



Free guide · AGR Inventory

The Complete Guide to Inventory Management KPIs

Definitions, formulas, and applications for
retail and wholesale businesses.

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Measure what matters - and act on it

Inventory is one of the largest investments most product-based businesses make. Yet many organisations struggle to understand whether that investment is producing the right results.

The gap between data and insight is real. Most businesses have access to operational numbers — stock on hand, purchase orders, units shipped. Far fewer have a structured approach to interpreting what those numbers mean, or using them to make better decisions.

This guide closes that gap. What follows is a practical, detailed walk-through of the inventory management KPIs that matter most for retailers, wholesalers, distributors, and supply chain teams. For each KPI, you'll find:

- A plain-language definition
- The formula, with clear variable explanations
- A worked example
- Context for retail and wholesale applications
- Benchmark guidance to assess your performance
- Common pitfalls to avoid

You'll also find frameworks to help you select the right KPIs for your business, a maturity model to assess where you are today, dashboard templates, and practical worksheets you can put to work immediately.



KPIs are only as useful as the decisions they drive. Read this guide with that in mind: **the goal is not to measure everything. The goal is to measure what matters — and act on it.**

Whether you're just starting to build a measurement framework or looking to sharpen an existing one, this guide gives you the tools to manage inventory with more precision, more confidence, and better results.

Understanding Inventory KPIs

A measurement framework starts with the fundamentals: what a KPI actually is, the four lenses inventory KPIs give you, and how to balance leading against lagging signals.

What is an inventory KPI?

A Key Performance Indicator (KPI) is a measurable value that evaluates how effectively a business is achieving a specific objective. Inventory KPIs apply that logic to stock: they turn operational and financial data into signals that tell you whether your inventory is working as hard as it should.

Good inventory KPIs answer questions like

- Are we carrying too much stock — or not enough?
- How often do we run out of product when customers want it?
- Is our forecasting accurate enough to trust our replenishment decisions?
- Are our margins being eroded by excess inventory or aggressive markdowns?
- How reliably do our suppliers deliver?

The four categories of inventory KPIs

Inventory KPIs fall into four broad categories. The strongest inventory strategies combine all four — each provides a different lens on performance.

CATEGORY	WHAT IT MEASURES	EXAMPLE KPIS
Efficiency	How productively inventory is being used	Inventory Turnover, DSI, Carrying Cost %
Availability & Service	How well you meet customer demand	Fill Rate, OTIF, Stockout Rate
Forecasting	How accurately you predict demand	Forecast Accuracy, MAPE, Forecast Bias
Profitability	How inventory contributes to margin and return	GMROI, Sell-Through Rate, Markdown %



Leading vs. lagging indicators

It's important to distinguish between leading and lagging inventory KPIs. Lagging indicators — like inventory turnover — tell you how you performed. Leading indicators — like forecast accuracy or demand variability — give you advance warning of problems before they hit your bottom line.



A balanced KPI strategy includes both. **Lagging indicators provide accountability. Leading indicators provide time to act.**

Operational vs. strategic KPIs

Some KPIs are operational: they guide day-to-day planning and replenishment decisions. Others are strategic: they inform investment decisions, supplier negotiations, and commercial planning.

Operational teams need KPIs that are timely and actionable. Leadership teams need KPIs that are aggregated and linked to business outcomes. Design your measurement framework with both audiences in mind.

Inventory Maturity Model

Before choosing your KPIs, it's worth assessing where your business sits on the inventory maturity curve. Most organisations go through four recognizable stages, and your KPI priorities should reflect the stage you're in.

Stage 1 — Reactive

At this stage, inventory decisions are driven by intuition and firefighting. There's little visibility into what's in stock, what's selling, or what needs ordering.

- **Typical problems:** frequent stockouts, excess overstock, manual ordering processes.
- **Data availability:** basic ERP data, often inconsistent.
- **KPI focus:** stockout rate, inventory accuracy, basic turnover.

If you're here, your first priority is data quality. KPIs can't guide decisions when the underlying data isn't reliable.

Stage 2 — Aware

The business has started tracking inventory performance but measurement is inconsistent and often retrospective. Reports exist, but they're not widely used to drive decisions.

- **Typical problems:** siloed data, inconsistent KPI definitions, limited forecasting.
- **Data availability:** ERP plus spreadsheets, some integration.
- **KPI focus:** inventory turnover, fill rate, days inventory outstanding.

Stage 3 — Proactive

Inventory management is systematic and data-driven. KPIs are tracked regularly, shared across teams, and used to drive replenishment, supplier, and commercial decisions.

- **Typical problems:** forecasting accuracy, supplier variability, SKU complexity.
- **Data availability:** integrated systems, regular reporting.
- **KPI focus:** GMROI, forecast accuracy, OTIF, carrying cost %.

Stage 4 — Optimised

Inventory is treated as a strategic asset. Forecasting is automated, replenishment is dynamic, and KPIs are embedded in decision-making at every level.

- **Typical problems:** fine-tuning algorithms, managing exceptions at scale.
- **Data availability:** real-time, multi-system integration.
- **KPI focus:** full suite including predictive indicators, supplier scorecards, and dynamic safety stock.

