



**Creating  
Positive  
Cashflow**

FINANCIAL MANAGEMENT SKILLS TRACK

**With an "Open to Buy"!**

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Presented  
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## Creating Positive Cashflow with an "Open to Buy"

Two reasons why should you have an "open to buy."

What is your average "cash on hand" at the end of the month?

What is your average "inventory on hand" at the end of the month?

What was your turn rate for the last year?

How much "cash on hand" would make you feel comfortable?

How many "open-to-buy" charts should you have?

What percentage of your annual sales occurs in each month?

How much inventory do you want on hand?

_____ %	January	\$ _____
_____ %	February	\$ _____
_____ %	March	\$ _____
_____ %	April	\$ _____
_____ %	May	\$ _____
_____ %	June	\$ _____
_____ %	July	\$ _____
_____ %	August	\$ _____
_____ %	September	\$ _____
_____ %	October	\$ _____
_____ %	November	\$ _____
_____ %	December	\$ _____

*Use the cost of inventory and the "open-to-buy" calculators from the Profits+Plus website.*

## 6-Step plan to create your "Open-to-Buy" chart

1. By department or fineline, list your sales by each of the last 12 months.
2. Enter on row 3 (Inv) your best sales estimates for the next 12 months.
3. Enter on row 42 (GM%) your estimate for your maintained gross margin.
4. Enter on row 47 (D/Inv) your desired inventory for the end of each month.
5. Enter on row 5 through 37 (PO #1– 33) the amount of each purchase order. Traditionally orders are entered in the month the inventory is received as compared to the month the invoice is due. Column "B" is for your purchase order number. Column "C" is for the name of the vendor. Column "D" – "E" for enter a number; "P" is a calculation.
6. Enter in row 2 (Inv) for January only, the amount of inventory you have on hand on December 31. The rest of row 2 will be calculated for you by the Excel template.

**For those not using the free Excel chart at [www.profitsplus.org](http://www.profitsplus.org), the math is:**

Row 38 (T/Purch) will total of the purchases orders written during the month. It is "total inventory purchased" and is the sum of rows 3 through 37.

Row 49 (OTB) is the "open to buy" and is the result of row 47 minus row 45.

Row 40 (Inv/Sale) is "total inventory available for sale" and is the sum of rows 2 and 38

Row 43 (COGS) is "Cost of Goods Sold" and is the result of row 3 multiplied by the reverse of row 42. (If the gross margin in row 42 is 35%, then row 3 is multiplied by .65)

Row 45 (A/Inv) is the "actual inventory at the end of the month" and is the result of row 2 plus row 38 minus row 43.



## **Scenarios that happen in your business that affect your “open to buy”:**

What if sales increase?

What if sales decrease?

What if you under-spend one month?

What if you over-spend one month?

What if your margins increase?

What if your margins decrease?

What if you take markdowns?

What if you take additional markups?

What if you want to increase inventory?

What if you want to decrease inventory?

	A	B	C		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2	Inv			E/P													
3	Sales			E													
5	PO #1			E													
6	PO #2			E													
7	PO #3			E													
8	PO #4			E													
9	PO #5			E													
10	PO #6			E													
11	PO #7			E													
12	PO #8			E													
13	PO #9			E													
14	PO #10			E													
38	T/Purch			P													
40	Inv/Sale			P													
42	GM%			E													
43	COGS			P													
45	A/Inv			P													
47	D/Inv			E													
49	<b>OTB</b>			P													



## **A way to turn more profit**

**By Tom Shay**

**SOUND ADVICE FOR BUSINESS**

If the title of this article said we were going to discuss financial ratios, many of you would quickly turn to another page. The majority of businesses demonstrate little interest in this type of information, whether it means discussing gross margin return on investment, asset-turnover ratio, or any number of statistics we can calculate using a financial sheet.

Let me persuade you to take a couple of numbers from your financial sheets and use them to make a few extra bucks. I promise the results will be there.

Grab your pencil and financial sheets. Within a couple of minutes, we are going to make decisions that will fatten your wallet.

