

Part 3: Collection of Numerical Data Information Stage for Development of the Six Month Merchandise Plan

Part 3: 3-1 Numerical Data for Existing Store

Stage 2 of developing the Six Month Merchandise Plan is the collection of numerical data that must be analyzed in order to build a basis for calculating the future plan. If the buyer is calculating a merchandise plan or budget for an existing store or department, s/he will study the actual budget figures and/or plan of the previous year for the same season for which the new budget is being prepared.

However, if the store or department is a new unit with no previous history, the buyer will research statistical averages provided from retail organizations such as National Retail Federation (NRF), the *Johnson Redbook Index*, or other financial institutions, shopping center organizations, or business services such as Standard & Poor's or Moody's Investor Services. Of course, since these figures are averages, they must be adapted to the store type, merchandise classification and geographic location of the store.

Each of the above scenarios will be addressed in *Part 4* of this Section. In this *Part 3: 3-1*, the collection of statistical data for the existing store or department will be discussed.

Using actual data to calculate the future Six Month Merchandise Budget better prepares the buyer to develop a workable budget that is realistic and attainable. However, there are pros and cons for basing the future budget on the previous year's actual figures. Some merchandisers and managers believe that the buyer might repeat the same mistakes that were made in the previous year, unless all factors that impact the business and budget at the current time are considered. Thus, the buyer must assure management that logic and an in-depth environmental scan or a vast amount of internal and external information was utilized when calculating the future budgets.

In this section, each of the components of The Six Month Merchandise Plan/Budget will be investigated. Analyzing the figures of an actual Six Month Merchandise Budget from a previous fashion department helps the buyer to develop the basic logic for calculating the planned or future merchandise budget. The future planned budget will be explained and calculated in *Part 4: Calculation Stage for Development of the Six Month Plan*.

The following schematic is the format for a Six Month Merchandise Plan and contains all actual figures realized in the fashion department of the retail store. Also, figures in the actual plan are rounded according to financial notations. For example, the decimal point is always between the thousand and hundred dollar amounts; therefore \$203,856.45 is written on the plan as \$203.86 or \$560.00 is recorded as .56 with no cents included.

Additionally, the sequence for all component calculations is listed. The reader may wish to make a copy of the following page in order to view all steps and figures as the explanations are given. The Six Month Merchandise Plan or Budget consists of seven major components:

- Total Planned Sales and Total Planned Reductions
- Monthly distribution of total planned sales
- Monthly distribution of total planned reductions
- Beginning of Month (BOM) stock/inventory for each month
- End of Month (EOM) stock/inventory for each month
- Planned Purchases at retail for each month

- Open-to-Buy (OTB) or planned purchases at cost

All components are reviewed below and referenced as explanations are given for building a logical foundation in order to calculate the future merchandise plan.

Six Month Merchandise Budget/Plan for Spring Season – Fashion Department

Notations:

Actual sales decreased by 10% from the previous year, the same season

Actual purchases increased by 13% from the previous year, the same season

Actual markdowns increased by 2%, from 20% to 22% of Total Sales

Easter Holiday impacts sales in this department; Easter was March 31 of this year

Season: Spring

Year: Previous Year -- Actual Figures

Month	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	SEASON	AUGUST
Inventory (BOM)	\$149.85	\$164.25	\$168.44	\$152.98	\$137.66	\$134.66	\$148.59*	\$132.30
Sales %	15%	20%	19%	13%	14%	19%	100%	
Sales \$	\$33.75	\$45.00	\$42.75	\$29.25	\$31.50	\$42.74	\$225.00	\$42.00
Purchase %	21.05%	21.84%	12.93%	8.89%	14.95%	20.34%	100%	
**Purchase \$	\$54.09	\$56.12	\$33.23	\$22.84	\$38.40	\$52.26	\$256.94	
Reduction %	2.64%	3.08%	2.64%	3.96%	4.40%	5.28%	22.00%	
Reduction \$	\$5.94	\$6.93	\$5.94	\$8.91	\$9.90	\$11.88	\$49.50	
*** (EOM)	\$164.25	\$168.44	\$152.98	\$137.66	\$134.66	\$132.30		
S/S Ratio	4.44	3.65	3.94	5.23	4.37	3.15	Turnover**** 1.51	3.15