STAGE	CHARACTERISTICS	PRIORITY KPIS
1 — Reactive	Ad hoc, intuition-driven	Stockout rate, inventory accuracy
2 — Aware	Inconsistent tracking, retrospective	Turnover, fill rate, DSI
3 — Proactive	Systematic, data-driven	GMROI, forecast accuracy, OTIF
4 — Optimised	Automated, predictive, strategic	Full suite + predictive indicators

 You don't need to master every KPI in this guide immediately. **Start where you are.** Build measurement habits at your current stage, then layer in complexity as your data quality and analytical capability improve.



Inventory Efficiency KPIs

Efficiency KPIs measure how productively your inventory is being used. They answer the fundamental question: are we carrying the right amount of stock, or are we tying up capital in products that aren't selling fast enough?

Inventory Turnover

Inventory turnover measures how many times your average inventory is sold and replaced over a given period. It's one of the most widely used inventory KPIs because it connects directly to both operational efficiency and financial performance.

FORMULA

Inventory Turnover = Cost of Goods Sold ÷ Average Inventory



WORKED EXAMPLE

A wholesaler sells £4.8 million of goods in a year at cost. Their average inventory value is £800,000.

$$£4,800,000 \div £800,000 = 6.0$$

They turn their stock six times per year — roughly once every two months.

Benchmark guidance

SECTOR	LOW	TARGET	HIGH PERFORMING
Grocery / FMCG retail	<10×	10–20×	>25×
Fashion retail	<3×	4–6×	>8×
Wholesale / Distribution	<4×	5–8×	>10×
Industrial / B2B	<2×	3–5×	>7×



RETAIL SCENARIO

A fashion retailer notices their turnover has dropped from 5× to 3× year-on-year. Investigating by category, they find men's outerwear turning at only **1.8×** — a clear signal of overbuying that will require markdowns to clear.



WHOLESALE SCENARIO

A plumbing supplies distributor targets 6× turnover for fast-moving fittings but accepts 2× for specialist low-demand parts. Applying the same benchmark across all SKUs would push them to understock critical low-volume items.

Days Sales of Inventory (DSI)

DSI — also called Days Inventory Outstanding (DIO) — tells you how many days it takes to sell through your average inventory. It's the inverse of turnover, expressed in time rather than multiples.

FORMULA

$$\text{DSI} = (\text{Average Inventory} \div \text{COGS}) \times 365$$



WORKED EXAMPLE

Using the wholesaler above:

$$(\text{£}800,000 \div \text{£}4,800,000) \times 365 = 60.8 \text{ days}$$

Capital is tied up in inventory for about two months before it converts to revenue.

Why DSI matters

DSI is particularly useful for cash flow planning. Combined with Days Payable Outstanding (DPO) and Days Sales Outstanding (DSO), it forms part of the Cash Conversion Cycle — a critical metric for businesses managing working capital.

Inventory Carrying Cost %

Carrying cost captures the total cost of holding inventory — beyond the product cost itself. It includes storage, insurance, obsolescence, financing, and handling. Most businesses significantly underestimate this number.

FORMULA

$$\text{Carrying Cost \%} = \text{Total Annual Holding Costs} \div \text{Average Inventory Value} \times 100$$

What to include

- Storage costs (warehousing, racking, utilities).
- Inventory financing costs (opportunity cost of capital or interest on debt).
- Insurance.
- Shrinkage and obsolescence provisions.
- Handling and labour.

Industry benchmarks suggest carrying cost typically runs at **20–35% of inventory value annually**. A business with £1 million of average inventory may be spending £200,000–£350,000 per year simply to hold it.

 Carrying cost is frequently invisible in P&L reporting because it's spread across multiple cost lines. Building a consolidated carrying cost view is one of the highest-value improvements a finance team can make to inventory reporting.

Inventory-to-Revenue Ratio

This ratio shows how much inventory investment is required to generate each unit of revenue. It's useful for benchmarking against industry peers.

FORMULA

$$\text{Inventory-to-Revenue Ratio} = \text{Inventory Value} \div \text{Revenue}$$



WORKED EXAMPLE

A distributor carries £1.2 million of inventory and generates £6 million in annual revenue. **Ratio = 0.20**, meaning they hold 20p of inventory for every £1 of revenue. A peer carrying £2 million to generate the same revenue has a ratio of 0.33 — significantly less efficient.

Availability and Service KPIs

While efficiency KPIs focus on inventory investment, availability and service KPIs measure the outcome that investment is designed to produce: your ability to meet customer demand, consistently and reliably.

Poor service performance is the fastest route to lost revenue and customer attrition. These KPIs tell you whether your inventory strategy is actually working for the customer.

Service Level

Service level measures the percentage of customer orders fulfilled without a stockout occurring. It's the most direct measure of inventory availability.



WORKED EXAMPLE

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$$£4,800,000 \div £800,000 = 6.0$$

They turn their stock six times per year — roughly once every two months.

