

MERCHANDISE MANAGEMENT

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For apparel retailers January is a clearance month when they clear out their fall/winter merchandise in anticipation of receiving the new spring goods. January is also a month that the retail store typically shows a loss due to all the markdowns taken. How well inventory has been managed so there is not an excessive amount of fall / winter merchandise left after the holiday season will determine how much of a loss the store shows for January (and for the year).

The best way to manage inventory levels and keep inventory where it **should be** is to use an Open-To-Buy to plan inventory and control buying. Using an Open-To-Buy is not a guarantee that the inventory will be well-managed, but if the Open-To-Buy is carefully developed and followed by the retail buyer, inventory levels will be appropriate and there will be fewer markdowns at the end of the season. And, fewer markdowns mean higher profits.

The Open-To-Buy eliminates the stress of worrying if you are buying too much or too little. We have found throughout the years, that once a retailer begins using an Open-To-Buy to plan inventory levels and purchases they never want to go back to the old way of 'guessing' how much to buy. With an Open-To-Buy you can go to market with a buying plan for each classification / category of merchandise for a specific time frame. Then, the only decisions to be made at market are which items to buy. This is where the buyer should be spending their time and efforts at market - - buying the *best* merchandise for their store. As long as the buyer stays within the buying plan for each classification / category the inventory levels should be fine.

Preparing an Open-To-Buy is not too difficult, but does take some time and thought. The needed ingredients for preparing an Open-To-Buy are: planned sales by month, planned or anticipated markdowns and planned monthly beginning-of-month inventory levels. With these figures an Open-To-Buy can be prepared.

Planning Sales: Historical sales records are usually the starting place for setting sales plans. However, the sales plan must also take into consideration a host of variables which the retailer is in the best position to be aware of and to judge. Things such as local economic conditions, changes in competition, fashion changes, plans to expand customer credit, changes in selling personnel, etc. all impact the sales plan.

Planning Markdowns: When the Open-To-Buy is prepared at retail (which we normally recommend) markdowns need to be planned and included in the OTB calculation because markdowns reduce the retail amount of inventory on hand, just as sales do. Therefore, if they are not included in Open-To-Buy planning the store would not bring in enough new merchandise for any particular month

Planning Inventory: Determining the proper inventory level is the most difficult and time consuming part of preparing an Open-To-Buy. Just going by what you did last year is the method most prone to error. If your inventory was higher than it should have been you are just continuing your overbuying errors. There are techniques available to help in this task. Generally they involve using annual stock turn rates or using monthly stock-to-sales ratios for each classification / category.

Retailers tend to overstock when sales increases are good and to understock when prospects are bad. Thus, a relatively small increase in sales often leads to excessive buying - then when sales slow down high markdowns

are taken to clear out this excess supply of merchandise. This, in turn, leads to lower gross profit and overall store profit. The goal of good merchandising is to maintain the level of inventory that provides adequate assortments when sales are low and not excessively high assortments when sales pick up. This is where the Open-To-Buy comes into play. It tells you how much inventory should be on hand at the beginning of any given month and how much new merchandise should be received during the month.

If you are not now using an Open-To-Buy for planning and controlling inventory and buying, make a commitment **now** to begin. If your current software package has an Open-To-Buy module available, use it. If it does not, give us a call and we will explain our Open-To-Buy service. But, do not spend another season 'guessing' how much to buy.

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