

9.10: Seasonality and Cash Flow

Learning Objectives

- Explain the effect of seasonality on cash flow of some retailers

Seasonality refers to an imbalance in the timing of sales revenue for a given class of merchandise. To simplify this, think about pumpkins and bulk candy, for example. Certainly, shoppers might buy pumpkins and bulk assorted candy throughout the year, but we might expect that these purchases peak in October, building towards Halloween. In this way, the market for pumpkins and bulk candy reflect seasonality. Yes, there are ongoing sales, but there are clear peaks in demand at specific times of the year.

Other examples might include winter holiday merchandise, which may sell beginning as early as Labor Day (early September) through late December, and swimwear, which may sell as early as January (beginning of cruise season) through early summer, with some retailers starting to markdown swimwear around mid July.

Of course, these are not exhaustive of all seasonal items, but are intended to give you examples. Within a supermarket, grocers might actively promote seasonal items and/or seasonal consumption of specific items. Think about heavy merchandising periods, including:



- January: Chips and soft drinks in advance of the Super Bowl
- February: Boxed chocolate for Valentine's Day
- May: Flowers and greeting cards for graduates and Mother's Day
- July: Hot dogs, ground beef, and buns for the 4th of July
- August: Back-to-school
- November: Turkeys and prepared pies for Thanksgiving
- December: Winter holidays like Christmas, Hanukah, or Kwanzaa

Cash flow refers to the total amount of money being transferred into or out of a business at a given moment of time. Businesses seek to generate long-term positive cash flow. But, because seasonality reflects an imbalance in the timing of sales revenue, cash flow can be uneven, creating challenges for how to manage the financials of the firm.

For example, consider Brighter Beach, a retailer that sells swimwear and accessories. As you would expect, their high selling season extends from March through August. Yet, the store is open year round, meaning the business incurs operating expenses, like rent, utilities, and labor, throughout the full year. Therefore, sales and profits during the summer months must be enough to cover all annual expenses. This includes capital to purchase goods (inventory) to sell in the coming selling season. It's the timing of these transactions that makes budgeting decisions especially complex. The managers of Brighter Beach, and those at other seasonal businesses, may need to manage cash flow to pay off past purchases or to make new ones.

Practice Questions

<https://assessments.lumenlearning.co...sessments/9245>

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