

Glossary of Inventory Management Terms

Return on Investment or ROI = what you are getting back for what you have invested in your inventory – your profit.

Gross Margin Return on Investment or GMROI = the gross margin (or profit) you make on sales in the section against your inventory value in that section for unit of time – usually one month.

COGS = Cost of Goods Sold = Beginning Inventory + Purchases - End Inventory

Gross Margin %, Gross Profit % and Discount % are equivalent. If you buy some soapstone boxes at 45% discount, your gross margin is 45% of your sales.

Avg. Inventory = Average Inventory = (Beginning Inventory + Ending Inventory) / 2

Inventory turns = The cost of goods for a period divided by the average inventory value for that period.

\$ Retail = \$ Cost / (100% - markup %)

\$ Markdown = Original retail price - lower retail price

Gross Margin = Sales - cost of goods sold

Margin % = (\$ Retail - \$ Cost) / \$ Retail

Markdown % = \$ Markdown / \$ Net Sales

Markup = The difference between the cost of an item and its selling price.

Markup cancellation = Reduction from original markup %

Planned Stock = Planned monthly sales x stock sales ratio

Sell through % = Units sold / (units sold + on hand inventory)

BOM = Beginning of Month

EOM = End of Month

Stock Sales Ratio = B.O.M. \$ Stock / Sales for period

Shrinkage = Difference between book and physical inventory

Inventory Turnover = *Turnover* is the number of times you sell your average investment in inventory each year.

Turnover = net sales for period / average stock for period

Breakeven = Fixed Costs / (Revenue – Variable Costs)

Weeks of Stock = Inventory divided by average weekly sales for a given period of time.

