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Five Inventory Numbers Every Business Owner Should Know

A straightforward guide to understanding what your inventory is telling you

Inventory is cash in another form.

The products sitting on your shelves, in your warehouse or in your service vehicles represent money your business has already spent. These five numbers help you see what is selling, what is sitting, and where you may be missing sales.

In plain language, this guide will help you answer:

- Is our inventory moving?
- Are we carrying more than we need?
- Can customers get the products they want?
- How much stock may never sell?
- Are we buying based on a realistic plan?

Planning to profits • Inventory that works



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Start with the questions, not the formulas

You do not need to be an inventory expert to use these numbers. Begin with the business question each number answers. Then watch how the result changes over time and investigate anything that looks unusual.

There is no single "perfect" number.

A healthy result depends on your products, customer expectations, supplier lead times, and seasonality. Your own trend is often the best place to start.

#	Inventory number	Plain-language question
1	Inventory turnover	Is our inventory moving or sitting?
2	Days inventory on hand	How long will our current stock last?
3	Fill rate and stockouts	Can customers get what they need?
4	Excess and obsolete stock	How much inventory are we unlikely to sell?
5	Forecast performance	Are we usually planning too high or too low?

A few words you will see

- Cost of goods sold: what the products you sold cost your business.
- Average inventory: the average value of inventory you held during the period.
- Stockout: a customer wanted a product, but you could not supply it.
- Forecast: your best estimate of what customers will buy.

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1. Inventory Turnover

Is your inventory moving or sitting?

This number estimates how many times your business sold through an amount equal to its average inventory during the year. It is a quick way to see whether inventory is moving faster or slower than before.

Inventory turnover = Cost of goods sold ÷ Average inventory

Simple example

Your cost of goods sold for the year was $1,800,000. Your average inventory was $450,000. That gives you an inventory turnover of 4 times per year.

What does 4 times mean?

Your business sold an amount equal to its average inventory investment about four times during the year. It does not mean every individual product is sold four times.

What to watch for

- Turnover is falling: you may be buying more than you are selling.
- Turnover is rising but stockouts are also rising: you may not be carrying enough of the right products.
- The company average looks fine: a few fast sellers may be hiding products that are barely moving.

Ask your team

Which products are selling more slowly than they were six or twelve months ago?

2. Days Inventory on Hand

How long will your current inventory last?

This number converts inventory into days. It helps you understand how long cash may remain tied up before products are sold or used.

Days on hand = Average inventory ÷ Cost of goods sold × 365

Simple example

Using average inventory of $450,000 and annual cost of goods sold of $1,800,000, the business has about 91 days (about 3 months) of inventory on hand.

Think of it this way

The business is carrying roughly three months of inventory. That might be sensible with long supplier lead times or seasonal demand, but it might also be more than the business needs.

What to watch for

- Look at important product groups separately. You may be short of some items and have years of supply in others.
- Do not cut inventory simply to reduce the number. Make sure customer service remains strong.
- If demand is highly seasonal, compare the result with the same period last year.

Ask your team

Which products have enough stock to last much longer than we realistically expect to sell them?

3. Fill Rate and Stockouts

Can customers get the products they need?

Lower inventory is not an improvement if customers cannot get what they want. Fill rate measures how often you can provide an order in full. Stockout rate measures how often you cannot.

Line fill rate = Order lines supplied in full ÷ Total order lines × 100

Simple example

If you supplied 940 out of 1,000 order lines in full, your line fill rate was 94%.

The company average can hide a problem

A 94% overall result may sound good, but not if an important customer or best-selling product is regularly short.

What to watch for

- Repeated shortages of important or profitable products.
- Emergency freight, overtime, or last-minute purchases caused by shortages.
- Customers accepting substitutes, delaying orders, or buying elsewhere.
- Inventory records showing stock that is not actually available.

Ask your team

Which products are we running out of, and what is causing it?

4. Excess and Obsolete Inventory

How much stock are you unlikely to sell or use?

Excess inventory is more than you realistically need. Obsolete inventory is unlikely to sell or be used at all. Both can tie up cash and take up valuable space.

Excess and obsolete % =

Value of excess and obsolete stock ÷ Total inventory value × 100

Simple example

If total inventory is $480,000 and $72,000 is excess or obsolete, 15% of your inventory needs attention.

Start with four simple groups

Group	What it means
Active	Selling or being used as expected.
Slow-moving	Still selling, but much more slowly than expected.
Excess	More stock than you are likely to need.
Obsolete	No realistic future demand, discontinued, expired, or replaced.

Do not stop at the report

Give each significant item an owner and a next step: stop buying, return, transfer, promote, bundle, discount, liquidate or dispose.

5. Forecast Performance

Are you usually planning too high or too low?

A forecast is simply your best estimate of what customers will buy. It will never be perfect. The useful question is whether your estimate is improving and whether you are repeatedly planning too high or too low.

Two things to check

Check	What it tells you
Size of the miss	How far was your plan from what customers actually bought?
Direction of the miss	Whether you usually planned too high or too low.

Why direction matters

- Planning too high can create excess inventory and tie up cash.
- Planning too low can create shortages, rush purchases, and missed sales.

Keep it simple at first

Save the plan you used when you made the purchasing decision. Later, compare it with actual sales. Start with your most important products rather than trying to measure everything at once.

Ask your team

Are we repeatedly overestimating or underestimating demand for the same products?

Your simple monthly scorecard

Complete this once a month. The goal is not just to report the number. Write down what changed and what you will do next.

Measure	This month	Last month	Direction	Next action
Inventory turnover				
Days on hand				
Fill rate				
Stockout rate				
Excess / obsolete %				
Forecast: too high or low?				

Four questions for your monthly review

- What has changed?
- Which products or customers explain most of the change?
- What is the impact on cash, sales, or customer service?
- What action will we take, who owns it and by when?

Start small

If your data is not perfect, begin with your highest-value or best-selling products. A useful review of 20 important products is better than waiting months for a perfect report.

About ProcurelyIQ

ProcurelyIQ helps small and mid-sized businesses turn inventory complexity into clearer, more confident decisions. We work with businesses to understand what is selling, what is sitting, and where cash or sales opportunities may be hidden.

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Ready to take the next step?

Use this guide to start a conversation with your team. If you would like help reviewing the numbers and deciding what to do next, connect with ProcurelyIQ at ProcurelyIQ.com.