Merchandise Forecasting, Dollar Control

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Merchandise Forecasting and Budgeting: Dollar Control

- Dollar control entails planning and monitoring a firm's inventory investment over time.
- There is a six-step dollar control process, which should be followed sequentially.
- If a sales forecast is too low, a firm may run out of items because it does not plan to have enough merchandise during a selling season. Planned purchases will also be too low.

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Merchandise Forecasting and Budgeting Process: Dollar Control



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Inventory-Level Planning (1 of 2)

- Four techniques:
- Basic stock method

  Basic stock (at retail) = Average monthly stock at retail – Average monthly sales

  Beginning-of-month planned inventory level (at retail) = Planned monthly sales + Basic stock
- Percentage variation method

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$$\text{Beginning-of-month planned inventory level (at retail)} = \text{Planned average monthly stock at retail} \times \frac{1}{2}\left[1 + \frac{\text{Estimated monthly sales}}{\text{Estimated average monthly sales}}\right]$$

Inventory-Level Planning (2 of 2)

- Weeks' supply method

  Beginning-of-month weekly sales planned inventory level (at retail) = Average estimated weekly sales × Number of weeks to be stocked

- Stock-to-sales method

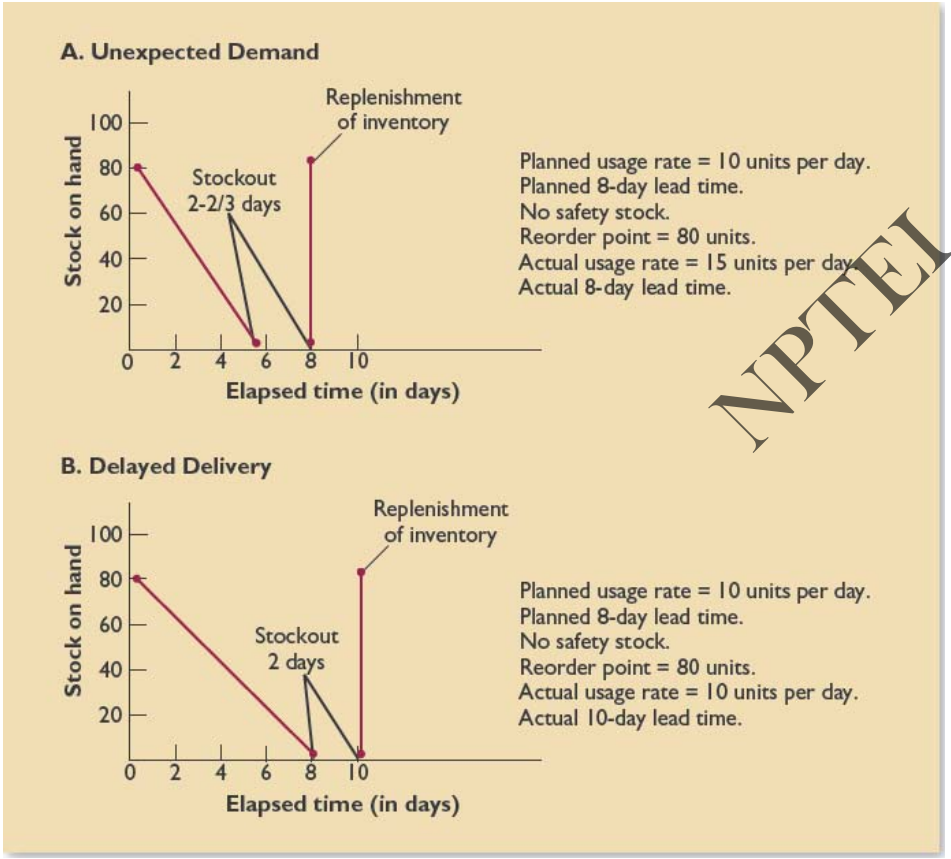
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Planning Purchases: Open to Buy

- Planned purchases (at retail) = Planned sales for the month + Planned reductions for the month + Planned end of month inventory − Beginning of month stock
- Open to buy (at retail) = Planned purchases for month less purchase commitments for that month
- Open to buy (at cost) = Open to buy at retail times cost complement

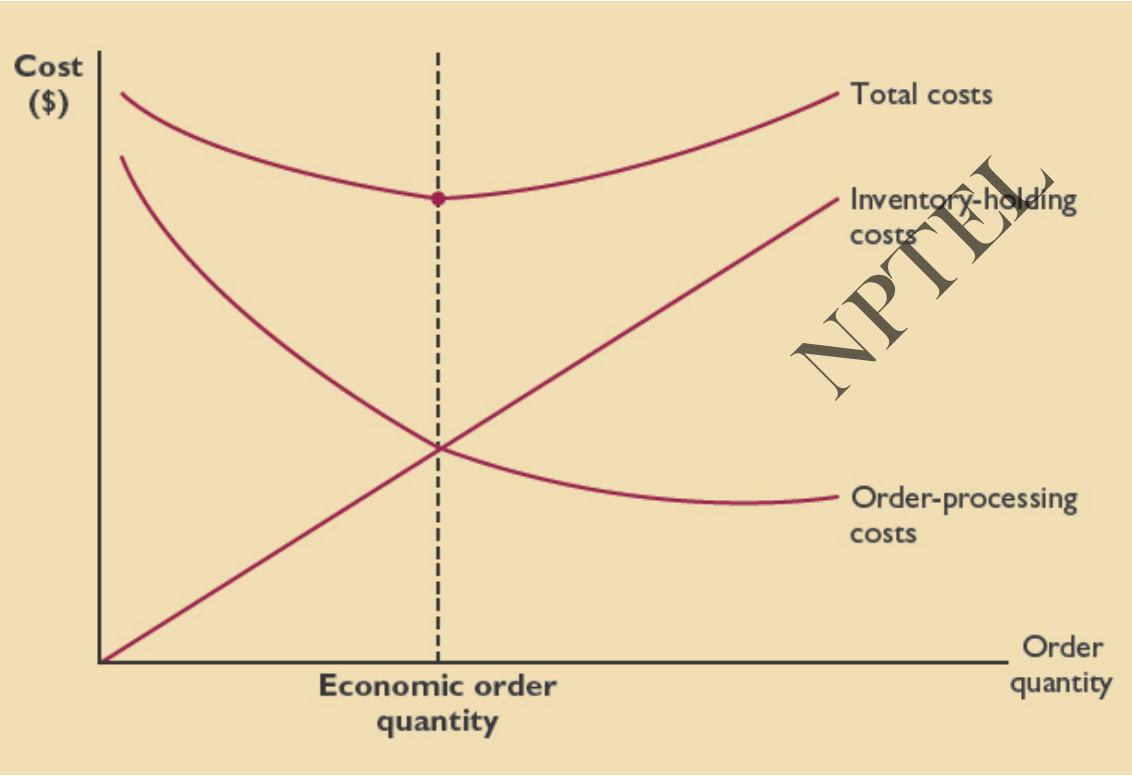
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When to Reorder (How Stock outs May Occur)



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How Much to Reorder (EOQ)



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Thank You

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