[Adapted from Kincade, Gibson, & Woodard (2004)]

* Average Inventory = 7 BOM ÷ 7 = 1040.14 ÷ 7 = **\$148.59**

**Open-to-Buy (Purchases) at cost is not shown on the above schematic.

*** This figure is usually not given on the actual plan. However, for the reader's ease of understanding, it has been included in this schematic

****Turnover or stock turnover = Net Sales ÷ Average Inventory or \$225.00 ÷ \$148.59 = **1.51**

(For the analysis of the actual Spring Six Month Merchandise Budget for the Fashion Department, the steps in calculating the Six Month Merchandise Plan will be denoted without the terminology "planned" preceding the components.)

Total Sales and Total Reductions

Total Sales:

All merchandise budgets begin with *Total Planned Sales* and all other components of the budget are based on the planned sales figure. Therefore, it is of utmost importance that the total planned sales figure is realistic and obtainable.

When analyzing sales for the Spring merchandise budget for the previous year, the buyer will look for the following information:

- monthly distribution of sales (i.e., percent of sales per month as compared to total sales) and the months that create peaks and valleys in the sales pattern
- atypical happenings, such as special promotions, community happenings, or one-of-a-kind circumstances or sales of the previous year
- special circumstances such as weather conditions, changing market conditions or economic downturns, or the competition's events that impact the sales volume
- timing of holidays and how they impacted the sales of the department, the sales of particular product classifications, or how important they were to the target consumer
- beginning inventory status as to the amount of older, markdown merchandise versus new, trendy arrivals.

The buyer needs to look at the total annual sales volumes for the department over a five year period in order to determine if there is any discernible pattern to those sales. The buyer always calculates the percentage of sales increase and/or decrease for each of the five years' records. Additionally, the buyer schedules a conference with management in order to discuss current plans with regard to management expectations and plans for any remodeling or any new use of floor space.

Furthermore, using current financial information from various retail and financial organizations and institutions, the buyer evaluates annual retail sales increases/decreases for similar stores and/or departments throughout the U.S. If information is available, the buyer compares his/her sales volume to other stores of the same type or those carrying product categories similar to those of the buyer's store.

Note: For all discussions and examples in this part, Part 3: 3-1, refer to the Six Month Merchandise Budget/Plan for Spring Season – Fashion Department on the previous page. For monthly calculations, the month of February will be used for examples. (In this part, figures are rounded according to financial notations, for example, \$225,000.00 = \$225.00)

The following formula is used to calculate the sales volume percent of increase or decrease:

$$\text{Percent of Increase (Decrease)} = \frac{\text{This Year's Sales } \$ - \text{Last Year's Sales } \$}{\text{Last Year's Sales } \$}$$

Example: Calculate Percent of Increase or Decrease

Percent of Increase = ?

This Year's Sales \$ = \$258.75

Last Year's Sales \$ = \$225.00

$$\begin{aligned} \text{Percent Increase} &= \frac{\text{This Year's Sales } \$ - \text{Last Year's Sales } \$}{\text{Last Year's Sales } \$} \\ &= \frac{\$258.75 - \$225.00}{\$225.00} \\ &= 15\% \end{aligned}$$

Last Year's sales are always the base year and are used in the denominator of the equations.

Of course, if Last Year's sales are a larger volume than This Year's sales volume, there is a decrease in sales for the year.

Total Reductions:

The next segment of this step is examining the reduction percentage as compared to the total sales volume. Some retailers include only markdowns in the reduction amount, while others include markdowns and shrinkage either separately or in combination. As discussed previously, reduction amounts are a guide and not a goal.