Benchmark guidance

CONTEXT	MINIMUM TARGET	BEST PRACTICE
General retail	95%	97–99%
FMCG / grocery	97%	99%+
Wholesale / distribution	95%	97–98%
Critical / safety products	99%	99.9%+

Fill Rate

Fill rate goes a level deeper than service level by measuring the proportion of units ordered that are actually shipped. A partial shipment may count as a fulfilled order for service level purposes — fill rate captures the shortfall.

FORMULA

$$\text{Fill Rate} = \text{Units Shipped} \div \text{Units Ordered} \times 100$$



WORKED EXAMPLE

A retailer orders 500 units. The supplier ships 460. **$460 \div 500 \times 100 = 92\%$**

The 8% shortfall may trigger a stockout on the retail floor if safety stock doesn't compensate.



RETAIL SCENARIO

A clothing retailer tracks fill rate by supplier. One supplier consistently delivers at 88–90% fill rate, against a target of 97%. Investigating, they find the supplier is systematically short- picking on popular sizes. The retailer builds a size-level over order buffer for this supplier until performance improves.



WHOLESALE SCENARIO

A building materials distributor receives orders for 10,000 units of a product weekly. An average fill rate of 91% means 900 units per week are going unshipped — equivalent to nearly £135,000 of unmet demand annually at average selling price.

Perfect Order Rate

Perfect order rate captures the full delivery experience: did the order arrive on time, complete, undamaged, and with accurate documentation? It's the most demanding service KPI — and for that reason, one of the most valuable.

FORMULA

$$\text{Perfect Order Rate} = \text{Perfect Orders} \div \text{Total Orders} \times 100$$

A 'perfect order' meets all four conditions: delivered on time, delivered complete, arrived undamaged, and invoiced correctly. Failing any one condition disqualifies the order.



WORKED EXAMPLE

Of 1,000 monthly orders: 920 delivered on time, 950 complete, 980 undamaged, 970 invoiced correctly. **Perfect Order Rate $\approx$ 83%**. Even though each individual metric is above 90%, the combined rate is significantly lower — this is a common and important insight.

OTIF — On Time In Full

OTIF measures whether deliveries arrive at the agreed time and with the agreed quantity. It has become a critical standard in retail supply chains, particularly for businesses supplying major retailers.

FORMULA

$$\text{OTIF} = \text{On-Time and In-Full Deliveries} \div \text{Total Deliveries} \times 100$$



Major retailers including Walmart, Tesco, and Amazon apply OTIF penalties to suppliers who underperform against target. For wholesale businesses supplying these customers, **OTIF is not just a performance metric — it's a commercial compliance requirement.**

Stockout Rate

Stockout rate measures how frequently demand events result in a stockout — the inventory equivalent of an empty shelf or a back-ordered product.

FORMULA

$$\text{Stockout Rate} = \text{Stockout Events} \div \text{Total Demand Events} \times 100$$

Even a small stockout rate can have a disproportionate revenue impact if stockouts cluster on your highest-demand SKUs. Analyse stockout rate by product category, not just in aggregate.

Backorder Rate

Where stockout rate measures incidence, backorder rate measures volume. It captures what percentage of ordered units couldn't be shipped immediately due to insufficient stock.

FORMULA

$$\text{Backorder Rate} = \text{Backordered Units} \div \text{Total Ordered Units} \times 100$$

A consistently high backorder rate on specific SKUs is a strong signal that safety stock levels or replenishment triggers are incorrectly calibrated. Investigate demand variability and lead time consistency for those items.

Forecasting and Demand Planning KPIs

Forecasting KPIs are early warning indicators. They tell you how accurately you're predicting future demand — before errors translate into stockouts, overstock, or missed sales.

A business with strong forecasting accuracy has a structural advantage: it can hold less safety stock, respond faster to change, and make smarter buying decisions.

Forecast Accuracy

Forecast accuracy is the headline metric for demand planning performance. It measures how close your predictions were to actual demand over a defined period.

FORMULA

$$\text{Forecast Accuracy} = (1 - |\text{Forecast} - \text{Actual}| \div \text{Actual}) \times 100$$



WORKED EXAMPLE

You forecast 500 units. Actual sales are 450 units.

$$\text{Forecast Accuracy} = (1 - |500 - 450| \div 450) \times 100 = 88.9\%.$$

Benchmark guidance

SECTOR	ACCEPTABLE	TARGET	BEST IN CLASS
FMCG / grocery	80%+	90%+	95%+
Fashion / seasonal	65%+	75%+	85%+
Wholesale / industrial	75%+	85%+	92%+
New product launches	50%+	65%+	75%+

Forecast Bias

Bias is arguably more dangerous than inaccuracy. A biased forecast consistently over- or under-predicts demand, creating systematic inventory problems rather than random ones.

FORMULA

$$\text{Forecast Bias} = \frac{\sum(\text{Forecast} - \text{Actual})}{\sum \text{Actual}} \times 100$$

A **positive bias** (forecast > actual) leads to overstock and excess carrying costs.

A **negative bias** leads to stockouts and missed sales. Either is damaging when consistent.



WORKED EXAMPLE

Over six months, your forecasts total 12,000 units against actual sales of 11,000.

$(12,000 - 11,000) \div 11,000 \times 100 = +9.1\%$. This persistent positive bias will systematically inflate your inventory levels.



