

THE MAGIC OF OPEN-TO-BUY

by Linda Carter

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Almost all retailers we have talked to that are now using an Open-To-Buy understand how it can help them do a better job of buying (which helps increase sales, reduce markdowns, increase Gross Profit and increase Stock Turn Rate).

However, many retailers have never been educated as to how to effectively use an Open-To-Buy and the benefits of its use. Also, many small retailers think they do not need an Open-To-Buy, that it is a tool used by the "Big" retailers who have a staff of buyers buying for multiple stores. This is far from true. The small retailer, in particular, can not afford to make buying errors that cause cash flow and profitability problems.

When asked how they determine how much inventory to buy some retailers will tell us that they look at what they bought last year and adjust it upward to take care of any sales increases. This can just perpetuate an already over-stocked situation. When there is too much inventory purchased and there is too much merchandise in inventory a number of things happen - - none of them good:

- Poor cash flow
- Vendor problems when the store can not pay its bills on time
- Excessive obsolescence of merchandise causing higher markdowns
- Merchandise is more likely to become 'shop worn' and have to be marked down
- Sales decline because the store is too full of old merchandise the customers have seen before (or several times) and they stop shopping there
- Insurance costs are higher to cover the merchandise in the store
- Property taxes are higher
- Interest expense is higher (if the retailer can get financing)
- Advertising costs are higher as the retailer advertises more and more 'Sales'
- Lower Initial Markup because there is no cash available to take advantage of in-season buys
- Lower Gross Profit because of the lower Initial Markup and higher Markdowns
- Higher Operating Expense due to the added advertising, insurance, taxes, interest
- Lower Net Profit

Now about the title of the article. An Open-To-Buy is not really "magic". The retailer must learn how to effectively use the Open-To-Buy, then must actually use the Open- To-Buy to buy more effectively. Using an Open-To-Buy to more effectively buy requires some work and a lot of discipline but it will be well worth it in better cash flow and higher profits.

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