The buyer examines the previous year's total amount of markdowns and attempts to analyze:

- the general economic business climate that existed during the six month period
- the amount of old stock on hand at the beginning and end of the period
- dates throughout the season that the target consumer expects markdowns
- important special events, promotions, holidays and one-of-a-kind happenings that demand markdowns
- weather and political events that impact markdowns.

To calculate the percentage of total markdown dollars in relation to the total sales for the six month period, the formula below is used.

$$\text{Total Reduction \%} = \text{Total Reduction \$} \div \text{Total Sales \$}$$

Example: Calculate Total Reduction %

$$\begin{aligned} \text{Total Reduction \%} &= ? \\ \text{Total Reduction \$} &= \$49.50 \\ \text{Total Sales \$} &= \$225.00 \end{aligned}$$

$$\begin{aligned} \text{Total Reduction \%} &= \text{Total Reduction \$} \div \text{Total Sales \$} \\ &= \$49.50 \div \$225.00 \\ &= 22.00\% \end{aligned}$$

Reduction percents vary from store to store, department to department, product classification to product classifications, geographic region to geographic region and from competitor to competitor. Since markdowns are a drain on margins and profit, the lower the markdown percentage the better if the product sells quickly and is a profit producer. However, markdowns are a fact of life for the retailer and are a part of doing business. Therefore, they are an integral part of the business operation.

Monthly Distribution of Sales

Sales volumes vary from year-to-year, season-to-season, and month-to-month. For example, some retailers realize 40 to 45 percent of their annual sales in the *first six month period*, or February to July, and 55 to 60 percent in the *second six month period*, or August to January of the next year. The seasons of the year, weather patterns, the types of stores, the types of merchandise classifications and geographic locations of the retail store impact the sales patterns or monthly distribution sales values for the retailer.

When studying the Spring Merchandise Budget/Plan for the fashion department in the actual store, the total sales volume (\$225,000.00 or \$225.00) should be apparent first, and then how the sales are

distributed over each month and the two quarters of the merchandise plan should be evident. Monthly sales volume in relation to the total sales volume for the period is calculated as follows:

$$\text{Monthly Sales \%} = \text{Total Sales \$ per Month} \div \text{Total Sales \$ for Six Month Period}$$

Example: Calculate Monthly Sales % (for February)

$$\text{Monthly Sales \%} = ?$$

$$\text{Total Sales \$ Month of February} = \$33.75$$

$$\text{Total Sales \$ for Six Month Period} = \$225.00$$

$$\begin{aligned} \text{Monthly Sales \%} &= \text{Total Sales \$ per Month} \div \text{Total Sales \$ for Six Month Period} \\ &= \$33.75 \div \$225.00 \\ &= 15\% \end{aligned}$$

When previewing the schematic of the actual Spring happenings in the fashion, the first observation reveals that the lowest sales volumes were recorded in February and May, with 15% of the total sales being recorded in February and only 13% being recorded in May. The May figure is atypical as NRF statistics indicate that May usually has a larger sales volume than April and definitely a larger one than February. For example, the month of February has fewer days than May, and is positioned at the beginning of the Spring period, with a mixed merchandise assortment of fall and holiday reduced merchandise and new spring and summer arrivals. Additionally, February is usually impacted by adverse weather conditions in many areas of the U.S.

Another finding to denote in some regions is when the Spring (i.e., Easter Holidays for some target consumers) holidays fall on the monthly calendar. If the Easter holiday is celebrated in March, then the sales volume for March frequently will be larger than April. The opposite occurs if the holiday falls in April. Further, the consumer always expects reduced merchandise after the holidays, along with summer specials.

Other holidays in the Spring period potentially impacting both sales and markdowns are Valentine's Day, President's Day, Mother's Day, Memorial Day, Father's Day, July Fourth and Back-to-School, plus any annual store sales, such as the Spring Sale or Anniversary Sale, observed by the store during that period.