RETAIL SCENARIO

A grocery retailer's forecast model shows strong accuracy at 87% but a consistent +12% bias on weekend demand. Without correcting for this, they over-order for weekends every week — creating a recurring surplus that must be marked down by Monday.

MAPE — Mean Absolute Percentage Error

MAPE averages the absolute percentage error across a set of forecasts. It's a useful aggregate measure of forecasting performance across a product range, without positive and negative errors cancelling each other out.

FORMULA

$$\text{MAPE} = \frac{1}{n} \times \sum |(\text{Actual} - \text{Forecast}) \div \text{Actual}| \times 100$$

MAPE is most useful for comparing forecast performance across different products or time periods. It can be distorted by products with very low actual values — a common limitation when applying it to slow-moving SKUs.

Demand Variability

Demand variability measures how much demand fluctuates relative to its average. High variability makes forecasting harder and requires larger safety stock buffers to maintain service levels.

FORMULA

$$\text{Demand Variability (CV)} = \text{Standard Deviation of Demand} \div \text{Average Demand}$$

A coefficient of variation (CV) above 0.5 is typically considered high variability. Products with $CV > 1.0$ are often better managed by exception-based replenishment rather than conventional forecasting models.

Safety Stock

Safety stock is the buffer inventory held to protect against demand variability and supply uncertainty. Getting safety stock right is one of the highest-impact interventions in inventory management.

FORMULA

$$\text{Safety Stock} = Z \times \sigma \text{ Demand} \times \sqrt{\text{Lead Time}}$$

Where Z is the service level factor (e.g. 1.65 for 95% service level), σ Demand is the standard deviation of demand, and Lead Time is the replenishment lead time in the same time units as demand.



WORKED EXAMPLE

A product has a demand standard deviation of 40 units per week. Lead time is 4 weeks. Target service level is 95% ($Z = 1.65$). **$1.65 \times 40 \times \sqrt{4} = 132 \text{ units}$**



WHOLESALE SCENARIO

A distributor carrying 500 SKUs applies the same fixed safety stock rule of 'two weeks supply' across all items. For high-variability products, this is insufficient. For stable slow-movers, it's excessive. Applying a statistical safety stock calculation by product reduces total inventory investment by **18%** while improving service level.

Reorder Point (ROP)

The reorder point defines the inventory level at which a replenishment order should be triggered. Calculated correctly, it ensures orders are placed with enough lead time to prevent stockouts.

FORMULA

$$\text{ROP} = (\text{Average Demand} \times \text{Lead Time}) + \text{Safety Stock}$$



WORKED EXAMPLE

Average daily demand: 50 units. Lead time: 7 days. Safety stock: 100 units. $\text{ROP} = (50 \times 7) + 100 = 450$ units. When stock reaches 450 units, trigger a replenishment order.

$$\text{ROP} = (\text{Average Demand} \times \text{Lead Time}) + \text{Safety Stock}$$



Profitability KPIs

Efficiency and service metrics tell you whether your inventory is moving. Profitability metrics tell you whether it's moving at the right margin.

Businesses can achieve excellent service levels while still destroying value through poor margin management, excessive markdowns, or low inventory return.

GMROI — Gross Margin Return on Inventory Investment

GMROI is the single most important profitability metric for inventory. It answers the question every buyer and planner should be asking: for every £1 invested in inventory, how much gross margin are we generating?

FORMULA

$$\text{GMROI} = \text{Gross Margin } \pounds \div \text{Average Inventory Cost}$$



WORKED EXAMPLE

A product generates £180,000 of gross margin. Average inventory investment is £120,000. $\pounds 180,000 \div \pounds 120,000 = 1.50$. Every pound invested returns £1.50 of gross margin.

A GMROI above 1.0 means the product is generating more margin than its inventory cost. Most retail and wholesale businesses target GMROI of 2.0–3.5+, though this varies by sector.



RETAIL APPLICATION

GMROI enables direct comparison between products with very different price points, turnover rates, and margins. A low-margin, high-turnover product may outperform a high-margin, slow-moving product on GMROI — driving smarter assortment decisions.

Line A generates 55% gross margin but turns at 2× per year (GMROI = 1.1). **Line B** generates 38% margin but turns at 7× (GMROI = 2.7). On GMROI, Line B is the superior investment — a counterintuitive finding that would be invisible without this metric.

Gross Margin %

While GMROI measures return on investment, Gross Margin % measures the profitability of each sale. It's a foundational metric underpinning pricing decisions, purchasing negotiations, and product strategy.

FORMULA

$$\text{Gross Margin \%} = (\text{Revenue} - \text{COGS}) \div \text{Revenue} \times 100$$



WORKED EXAMPLE

Revenue: £500,000. COGS: £320,000. Gross Margin = £180,000.



Track gross margin % at the SKU, category, and channel level — not just in aggregate. **Blended margins hide enormous variation** between high-performing and loss-making products.

Sell-Through Rate

Sell-through rate is particularly important in retail and fashion, where products have defined selling seasons and residual stock risks significant markdown. It measures how much of your received stock has been sold within a given period.