For example, let's use an imaginary business called Ed's. In looking at Ed's profit-and-loss statement (also called the income statement) for a 12-month period, there is a line titled "cost of goods sold." It tells us how much the inventory cost Ed. For those 12 months, that figure is \$185,000.

Taking Ed's balance sheet, we quickly calculate that the average inventory on the shelves at Ed's for the same 12 months was \$58,500.

To determine Ed's inventory turn, we divide the \$185,000 by \$58,500 and get an answer of 3.16 turns. What does this tell us? More important, can we make money with this information.

The answer to the first question is, Ed is restocking his business 3.16 times per year. As a typical example, let's use a product for which Ed pays \$22 and sells for \$39.99. That means Ed has a gross profit of \$17.99.

This situation is repeated 3.16 times each year. The product provides a dollar contribution for the year of \$56.85 (3.16 times \$17.99)

Common knowledge says that every business could have more profit by increasing the number of turns or the price. We do not know if the price of \$39.99 is all that the market will bear, but folks in the grocery business—who operate on much smaller margins—often have turns in excess of 20.

With this in mind, let's help Ed make more money by looking at ways to increase his turns.

The first possibility is to decrease his quantity on hand. In addition to increasing the turnover, this move will allow Ed to invest the same dollar in other items he can offer his customers. This idea may work if Ed has several of the first product on the shelf. The key is for Ed to make sure that there is always one of the first product on hand when the potential customer comes in the door, but not to stock so many of it that he is tying up his cash.

The second way of increasing Ed's turns (and profit) is to increase sales. To increase the sales of our example product, Ed can advertise the product, display it in a more prominent location within his store, or lower the price from the current \$39.99.

In brief, advertising could bring on additional expenses, while the more prominent display idea simply involves Ed's time and efforts.



## A way to turn more profit (continued)

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Let's take a more serious look at the idea of lowering the price. Ed gets 3.16 turns on this product and has a gross profit of \$17.99. His markup is 45 percent, and we have already calculated that the dollar contribution for the product is \$56.85 per year. Let's compare this to other items in Ed's business.

At the front of his business, Ed has a rack of candy bars. Ed buys the candy bars in a box of 48. The best selling candy bar sells for 69 cents, but has a margin of only 11 percent. There is a gross profit of less than 8 cents per candy bar.

Nonetheless, Ed has a high traffic count in his business, and many people buy one or two candy bars each time they visit. Ed is buying a box of candy bars every week. How much do the candy bars contribute to the profitability of the business?

Do the math and you will find that the candy bars contribute \$199.68 a year to his profitability, which is 3.51 times what the first product contributes to Ed's profitability. The nontraditional item makes more money for Ed than the item everyone expects to find in his business.

This same profitability index may be occurring with other fast moving items within Ed's business. Of course, it would be difficult for a business to perform this type of review on every product sold by the business. But, it is an important approach that leads to extra profits.

Let's look back to our attempts to increase Ed's profits with the first product. What if Ed were to decrease the price to \$29.99? His gross profit is now \$7.99. If, by changing the price, Ed finds a substantial increase in the sales of the product, he may make more money. However, he must now sell eight of the product per year to make as much money as he does selling three of it at \$39.99.

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The hardest part is determining which price spurs an increase in sales. Perhaps cutting the price only \$5 to \$34.99, would spur the same increase to eight sales per year. In that case, Ed would almost double his gross profit on the product.

Conversely, if he were to increase the price to \$49.99, he would still need to sell two of the product to make as much profit as he does selling three of the item at \$39.99. An additional consideration is to determine whether the increase price will cause customers to perceive Ed's business as being high priced, which could hurt sales overall.



## **A way to turn more profit** (continued)

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The key to maximizing profits—regardless of whether it is a high priced or inexpensive item—is to determine which price generates the best results. You want to determine whether you can hold the price, or even increase the price, and not lose the number of turns. The flip side is to determine how far you must cut a price to clear out stagnant merchandise and free up your shelves and cash for more profitable items.

All in all, the safer decision for Ed probably will be to move the product to another location in the business and begin looking for different items that turn quickly. These items, prominently displayed, could be vital to fattening his wallet.