Furthermore, the buyer may review the sales volume by quarters. A large number of stores sell more merchandise in the second quarter than the first quarter. The first quarter of the Spring season falls directly after Hanukah and the Christmas Holidays and many consumers are still paying off credit cards used for purchasing holiday gifts. And, as mentioned earlier, merchandise assortments are often incomplete in February, as major spring/summer shipments have not been received in stock. Finally, Federal Income taxes are always due on or around April 15th, with many consumers saving a portion of their discretionary income to pay those taxes. All of these factors impact consumer buying patterns.

Monthly Distribution of Markdowns

The buyer must examine the markdown percentages and dollar amounts by month in order to utilize markdowns as an effective merchandising tool. The buyer should consider the following factors:

- the markdown amount needed per month to reach the projected sales for that month
- the types of special events and promotions planned for a particular month that demand markdowns

- the position of merchandise in the Product Life Cycle and on the Buying-Selling Curve
- the length of time remaining in the selling season.

In the same way that the buyer analyzes the monthly sales, the buyer examines the markdowns for each month of the previous year's merchandise plan for the same season. When studying the Spring Merchandise Budget/Plan for the fashion department in the actual store, the total markdown dollar amount was \$49,500.00 or 22% of the total sales. Based on previous history, those markdowns were higher than the previous year. Therefore, the buyer wants to examine closely where the problem areas occurred and how to improve the record for the upcoming year. For example, what specific product classification or style did not sell well or what external economic factor impacted consumer confidence?

From the actual happenings, markdowns taken in the first quarter were much lower than those taken in the second quarter, which is not unusual. More than likely though, waiting to take markdowns on heavy spring merchandise caused higher amounts of markdown dollars to be taken in the second quarter. The timing and amount of the markdown is the key to controlling markdowns. Items that were not reduced early enough in the first quarter more than likely did not sell at the first markdown price, thereby requiring that they be reduced deeply in order to sell at a later time. Therefore, even though markdowns are expected in the month of July in order to rid the stock of leftover seasonal merchandise, the markdowns were very high for the month, or 5.28% of the total sales for the six month period.

The formula for calculating the monthly markdown percentage is as follows:

$$\text{Monthly Markdown (Reduction) \%} = \frac{\text{Monthly Markdown \$}}{\text{Total Sales \$ for Six Month Period}}$$

Example: Calculate Monthly Markdown (Reduction) % (for February)

$$\begin{aligned} \text{Monthly Markdown (Reduction) \%} &= ? \\ \text{Total Markdown \$ Month of February} &= \$5.94 \\ \text{Total Sales \$ for Six Month Period} &= \$225.00 \end{aligned}$$

$$\begin{aligned} \text{Monthly Markdown (Reduction) \%} &= \frac{\text{Total Markdown \$ per Month}}{\text{Total Sales \$ for Six Month Period}} \\ &= \$5.94 \div \$225.00 \\ &= 2.64\% \end{aligned}$$

Beginning of Month (BOM) Inventory/Stock

The BOM stock is the amount of stock the retailer has in the store or department on the first working day of the month. When examining stock levels, the buyer considers two components: the stock/sales ratio (S/S Ratio) and the merchandise turnover (TO) rate. The *stock/sales ratio* relates the amount of stock needed for the month to meet the sales for that same month. Expressed as a ratio, it is the number of dollars it takes to sell one dollar worth of merchandise. The season of the year, the types of merchandise classifications, the store types, and various geographic locations impact these values.

The inventory *turnover* shows the relationship between the number of times the average inventory is sold within a given period of time and is calculated by dividing net sales for the period by the average inventory for the same period of time or season. To increase the turnover, the buyer must increase sales

on the inventory level presently in the store, or decrease the average inventory amount while maintaining the same sales level.