FORMULA

$$\text{Sell-Through Rate} = \text{Units Sold} \div \text{Units Received} \times 100$$



WORKED EXAMPLE

A retailer receives 1,200 units of a seasonal product. By the end of the season, 960 units have been sold. **Sell-Through = 80%**. 240 units remain — these will need to be marked down, returned to supplier, or carried into the next season if possible. Most retailers use 70–75% as a trigger for a first markdown to accelerate clearance.



RETAIL APPLICATION

A homeware retailer tracks sell-through weekly during a key product launch. By week 4, sell-through is at 35% against a target of 50%. An early markdown is applied, accelerating sell-through to **82%** by end of season — avoiding a deep end-of-season clearance event.

INVENTORY PERFORMANCE

Moving at the right margin

01

Gross
Margin %

$(\text{Rev} - \text{COGS}) \div \text{Rev}$

02

Net
Margin %

$\text{Profit} \div \text{Revenue}$

03

COGS
Ratio

$\text{COGS} \div \text{Revenue}$

04

Markup %

$(\text{Price} - \text{Cost}) \div \text{Cost}$

05

Contribution
Margin

$(\text{Rev} - \text{Var. costs})$

Efficiency tells you if inventory moves.

Profitability tells you if it moves at the right margin.

Markdown %

Markdown % quantifies the price reduction required to sell inventory that isn't moving at full price. It's a direct measure of buying and forecasting accuracy.

FORMULA

Markdown % = $(\text{Original Price} - \text{Sale Price}) \div \text{Original Price} \times 100$



WORKED EXAMPLE

A product originally priced at £60 is marked down to £42. $\text{Markdown \%} = (\text{£}60 - \text{£}42) \div \text{£}60 \times 100 = 30\%$. A 30% markdown on a product with a 40% gross margin effectively eliminates profit on that unit and may result in a loss once overhead costs are applied.

Return on Inventory Investment (ROI)

ROI broadens the profitability lens from gross margin to net profit, accounting for operating expenses. It gives the most complete picture of inventory's contribution to business profitability.

FORMULA

ROI = $\text{Net Profit} \div \text{Average Inventory Investment} \times 100$

ROI is most useful for strategic portfolio decisions: which product categories and SKUs are genuinely profitable after all costs, and which are eroding overall returns?

Retail-Specific KPIs and Scenarios

Retailers face a distinct combination of challenges: seasonality, promotional complexity, omnichannel fulfilment, consumer sentiment shifts, and the ever-present risk of phantom inventory.

This chapter covers the KPIs most relevant to retail operations and works through practical scenarios.

Sales per Square Foot

Sales per square foot measures the revenue productivity of physical retail space. It helps identify which categories and locations generate the best return on floor area.

FORMULA

Sales per Square Foot = Net Sales ÷ Retail Floor Area (sq ft)



WORKED EXAMPLE

Sales per Square Foot = Net Sales ÷ Retail Floor Area (sq ft)

A garden centre generates £2.4 million in annual sales across 8,000 sq ft. Sales per sq ft = £300. By department: outdoor furniture generates £450/sq ft; indoor gifts generate £120/sq ft. Reallocating floor space from gifts to furniture would increase revenue per square foot across the store.

Average Transaction Value (ATV)

ATV tracks how much customers spend per transaction. It's influenced by product mix, pricing, upsell effectiveness, and promotional activity.

FORMULA

ATV = Revenue ÷ Number of Transactions

Tracking ATV alongside inventory mix helps identify whether changes in stock assortment are affecting basket size. A new range introduced to 'trade up' customers should show up in ATV improvement.

Scenario: Seasonal buying and stockout prevention



RETAIL SCENARIO

A garden furniture retailer buys 400 units of a premium outdoor sofa set ahead of the spring season. Based on prior year, they expect to sell 350 units. Forecast accuracy is 78%, and demand variability is high due to weather sensitivity.

Setting safety stock: $Z = 1.65$ (95% service level), σ Demand = 22 units/week, Lead Time = 8 weeks.

$$1.65 \times 22 \times \sqrt{8} = 103 \text{ units}$$

The retailer holds 103 units of safety stock against forecast demand of 350, buying 453 units total. A warm April drives demand to 420 units. Service level is maintained. Residual stock of 33 units is sold via end-of-season promotion at 15% markdown.

Scenario: SKU proliferation and GMROI rationalisation



RETAIL SCENARIO

A mid-size homewares retailer carries 4,200 active SKUs. A GMROI analysis reveals that the top 20% of SKUs generate 78% of gross margin. The bottom 30% of SKUs generate negative GMROI when carrying costs are included.

- **Action:** remove 800 bottom-performing SKUs
- Inventory investment reduced by **22%**
- Average GMROI improved from 1.8 to **2.4**
- Stockout rate on top 100 SKUs fell from 6% to **2.1%** as replenishment focus improved

Scenario: Omnichannel inventory challenges



RETAIL SCENARIO

A clothing retailer operates 18 stores and an e-commerce channel. Inventory is managed per location with no shared pool. E-commerce stockouts occur at 8% while stores hold excess in the same SKUs.

Root cause: separate inventory pools with no visibility across channels, replenishment optimised per channel in isolation.

