Testing the Hypothesis: Unloading Excess Inventory at a Profit

A major Canadian retailer decided to test the task force's hypothesis and set up an experimental trading facility giving it a mandate to explore opportunities in exporting. The first task that the trading facility faced relates to a problem common to retailers: finding a way to unload excess inventory. Those of you in retailing know how significant this problem is. Normally, excess inventory is sold to liquidators at a significant loss, frequently at 10 to 60 cents on the dollar. Thus, rescuing profit became the first objective of the trading facility. However, things are never quite so simple, and a second objective was added to the first: finding a way of reducing advertising print costs.

Endowed with these simultaneous objectives, the retail trading facility made a rapid study of the print industry and assembled a transaction involving the retailer (as exporter), a printing company, and third party on offshore retailer (slide #1).

In this transaction the trading unit offered to finance selected printing costs - paper, ink and a certain press for the printer. In return. the trading facility earned a specific dollar print credit plus x% representing a commission for the finance service. The print credit, plus the earned commission, expressed in x% printing credits was passed on to the retailer's advertisement department, which in turn, repaid the trading facility partially in cash ($10,000 in this example) and the balance of x% in obsolete goods (slides #2 and #3).