Part 4: 4-2 Turnover and Stock/Sales Ratio
The retailer constantly monitors both the stock/sales ratio and the stock turnover in order to maintain stock levels that are conducive to profitable retail operations. Stock/sales ratios are adjusted throughout the six month selling period and stock turnover is evaluated for the entire season in order to develop more efficient and profitable merchandising activities and policies.

As previously discussed, both stock/sales ratio and turnover describe a relationship between sales and stock or inventory. **Stock/sales ratio** relates stock to sales, and **turnove**r indicates how quickly the average inventory is sold and then replenished during a given period of time. Stock/sales ratio is usually calculated for a monthly period, while the turnover is calculated for a season or annually.

In the current economic climate, retailers are attempting to control the amount or volume of inventory and to increase net sales with less inventory. In other words, retailers are striving to find an ideal balance between the amount of stock available from which consumers may make their selections and the amount of sales realized from that stock during a specific period of time, usually for a month.

Therefore, the buyer must develop sound vendor partnerships in order to receive merchandise in complete shipments with on-time delivery, to purchase reorders in a timely manner, and to buy smaller quantities per SKU of merchandise without added costs of goods or the elimination of other vendor allowances and discounts.

For the reader's review, the following formula is utilized for calculating the stock/sales ratio.

Stock/Sales Ratio = Monthly Stock $ ÷ Monthly Sales $

A quick turnover usually indicates a higher sales volume and a greater profit on dollars invested in inventory. However, if the merchandise cannot be replenished in a timely manner, the retailer is confronted with a merchandise assortment filled with stockouts that not only foster a loss of sales but also create higher markdowns with less profit.

A balance must exist between the sales for the period and the amount of inventory available for the same period. As previously explained, in order to increase turnover the buyer must reduce the average amount of stock while maintaining the same amount of sales; or the buyer must increase sales without increasing the average amount of inventory.

If a retailer carrying fashion goods purchases merchandise for five selling seasons (i.e., spring, summer, early fall/transition, fall, and holiday), the ideal turnover for the year is 5.0. In other words, the retailer would like to sell and replace the average stock 5.0 times per year. However, few retailers attain the ideal 5.0 yearly turnover. Many times during the first six month a 1.5 to 2.0 turnover is achieved, while a 2.0 to 3.0 may be realized during the fall or second six months.

With some types of product classifications or in some store types, an acceptable or adequate turnover may be 3.0. The turnover figures for The Spring Six Month Merchandise Budget/Plan and The Fall Six Month Merchandise Budget/Plan are the only two figures that may be added from the two six month plans in order to evaluate the productivity of the retailer's merchandising activities.

The turnover formula is reviewed below:

Turnover = Net Sales $ ÷ Average Inventory $

In summary, The Six Month Merchandise Plan is used to relate sales to inventory levels to purchases and to reductions. When the plan becomes the working document for monitoring and adjusting the monthly merchandising activities in the store or department, the buyer has a merchandising tool in order to operate a more profitable business. The plan not only drives sales and the purchases and markdowns of merchandise but also impacts other budgets in the store, such as the promotional and visual merchandising budgets as well as operational activities.

The Six Month Merchandise Plan/Budget is a planning tool to assist the retail buyer in procuring and maintaining stock levels in order to achieve desired sales volume, monitor markdowns, and reach profit and margin goals for a profitable retail operation.