Resolution: moving to a unified inventory pool with real-time visibility reduces e-commerce stockout rate to **2.3%** and reduces total inventory investment by **14%**.

KPIs to monitor: stockout rate by channel, fill rate by channel, inventory turnover by channel



Phantom Inventory

Phantom inventory — stock that shows as available in the system but doesn't physically exist — is one of retail's most insidious problems. It causes false confidence in replenishment systems, leads to missed orders, and erodes service level data accuracy.

Common causes include theft, damage not recorded, system entry errors, and returns processing failures. A regular cycle count programme and inventory accuracy KPI (**$\text{physical count} \div \text{system count} \times 100$**) are the primary defences.



Inventory accuracy benchmarks: 95%+ for standard retail operations, 98%+ for high-performance retailers, and 99%+ for businesses using automated replenishment systems.

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Wholesale and Distribution KPIs and Scenarios

Wholesale and distribution businesses face a different set of inventory pressures: high SKU counts, complex supply chains, customer SLAs, and the need to balance cost efficiency with availability across diverse product categories.

Case Fill Rate

Case fill rate measures fulfillment performance at the case or pallet level, rather than by individual unit. It's a standard metric in food, beverage, and FMCG distribution where orders are placed in case quantities.

FORMULA

$$\text{Case Fill Rate} = \text{Cases Shipped} \div \text{Cases Ordered} \times 100$$



WORKED EXAMPLE

$$\text{Case Fill Rate} = \text{Cases Shipped} \div \text{Cases Ordered} \times 100$$

A food distributor receives orders for 8,400 cases in a week. They ship 7,980. Case Fill Rate = $7,980 \div 8,400 \times 100 = 95\%$. The 5% shortfall affects their retail customers' shelf availability.

Order Cycle Time

Order cycle time measures the elapsed time from order receipt to delivery. In distribution, it's a fundamental SLA metric and a direct driver of customer satisfaction.

FORMULA

$$\text{Order Cycle Time} = \text{Delivery Date} - \text{Order Date}$$

Track cycle time by customer segment, product category, and delivery destination to identify patterns and bottlenecks. Sudden increases in cycle time are often an early warning of warehouse capacity issues or supplier delays.

Inventory Aging

Inventory aging tracks how long stock has been held in your warehouse. Aged stock ties up capital, risks obsolescence, and in some categories (food, chemicals, seasonal products) may lose its commercial value entirely.

FORMULA

Inventory Aging = Current Date – Receipt Date

AGE BAND	STATUS	RECOMMENDED ACTION
0–30 days	Active	Normal management
31–60 days	Monitor	Review forecast vs. actual
61–90 days	At Risk	Investigate; consider promotions
90–180 days	Slow Moving	Price action or supplier return
180+ days	Dead Stock	Write-down; disposal planning

Warehouse Pick Accuracy

Pick accuracy measures the percentage of order lines picked correctly. Errors in picking lead to customer returns, re-delivery costs, and service failures.

FORMULA

Pick Accuracy = Correct Picks ÷ Total Picks × 100

Best-in-class distribution operations achieve 99.5%+ pick accuracy. Businesses below 99% should investigate whether the root cause is process, system, or training-related.

Scenario: Seasonal demand planning

 WHOLESALE SCENARIO

A building materials wholesaler experiences 60% of annual revenue in Q2 and Q3. The procurement team uses prior-year sales data weighted by a 3-year trend to build seasonal forecasts by SKU.

Approach: 3-year weighted average with seasonal index applied. Forecast bias monitored monthly. Safety stock calculated using a statistical model by SKU.

Result: stockout rate during peak season reduced from 8.2% to **3.1%** after implementing statistical forecasting. Inventory investment at start of peak season reduced by **11%** through elimination of excess buffer stock on low-variability items.

Scenario: Multi-site inventory optimisation



WHOLESALE SCENARIO

A plumbing supplies distributor operates from 4 regional distribution centres. Each site manages inventory independently. Analysis reveals significant stock imbalances: Site A is overstocked on copper fittings while Site C faces stockouts on the same SKU.

- **KPIs revealing the problem:** Site-level stockout rate, site-level turnover, inter-site transfer rate.
- **Root cause:** No visibility of inter-site stock, replenishment run independently per site.
- **Resolution:** Centralised inventory visibility with inter-site transfer protocol for fast-moving SKUs.
- **Result:** Total inventory investment reduced by 9%, service level improved from 93% to 97%.

Scenario: Dead stock reduction programme



WHOLESALE SCENARIO

A specialist industrial distributor identifies 1,200 SKUs with no sales activity in the past 12 months — £480,000 of inventory at cost, 16% of total inventory investment.

- **Tier 1:** (0–2 years old, known demand potential): promotional pricing to existing customers.
- **Tier 2:** (2–4 years old): bulk sale to secondary market at 40% of cost.
- **Tier 3:** (4+ years old): write-off and disposal.

Outcome: £280,000 recovered over 9 months. New buying approval process introduced to prevent recurrence.

Supplier Performance KPIs

Supplier performance has a direct and often under appreciated impact on inventory management. A supplier who delivers late, short, or with poor quality forces you to carry more safety stock, absorb more costs, and offer a worse service to your customers.

