

Retail Buying and Open to Buy

Name

Institution

Many buyers have not fully internalized the different types of inventories—Inventory at hand, inventory in transit and inventory from placed orders. This means that they will often fail to account for one or two of the inventories, especially the last two, implying wrong judgments on which inventories to spend money on. The end result is that many buyers will end up buying more of one inventory than they actually require. To solve this problem, three main strategies may be used. First is proper information and training on the part of the buyers to equip them with adequate knowledge on the operation of the three inventories. With such knowledge buyers will know the inventories to give the first priority (*OTC chart manual*, 1955). Again, increased knowledge on the part of the buyers will mean that they will be able to pre-determine the inventory type they need before they run out of stock. Second is the adoption of an effective inventory control program to help in decision making. Enhanced training will shed more light on the conditions to be relied upon by buyers as they think of bringing in more stock to the business. With an effective inventory control program, buyers will successfully maintain adequate stock levels to go hand-in-hand with the amount of sales being generated. Inventory control is a complex task and will require clear and well-set strategies. The program will set goals and timelines to be relied on by the buyers as soon as the idea of stock taking hits the business. Clear set goals will determine the amount of stock to be bought, when to be bought and the vendor from whom to purchase the inventory from. Thirdly, buyers will need to hold back some of the OTB Dollars to take advantage of special purchases. Withheld revenue will also enable buyers react to fast-selling items (*OTC chart manual*, 1955). This ensures that buyers spend Dollars on strategic types of inventories with the highest returns. Today's business markets are characterized by high uncertainties and instability. It will be wise for the buyer to bring in to his business only the required inventories. In instances where the buyer purchases more than what the business needs, there are high chances that the business will face huge losses in terms of profits not earned as a result of stock outs.

We can use dollars as units to represent the values of OTB. This theoretically means that we can predict the amount of dollars for each month using corresponding values of OTB. Looking at our OTB chart, we can make several observations regarding the values of OTB. The 13th month has the highest OTB value, \$1,179 representing the month with the highest amount of dollars. Other months with available dollars include 1st month-\$750, second month-\$70, 3rd month-\$120, 5th month-\$160, 9th month-\$487, 10th month-\$987, and 11th month-\$919. We conclude that these are the months with available dollars because the values of OTB are positive, meaning that the needed inventory is higher than the available inventory. A high value of OTB in a month shows high dollar numbers in the same month. The negative values of OTB show that the buyer has actually overspent (Peterson & Miller, 2011). Overspending on the side on the buyer means that he has bought more inventories than the business actually needed. Looking at the values of OTB in the chart, we see that the buyer has overspent in the 4th month- (-\$380), 6th month- (-\$328), 7th month- (-\$680), 8th month- (-\$328) and 12th month- (-\$136). Looking at the chart, it will be right or wrong to spend the OTB based on its size and magnitude. For example it will be okay to spend additional OTB from the 13th month like dollars beyond 500. The buyer will therefore have the chance to spend OTB if the value of the OTB is positive and is “Realistically a large number.” This means that the buyer will have \$679 to spend as they will have \$500 remaining, which they may use for future purchases. (\$1179-\$679). The buyer cannot however spend OTB in those months where he faces negative OTB as he doesn't have “Real” money to spend in the first place. By having negative OTB values, it means that the buyer is

running under debt as he has put his money to an inventory which is not needed by the business. The buyer will not spend OTB in the 7th month as he doesn't even have the OTB in the first place. The buyer may spend OTB on any month with a positive OTB beyond \$500.

Looking keenly at the chart, we see that seasonality has played a role in OTB distribution. To understand this, we will consider the distribution of OTB from the 1st month to the 13th month. The pattern starts with positive buy small values of OTB for the first three months. The values however declines and becomes negative in the following five months. Towards the end of the year, the values greatly increase hitting the highest value in the 13th month (Peterson & Miller, 2011). The low values in the first three months may represent a low season characterized by low demands while the high values towards the end of the year may represent peak season with very high demands for the product.

References

Peterson, T., & Miller, J. (2011). *To have and to hold*. Bloomington, MN: Bethany House.

OTC chart manual. (1955). New York [etc.: Trend line, Standard & Poor's Corp., etc...