Instore Magazine – What’s Your Open to Buy?

By now the dust has settled from the all-important last quarter of 2011. Numerous reports have been run and data has been analyzed. Hopefully they answered the key questions a business owner or merchant will ask. Did my total sales increase over 2010? And, if so, in which departments? Which months generated the increases – was there any momentum or trend? What were my top sellers in each department? What can I learn from those? How much aged or dead stock do I still have? Now that a good understanding of your sales trends and your on hands has been achieved, it is time to consider what your next investment in inventory will be. There are several Spring Shows coming up, and you want to be ready.

It would be wonderful if there was a button you could press and your Open to Buy is magically generated. It is unfortunately a rather complex process – only because so many elements go into an accurate calculation. It is not difficult, just time consuming. Having a monthly Open to Buy is not only the foundation for disciplined purchasing, but it is a constant reminder of your aged and dead stock. No one likes a negative Open to Buy number!

Here is a step by step on how to create an Open to Buy:

Step one:

One of the most important ingredients in an Open to Buy is the projected sales for the month by department. Remove all Repair and Services revenue from the equation. Also remove Gold buying revenue.

Ask yourself these questions:

- What did I achieve in sales, average sale, units sold and gross margin in 2011?
- Calculate what you *want* to achieve (either increase or decrease) for each of these metrics based on your knowledge of your business.

Step two:

Now that you have your total sales objectives for the 2012 you can use this number to populate a Sales Plan (see my last March article on how to create a Sales Plan “Merchandising from a Clean Slate – Part Two”) or construct a simple excel spreadsheet – and break it down by month based on the percentage sold last year.

Step three:

Convert your monthly sales objective into cost using your gross margin objective.

Step four:

Allocate the sales at cost to each of your departments (or collections/programs if that is how you analyze your inventory) again based on the sales distribution of last year. This is your opportunity to "massage" the numbers. For instance, do you want to grow a department, or reduce another? Do you need to pull down a loose diamond department because of special order diamonds?

Step five:

The second number to input into your spreadsheet is your inventory on hand at cost at the end of the prior month. Whether you include consignment and memo is your call, but I recommend doing so. Your consignment should be working for you, not just taking up space.

Step six:

Run an on order report @ cost by department and add to your on hand number – this is your Total Stock.

Step seven:

The difference between your projected cost of sales and your Total Stock is your preliminary Open to Buy.

Step eight:

There are additional deductions from your preliminary Open to Buy numbers:

- Projected Special Orders
- Projected sales of Consignment and Memo
- Projected Trade-ins
- Projected Estate pieces from Gold buying
- Projected allocation of funds to Never Outs, Fast Sellers, or Advertised product

Here are some additions to your preliminary Open to Buy numbers:

- Pending return to vendors
- Pending scrapping of stock

There are other miscellaneous inventory adjustments which can go either way, and if significant should be taken into account.

You now have your actual Open to Buy for new purchases! On guidance for new purchasing see my article “Smart Buying” in last July’s issue.