Supplier OTIF

On Time In Full (OTIF) applies to your inbound supply chain as directly as it applies to your outbound customer service. Supplier OTIF measures whether your suppliers are delivering what you ordered, when you ordered it.

FORMULA

Supplier OTIF = On-Time and Complete Deliveries ÷ Total Deliveries × 100



WORKED EXAMPLE

Case Fill Rate = Cases Shipped ÷ Cases Ordered × 100

A food distributor receives orders for 8,400 cases in a week. They ship 7,980.

Case Fill Rate = $7,980 \div 8,400 \times 100 = 95\%$. The 5% shortfall affects their retail customers' shelf availability.

Lead Time Consistency

Average lead time matters less than lead time variability. A supplier who sometimes delivers in 7 days and sometimes in 21 days is far more disruptive to your planning than one who consistently delivers in 14 days.

FORMULA

Lead Time CV = Standard Deviation of Lead Time ÷ Average Lead Time

A coefficient of variation below 0.15 indicates a reliable supplier. Above 0.30 indicates significant variability that should be reflected in safety stock calculations and supplier development conversations.

Purchase Order Accuracy

PO accuracy measures whether suppliers ship what was ordered: the right product, the right quantity, the right packaging configuration. Inaccurate PO fulfillment creates receiving errors, system discrepancies, and potential stockout.

FORMULA

PO Accuracy = Accurate POs ÷ Total POs × 100

Supplier Scorecard

A supplier scorecard aggregates multiple performance dimensions into a single view, enabling consistent comparison across your supply base.

METRIC	WEIGHT	FREQUENCY	TARGET
OTIF	35%	Monthly	≥95%
Lead Time Consistency (CV)	20%	Quarterly	≤0.15
PO Accuracy	20%	Monthly	≥98%
Quality / Rejection Rate	15%	Monthly	≤1%
Responsiveness / Issue Resolution	10%	Quarterly	Score ≥4/5



Supplier scorecards are most powerful when shared with suppliers. **Frame them as a partnership tool, not a compliance exercise.** Suppliers who understand your scoring methodology and receive regular feedback improve faster than those who receive only complaint-driven communication.

KPI prioritisation matrix

Score each criterion 1–3 · total 9–12 = prioritise

Business impact

1

2

3

LowMidHigh

Measurability

1

2

3

HardPossibleEasy

Actionability

1

2

3

NoneSomeClear

Timeliness

1

2

3

LaggedPeriodicLive

9–12

Prioritise

Include in core KPI set

5–8

Consider

Use as supporting metric

4

Deprioritise

Exclude, revisit next cycle

KPI Dashboard Examples

A KPI dashboard is only useful if it drives decisions. The best dashboards are designed around specific audiences and decisions — not around data availability. This chapter provides template frameworks for three common use cases.

Dashboard 1 — Daily operations

Warehouse and fulfillment. **Audience:** warehouse manager, operations team. **Refresh:** daily.

KPI	TODAY	MTD	TARGET	STATUS
Orders Shipped	1,240	18,450	1,200/day	On Track
Fill Rate	96.2%	95.8%	97%	Below Target
Pick Accuracy	99.3%	99.1%	99.5%	Near Target
Stockout SKUs	14	—	<10	Action Required
Order Cycle Time (hrs)	18.4	19.2	<24	On Track

Effective daily dashboards highlight exceptions — what's off-target and needs immediate attention. The dashboard above immediately draws attention to stockout SKUs and fill rate, which are below target.

Dashboard 2 — Weekly commercial

Buying and planning. **Audience:** buying team, demand planners. **Refresh:** weekly.

KPI	THIS WEEK	LAST WEEK	13-WEEK AVG	TARGET
Forecast Accuracy	84.2%	86.1%	83.7%	85%+
Forecast Bias	+3.8%	+2.1%	+4.2%	±2%
Inventory Turnover (ann.)	5.8×	5.6×	5.5×	6×
Dead Stock Value	£148K	£152K	£145K	<£120K
Sell-Through (in-season)	62%	58%	—	70% by wk 8

Dashboard 3 — Monthly management

Finance and leadership. **Audience:** finance director, commercial director, CEO.
Refresh: monthly.