If the buyer does not have a record of the stock/sales ratios, s/he may calculate them by using the following formula:

$$\text{Stock/Sales Ratio} = \text{Monthly BOM Inventory } \$ \div \text{Monthly Sales } \$$$

Example: Calculate Stock/Sales Ratio (for February)

$$\text{Stock/Sales Ratio} = ?$$

$$\text{Monthly BOM } \$ \text{ for February} = \$149.85$$

$$\text{Monthly Sales } \$ \text{ for February} = \$33.75$$

$$\begin{aligned} \text{Stock/Sales Ratio} &= \text{Monthly BOM Inventory } \$ \div \text{Monthly Sales } \$ \\ &= \$149.85 \div \$33.75 \\ &= 4.44 \end{aligned}$$

If the buyer has records of previous monthly stock/sales ratios and has planned the monthly sales amounts, s/he can calculate the BOM for each month, using the formula below.

$$\text{BOM Inventory } \$ = \text{Monthly Sales } \$ \times \text{Monthly Stock/Sales Ratio}$$

Example: Calculate BOM Inventory \$ (for February)

$$\text{BOM Inventory } \$ = ?$$

$$\text{Monthly Sales } \$ \text{ for February} = \$33.75$$

$$\text{Monthly Stock/Sales Ratio for February} = 4.44$$

$$\begin{aligned} \text{BOM Inventory } \$ &= \text{Monthly Sales } \$ \times \text{Monthly Stock/Sales Ratio} \\ &= \$33.75 \times 4.44 \\ &= \$149.85 \end{aligned}$$

The buyer should try for minimum quantities of stock by size, color, price, and type, or a lean inventory in order to create a workable turnover. Stock that sells too quickly creates stockouts and stock that sells too slowly usually fosters higher and deeper markdowns, hindering the actualization of reaching margin and profit goals.

By limiting the beginning-of-month inventory, new arrivals can be added to the stock level continuously throughout the month. The astute buyer always saves reserve dollars in the open-to-buy for purchasing new items that are introduced in the market after the initial buys are made. Also, the buyer plans delivery dates so that merchandise is continually coming into the store throughout the month. However, the buyer must plan for enough merchandise to be on-hand at the beginning of the month for the opening merchandise assortment to cover the volume of sales until vendors ship replacement merchandise.

Stock should be peaked or higher levels of merchandise should be available for customer selection prior to the time of the peak selling period. In other words, the stock must be in the store before the

customer begins selecting and buying the product. Thus, delivery dates are very important. Ten to fifteen days at the end of a selling season can make the difference in reaching the projected sales volume for the month.

Furthermore, many retailers follow the unwritten rule that a vendor has a ten day grace period from the cancellation date of the order in order to have the goods shipped into the retail store. If promotional sales have already begun, the customer may prefer not to buy merchandise at full price just because it was received late into the store.

By examining the BOMs for the actual merchandise plan, the buyer will note that the largest amount of inventory (\$168.44) was available in April. Since the Easter holidays were the last week of March, the inventory level for April could have been too heavy. Summer goods may not have been delivered in a timely manner. More than likely the merchandise was received late or in partial shipments. From the buyer's notes, cool weather also impacted the sales of merchandise; so these three factors combined created heavy markdowns and a loss of sales and profit for the retailer.

End of Month (EOM) Inventory/Stock

The end-of-the month stock (EOM) is the same stock as the beginning-of-the-month stock for the next month. It is the stock that the retailer has on-hand on the last working day of the month. For example, if a retailer has an ending inventory of \$152,980.00 (\$152.98) on April 30, and that is the last working day of the month, when the retailer opens its doors again on May 1, the first working day of the month, the beginning-of-the-month inventory for May is \$152,980.00 (\$152.98). Therefore, when calculating the EOM for the end of July on the first six month plan, if the buyer has the planned sales for August and the stock/sales ratio for August, s/he can calculate the EOM for July. (Refer to actual spring figures previous year Six Month Merchandise Budget/Plan for Spring Season – Fashion Department)

Purchases

There are specific times in the six month season during which vendors ship the bulk of their merchandise. However, purchases should be received throughout the selling season in order for fresh stock to be available, thus attracting the interest of the repeat or loyal customer. The buyer analyzes what is happening in each month and what type of merchandise should be available in order to reach planned sales goals.

