Financial Glossary

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Inventory Turnover

The inventory turnover ratio measures the speed at which inventory moves through a company. In general, a high inventory turnover ratio indicates efficiency.

Inventory turnover can be thought of like this : How many times have we changed inventory during the course of the year? An inventory turnover of nine means that the company has gone through and sold all its inventory nine times during the period.

High inventory turnover means the company has likely 1) Sold a lot of product and 2) Been efficient with selling product. High inventory turnovers are generally positive signs of management.

Low inventory turnover means that average inventory is a higher percent of sales. It also can indicate that the company's revenues were not as high as expected (companies prefer not to have higher average inventories because those assets could be used elsewhere).

Formula

Inventory Turnover = Revenue / Average Inventory

Average Inventory is equal to the average of the last two reported inventory levels of the specified frequency.

Related Terms

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