

BIG TIMES

Buyers International Group

Open to Buy vs. Balance to Buy... by Abe Sherman

We are all familiar with the term **Open to Buy**; the budgeting process used for forecasting sales and giving you a budget for inventory purchases. The process examines each department by projecting sales and cost of goods sold (COGS), and comparing that with on-hand inventory, resulting in an 'Open to Buy' for new inventory.

In many cases, however, the Open to Buy is actually a negative number as the on-hand inventory *exceeds* the available Open to Buy budget. Therefore, the term, Open to Buy, is a misnomer; what we're actually looking for is 'Balance to Buy.' Open to Buy deals with buying, but not necessarily merchandising, except to report that you have too much inventory and can't buy any more. At some point, when existing inventory sells down to a certain point, buying may resume.

A **Balance to Buy**TM begins with the same goals as Open to Buy, which takes into account inventory levels and on-hand inventory, but we can drill down further into the data to develop a more merchandise-centric action plan, rather than an accounting tool.

Example: If COGS for department 10 was \$20,000 in the past 12 months, but inventory is currently at \$30,000, there is no Open to Buy. As is often the case, stores have too much on-hand inventory overall. But we don't operate in a vacuum, as new goods need to be fed into our inventories on a regular basis. It is especially critical for that portion of your inventory established as 'never-outs' to be reordered regularly. As will often be the case, these purchases will violate the budgets established by Open to Buy.

How then, if you follow the Open to Buy budget do we deal with an overstocked situation? Also, how do we handle an inventory that is out of *balance* where our best selling price-points are considered? Balance to BuyTM takes into account not merely Sales, but *what* is selling. Here's where the *balancing* in **Balance to Buy**TM comes into play.

In the seminar B.I.G. is holding at the West Coast Jewelry Show, we will show how to look at sales by category and price point, as it relates to inventory on hand for those same categories and price points. If 20 Amethyst rings sold in the past 12 months from \$300 - \$400, and you have 3 in stock, you need more inventory. If you sold 3, but have 20, you have too many. There is a need to *balance* what you have done in the past with what you should be doing in the future.

Throughout your inventory, misalignments exist by category and price. The job, therefore, would be to *balance* what's needed with what you already own.

**Join us at the West Coast Jewelry Show
and learn how to turn your inventory into cash!**

**Process to ProfitabilityTM Seminar
Saturday, September 8, 2007
1:00 pm – 5:00 pm @ Anaheim Marriott**

Abe Sherman, CEO of Buyers International Group (B.I.G.), focuses on providing innovative solutions to analyzing inventory resulting in improved buying decisions, inventory turn, gross margin and improved profits. In this seminar, Abe helps Jewelers understand the big picture as well as all facets of inventory by drilling into the numbers. Learn how to put it all together in **Process to Profitability**TM.