At the beginning of each season, retailers usually receive large amounts of seasonal merchandise to replenish the leftover marked down merchandise. During the spring season, the bulk of the summer merchandise is usually shipped immediately after the shipment of the spring merchandise in February and March. Summer orders may begin shipping in March and some retailers accept summer until the end of April.

Most vendors ship transitional or early fall merchandise in June and some ship Back-to-School as early as July. Also, in July, many retailers bring in early fall and some fall merchandise. At other times the buyer is receiving closeouts, special purchases and special cuts such as swimsuits and warm weather wear in May and June. However, delivery dates must be carefully planned and negotiated in order to assure that the retailer maintains an adequate cash flow.

Too much inventory received in the same month may mean that the retailer might be required to borrow money to pay the invoices, thus paying interest on the use of the money. This is an overhead expense that will cut into the retailer's profit.

Planned purchases at retail are calculated to provide the dollar amount available to purchase new product for each month. The Planned Purchases formula is calculated as follows:

$$\text{Monthly Planned Purchase\$} = \text{Planned Sales\$} + \text{Planned Reduction\$} + \text{EOM\$} - \text{BOM\$}$$

Example: Calculate Monthly Planned Purchase \$ (for February)

$$\begin{aligned}\text{Monthly Planned Purchase \$} &= ? \\ \text{Planned Sales \$ for February} &= \$33.75 \\ \text{Planned Reduction \$ for February} &= \$5.94 \\ \text{EOM \$ for February} &= \$164.25 \\ \text{BOM \$ for February} &= \$149.85\end{aligned}$$

$$\begin{aligned}\text{Monthly Planned Purchase\$} &= \text{Planned Sales\$} + \text{Planned Reduction\$} + \text{EOM\$} - \text{BOM\$} \\ &= \$33.75 + \$5.94 + \$164.25 - \$149.85 \\ &= \$54.09\end{aligned}$$

Open-to-Buy

The **open-to-buy (OTB) for the Six Month Merchandise Plan/Budget** is monthly planned purchases at retail converted to wholesale cost. The buyer uses the cost figures to determine what dollar amount to spend when purchasing merchandise.

The formula for calculating the monthly OTB cost dollars is the same as the formula (i.e., Retail \$ x Cost % = Cost \$) used previously for calculating cost dollars when retail dollars and markup percent is known. (Refer to **Section 1, Part 2: 2-1.**) Therefore, the buyer must determine the markup percent needed for the season in order to make the calculation.

The following formula is used for calculating OTB at cost:

$$\text{OTB Cost \$} = \text{Planned Purchase \$} \times \text{Cost of Goods Sold \%}$$

Example: Calculate OTB Cost \$ (for February)
OTB \$ Cost = ?
Monthly Planned Purchase Retail \$ for February = \$54.09
Markup % (designated by retail buyer) = 52.95%
(Hint: Cost % = 100 % - Markup %)

$$\begin{aligned}\text{OTB Cost \$} &= \text{Planned Purchase \$} \times \text{Cost of Goods Sold \%} \\ &= \$54.09 \times (100\% - 52.95\%) \\ &= \$25.45\end{aligned}$$

The open-to-buy (OTB) designates the amount of purchases the buyer needs for the month in order to reach sales goals while taking into consideration the amount of merchandise or inventory that is already on-hand. The OTB is used by the buyer to assure that the amount of purchases received during the month do not surpass or cause an overage in the planned end of the month (EOM) stock level. If there is an overage of stock the buyer is **overbought**.

