**Fashion Merchandising: Principles and Practice 2**

**Budgeting**

Ensuring that a product range will deliver economic benefit as well as being in line with relevant fashion trends is the core role of Buying and Merchandising. The merchandiser is charged with ensuring the former element within supplying fashion product to the customer.

Exercises 1 and 2 – Understanding the relationship between budgets

The sales turnover and markdown spend budgets are linked. See the relationship in the two exercises below:

Exercise 1: The impact of only selling 50% of the range at full price

|  |  |  |
| --- | --- | --- |
| Total units bought | 50 |  |
| Selling price | £25 |  |
| Buy value | £1,250 |  |
| Sales units at full price | 25 |  |
| Sales value at full price |  | Sales units at full price \* Selling price |
| Stock value to markdown |  | Buy value - Sales value at full price |
| Cost of markdown at 50% off |  | Stock value to markdown \* 50% |
| Sales value at reduced price |  | Stock value to markdown - Cost of markdown at 50% off |
| Total sales value |  | Sales value at full price + Sales value at reduced price |
| Total markdown value |  | Cost of markdown at 50% off |
| Markdown expressed as % to sales |  | Total markdown value / Total sales value |

Exercise 2: The impact of only selling 75% of the range at full price

|  |  |  |
| --- | --- | --- |
| Total units bought | 50 |  |
| Selling price | £25 |  |
| Buy value | £1,250 |  |
| Sales units at full price | 38 |  |
| Sales value at full price |  | Sales units at full price \* Selling price |
| Stock value to markdown |  | Buy value - Sales value at full price |
| Cost of markdown at 50% off |  | Stock value to markdown \* 50% |
| Sales value at reduced price |  | Stock value to markdown - Cost of markdown at 50% off |
| Total sales value |  | Sales value at full price + Sales value at reduced price |
| Total markdown value |  | Cost of markdown at 50% off |
| Markdown expressed as % to sales |  | Total markdown value / Total sales value |

Exercise 3 – The components of gross profit

All the KPI budgets contribute to the P&L and balance sheet. In this exercise the quantitative impact of KPI budgets is reviewed.

For the KPI budget table below calculate the gross trading profit for the “This Year Budget” and the “Last Year Actual” columns. Then calculate the % variance between the two.

1. Use the following calculation to work out the gross trading profits
   1. ((Sales turnover/1.2)\*Intake margin) – ((Markdown spend/1.2)\*Intake margin))

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| KPI Budget | This Year Budget | Last year Actual | % Variance | Definition |
| Sales turnover budget £ | 108,500 | 90,000 | 21% | The cash sales value (£) that the range will generate |
| Markdown spend budget £ | 20,615 | 22,250 | -7% | The cash cost value (£) of discounting in sale periods |
| Intake margin % budget | 62% | 62% | 0.0% | The % margin difference between cost and selling prices |
| Gross trading profit £ |  |  |  | The profit from trading activities that covers overheads and net profit |
| Opening stock budget £ | 55,346 | 50,000 | -4% | The stock holding selling value at the beginning of the season |
| Closing stock budget £ | 55,346 | 55,500 | -4% | The stock holding selling value at the end of the season |

Discussion

1. As full price sell through rates vary what is the impact on the sales turnover and markdown spend relationship?
2. What factors will affect the full price sell through rates achieved within a season?
3. Is the Gross trading profit generated in exercise 3 better or worse than Last year?
4. Why?
5. What is the relationship of the opening and closing stock budgets to Sales turnover, markdown spend and Gross trading profit?