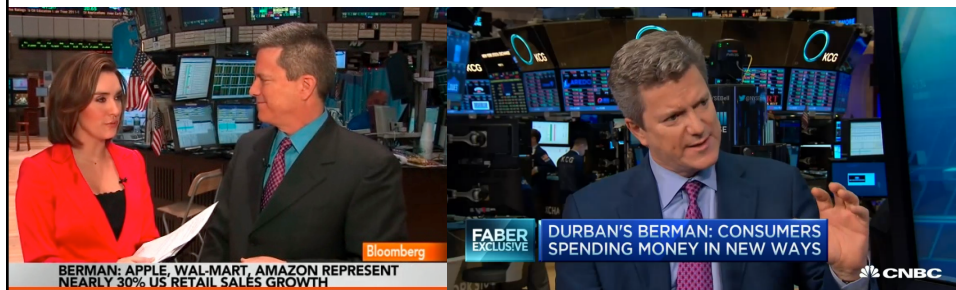
David Berman Case

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David Berman Exists

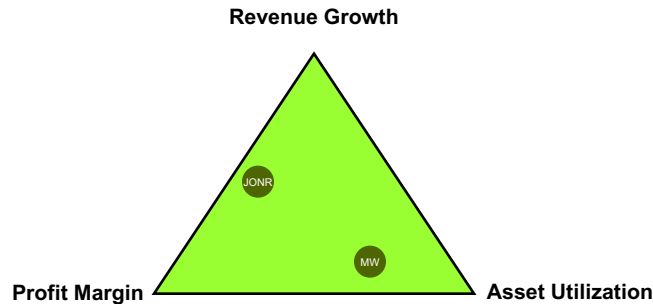
- <http://www.businessweek.com/videos/2011-12-23/durban-capitals-berman-on-u-dot-s-dot-retailers>
- <http://video.cnbc.com/gallery/?video=3000277298>
- <http://video.cnbc.com/gallery/?video=3000451273>
- <https://www.youtube.com/watch?v=6-9LrCt7RcU>



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Which is the best combination?

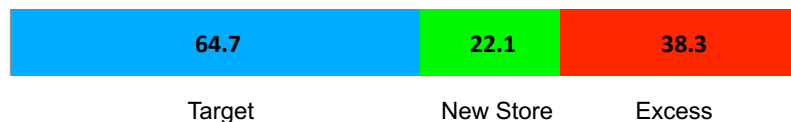
- Men's Warehouse: Growth 11%, GM 40%, IT 2.3
- John B. River: Growth 24%, GM 60%, IT 1.2



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Excess Inventory

- JONR Inventory = 125, Inv Turns = 1.2 [Spreadsheet Balance Sheet 2004, Table 4]
COGS = 125 * 1.2 = 150
- **Assume** JONR Target Inventory has the same turnover as MW: 2.32. [Table 5]
Target Inventory = JONR COGS / MW Inv Turns
= 150 / 2.32 = 64.7
- JONR opened 63 stores in 2004. Each store requires 0.350 in inventory.
New Store Inventory = 63 * 0.350 = 22.1



Remember, there are good reasons to carry inventory, but you need to articulate them.

*Product Variety? Basic Items?
Opportunistic Buy?*

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Case Summary

- David Berman's perspective
 - “Wall Street basically ignores inventory” (p.3)
 - “operating margins can be manipulated by management in the short term by playing around with inventories” (p.2)

- John B. River
 - Growth strategy
 - Great margins and sales growth
 - Inventory turns dropped from 2.17 to 1.2 (Table 4)

 - Is the excess inventory valuable or risky?
 - Is this a case of “smart growth” or “management manipulation”?

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Managing an inventory investment portfolio

- There are reasons to hold more inventory.
 - Sales growth
 - Higher gross margins
 - ...or high inventory could result from a lack of discipline to take markdowns!

- There is no financial measure for the quality/risk of inventory (fashionable or obsolete, sellable or stale, timeless or trendy).
 - According to GAAP (Generally Accepted Accounting Principles) the inventory figure should be a minimum of cost or market value (which is subjective, especially in fashion)
 - “managements sign-off on the inventories as being fairly valued, and the auditors pretty much rely on their word” (p.2)

- Inventory investment and management can have a strong impact on company valuations. Supply chain professionals play a key role in maintaining a valuable inventory investment portfolio.

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