Although there is available inventory (BOM\$) at the beginning of each month, the buyer must plan for new arrivals throughout the month in order to replenish stock sold at the beginning of the month, to purchase new items that become available during the month, to buy off-price and special promotions or cuts (e.g., merchandise produced by vendors from leftover fabrics or from special purchased fabrics cut into the best selling seasonal styles of the vendor), and to reorder “hot” or fast selling items or basic fashion merchandise. Additionally, there are always outstanding orders (i.e., goods previously ordered from vendors that have not been received in-store) that are shipped and received into stock during the month.

Open-to-buys are usually calculated on a monthly basis to determine the amount of merchandise that may be purchased throughout the remainder of the month. Think of the OTB dollars at the beginning of the month as the beginning balance in a checkbook. Each time the buyer places an order for merchandise the dollar amount of the order is subtracted from the previous balance in the checkbook; therefore, the balance is less for each order placed for new merchandise. If there is a zero balance the buyer no longer has OTB to spend and must discontinue placing orders. If the buyer continues to place orders with the zero balance, then he/she exceeds the funds available for purchasing goods and is **overbought**.

If a buyer is overbought, many times management will ask the buyer to cancel orders placed earlier in the month or season in order to balance the stock level or management may inform the buyer that he/she cannot buy more merchandise until the planned inventory levels are achieved. Also, not reaching the planned sales goal for the month will increase the end of month (EOM) inventory or the beginning of the month (BOM) inventory for the next month, thus reducing the OTB for the next month. On the contrary, an increase in planned sales will decrease the end of the month (EOM) inventory for the month and result in an additional OTB for the next month. The OTB must be continually adjusted based on the amount of sales, markdowns and purchases realized during the month.

For calculating the monthly OTB the buyer must determine the merchandise that is available for reaching planned sales and the amount of merchandise that is needed to meet the plan. *Merchandise available* includes: merchandise on-hand, merchandise on order, merchandise in the receiving room, and merchandise in transit. *Merchandise needed* includes: planned sales, planned EOM \$, planned markdowns minus present inventory and goods on order. The formula below is useful for reviewing the relationship between merchandise available and merchandise needed.

$$\text{OTB Cost \$} = \text{Planned Sales \$} + \text{Planned EOM \$} + \text{Planned Reduction \$} - \text{Current Inventory \$} - \text{On Order \$}$$

Example: **OTB \$ Beginning of Month (for February)***
 OTB Cost \$ = ?
 Actual BOM Inventory \$ = \$149.85
 Planned EOM Inventory \$ = \$164.25
 Planned Sales \$ = \$33.75
 Planned Reduction \$ = \$5.94
 On Order \$ = \$25.00**
 Markup % = 52.95%**

***(All figures, except the On Order dollars, for this calculation are taken from actual spring figures previous year Six Month Merchandise Budget/Plan for Spring Season – Fashion Department.)**

**** (The on order dollar figure and markup percent are arbitrary figures utilized for calculating the OTB Cost \$ Beginning of Month)**

$$\begin{aligned}\text{OTB Cost \$} &= \text{Planned Sales \$} + \text{Planned EOM \$} + \text{Planned Reduction \$} - \text{Current Inventory \$} - \\ &\quad \text{On Order \$} \\ &= \$33.75 + \$164.25 + \$5.94 - \$149.85 - \$25.00 \\ &= \$29.09\end{aligned}$$

$$\begin{aligned}\text{OTB Cost \$} &= \text{Planned Purchase \$} \times \text{Cost of Goods Sold \%} \\ &= \$29.09 \times (100\% - 52.95\%) \\ &= \$13.69\end{aligned}$$

Summary

In summary, when buyers are developing the planned merchandise budget, they must collect a significant amount of information; analyze data from previous actual budgets; and use instinct and experience from previous store happenings in order to create a realistic and attainable budget for the department or store.

Next, a brief explanation of the impact of weather pattern and sales promotional activities on the creation of the merchandise plan will be explored. Lastly, in *Part 4: Calculation Stage for Development for the Six Month Merchandise Plan*, the calculation stage of preparing The Six Month Merchandise Budget will be delineated.