

Budgeting for Buying Steps

Set realistic goals.

- Set realistic goals for inventory you want to carry as well as for sales.
- Overestimating sales is one of the biggest budgeting mistakes.
- Every category in your buying budget should have a corresponding sales goal.
- Assess your current inventory levels.

Predict your revenue

- Be conservative, base assumptions on real data, and don't expect to be perfect.
- Update your forecasts regularly.

Steps to projecting revenue

1. Choose a timeline for your forecast.
2. List out all guaranteed income during the time period.
3. Examine historical data to see what you made in sales during the same time period last year.
4. Consider events during the time period – significant store events, sales, promotions, and holidays that will both increase and decrease your revenue.
5. Consider outside factors during the time period, like projected weather, events around town, and current events.
6. Consider the time of year.
7. If you're a newer store, you can use ABACUS data to help with projections.

Analyze your inventory data

- Consider inventory turns, best/worst selling sections, dead/cold stock, bestsellers over the past year, and sidelines.
- Predict your inventory levels for the time period, making sure you factor in a certain amount of "safety stock."
- Avoid "inventory creep," or plowing all of your extra cash into inventory.

Determine your wants vs your needs

- Examples of inventory needs:
 - Bestsellers - not necessarily national bestsellers, but bestsellers for your store
 - Credibility - even if it doesn't sell a ton, there are some things you may need to carry for "cred" in your community
 - Freshness - you always want to ensure your inventory stays fresh
 - Frequent Handsells
 - Staff Picks
 - Event stock
 - Books that fulfill the store's mission
- Examples of inventory wants
 - Books you (the buyer) love that others may not love (or buy)
 - Sections that don't sell, but you love

- Expanding inventory
- Stocking a bookmobile, if you don't already have one
- Buying every single thing in a catalog that interests you
- Categorize wants and needs to take a closer look.

Determine how much to spend on inventory using COGS percentage

- Set maximum spending amounts for each inventory category/section for the order you're about to make.
- Go back through needs to determine how much you NEED to spend.
- Go back through wants to see if you can afford to add them.
- It's useful to look at your average COGS percentage to set a maximum spend amount.
 - Example: You predict \$10,000 in sales for the upcoming month. Your average COGS is 55%. 55% of \$10,000 is \$5500, so that would be your overall maximum spend. Looking at your inventory mix, you spend 70% on new books, 20% on used books, and 10% on sidelines. That means you would want to spend \$3850 on new books (70%), \$1100 on used books (20%), and \$550 on sidelines (10%).
 - You can then get as granular as you wish.

Analyze & adjust

- Review your buying budget on a regular basis.
- Determine if your forecasts were realistic – compare actual revenue against planned revenue.
- Determine if your expenses were steady.
- Be aware of “phantom inventory” that is incorrectly recorded.
- Make necessary adjustments so you don't overspend next time.
- Look at inventory data and forecast how much inventory you'll need on hand at different points in the year.
- Look at wants and needs and see how your ordering stacked up.
- Compare sales goals with on-hand inventory and ordering.

Rinse, wash, repeat!