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Retail Merchandise Budgeting

Every business works within the confines of a budget, which indicates how much it can spend on various things. One key budget element for a retailer is merchandise. Retailers must analyse data to create merchandise budgets that are affordable and put the business in the best position to make a profit.

Components

When a retail business creates a merchandise budget, it must include more than just the cost of goods from wholesalers. While merchandise itself forms the core of that budget, ancillary costs also contribute, and generally rise with increased spending on merchandise. These include items such as shipping, inventory-management software, labor for sorting and counting stock, and storage. Marketing is a related cost that a retail business could include in its merchandise budget, since buying more goods will only be profitable if customers buy them.

Projecting Demand

One technique that a retail business uses to create an accurate merchandise budget is demand forecasting. Understanding what consumer demand for merchandise is likely to be in the future allows a retailer to devote adequate resources to buying stock and managing inventory so as not to miss sales opportunities. Demand forecasting relies on an analysis of past sales data, as well as a projection based on upcoming products, seasonal changes in demand, trends in customer buying habits and plans for expansion at the retailer.

Budget Types

Retailers are likely to employ two types of budgets for merchandise. Retailers create a static budget before actually purchasing merchandise. They also use a flexible budget, which

incorporates changes made along the way. For example, a retailer's static budget may allocate $10,000 for buying snow shovels in a given year, which covers enough shovels to meet typical demand from past winters. However, if the winter is especially snowy, the retailer can spend an additional $2,000 on shovels to meet increased, temporary demand. The flexible budget at the end of the year will show $12,000 going toward shovel purchases, along with higher revenue from sales that exceeded projections.

Outcome and Analysis

A business can use its static and flexible budget results to analyse its performance at the end of a quarter or fiscal year. Higher levels of spending on merchandise are not necessarily bad, especially if they result in increased sales. However, buying merchandise in smaller quantities and multiple orders increases unit cost and delivery charges. This means that if merchandise spending rises between a static budget and a flexible budget, it may indicate an opportunity to save money by spending more on initial orders in the future, if demand will remain high. Comparing merchandise budgets to inventory changes over the same period of time can also reveal excessive spending on merchandise that remains unsold and may need to be discounted so that it sells.