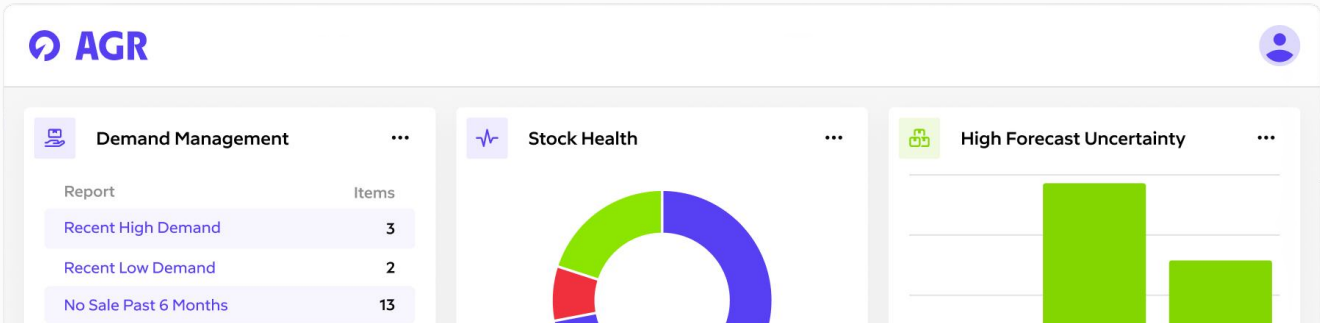
KPI	CURRENT MONTH	PRIOR MONTH	YTD	TARGET
GMROI	2.4	2.2	2.3	2.5+
Inventory Carrying Cost %	26.4%	27.1%	26.8%	<25%
Service Level	96.8%	96.2%	96.5%	97%+
Inventory-to-Revenue Ratio	0.18	0.19	0.19	<0.17
Supplier OTIF	91.4%	89.8%	90.6%	95%+

Dashboard design principles

- Lead with exceptions, not summaries — highlight what needs action.
- Use consistent traffic-light indicators (green / amber / red) against targets.
- Limit to 5–8 KPIs per dashboard — more creates noise, not insight.
- Design for the decision the audience needs to make, not data availability.
- Update frequency should match the pace of the decisions it supports.
- Include trend data (vs. prior period, vs. target) — a number without context is rarely actionable.



Exception-based dashboards are the most actionable. Rather than showing all data, they surface only what has moved outside expected parameters.
For teams managing thousands of SKUs, exception management is the only scalable approach.



KPI Selection Framework

Choosing the right KPIs is as important as measuring them accurately. Too few and you have blind spots. Too many and your team loses focus. This framework gives you a structured way to select and priorities the KPIs that matter.

Step 1 — Identify your business objectives

Start with the business goal, not the metric. Ask: what are the two or three most important inventory-related outcomes the business needs to improve over the next 12 months?

- Reduce working capital tied up in inventory.
- Improve customer service and reduce stockouts.
- Increase gross margin and reduce markdowns.
- Improve supplier reliability.
- Build forecasting capability.

Step 2 — Map objectives to KPI categories

OBJECTIVE	PRIMARY CATEGORY	KEY KPIS
Reduce working capital	Efficiency	DSI, Inventory Turnover, Carrying Cost %
Improve service level	Availability	Service Level, Fill Rate, Stockout Rate
Increase margin	Profitability	GMROI, Markdown %, Sell-Through Rate
Improve supplier reliability	Supplier	Supplier OTIF, Lead Time CV, PO Accuracy
Build forecasting capability	Forecasting	Forecast Accuracy, Forecast Bias, MAPE

Step 3 — Assess data readiness

Before committing to a KPI, confirm you can actually measure it accurately. For each candidate KPI, ask:

- Do we have the underlying data to calculate this?
- Is the data reliable and consistently recorded?
- Who owns the data and can validate it?
- How frequently can we update this metric?

Step 4 — Define targets and ownership

ELEMENT	DESCRIPTION
Target	What does good performance look like? Use internal benchmarks, industry data, or prior performance as reference.
Owner	Who is accountable for this metric? Ownership should rest with whoever has the authority to take action.
Review cadence	How frequently will this metric be reviewed? Match cadence to the pace of the decisions it informs.
Escalation trigger	At what point does underperformance trigger escalation or a formal review?

Step 5 — Start small, then scale

Most businesses benefit from starting with a focused set of 6–10 KPIs and building measurement discipline before expanding. A smaller set of well-measured, actively reviewed KPIs delivers more value than a comprehensive dashboard that no one uses.

**Recommended starting set for most businesses:** Inventory Turnover, Service Level, Fill Rate, Forecast Accuracy, GMROI, Supplier OTIF, Stockout Rate, and Carrying Cost %.

KPI SELECTION FRAMEWORK

Choosing the right KPIs

Choosing the right KPIs is as important as measuring them accurately. **Too few** and you have blind spots. **Too many and your team loses focus.** **This framework** gives you a structured way to select and priorities the KPIs that matter.

● **Too few KPIs**

Blind spots

● **Too many KPIs**

Lost focus

● **Just right**

Clarity & direction

KPI prioritisation matrix

Use this matrix to score and prioritise candidate KPIs. Score each criterion 1–3, then total the scores. Prioritise KPIs scoring 9–12.

CRITERIA	SCORE 1 (LOW)	SCORE 2 (MEDIUM)	SCORE 3 (HIGH)
Strategic importance	Nice to have	Supports 1 key objective	Directly drives key objective
Data availability	Major gaps	Partial data available	Data reliable and ready
Decision impact	Informs awareness	Informs planning	Drives immediate action
Measurement cost	High effort	Moderate effort	Low effort / automated

Common KPI Mistakes — and How to Avoid Them

Even well-intentioned KPI programmes go wrong. These are the mistakes we see most often — and the practical steps to avoid them.

Mistake 1 — Focusing on turnover alone

Inventory turnover is the most widely used inventory KPI — and the most frequently misapplied. Optimising for turnover in isolation can push businesses to cut safety stock below sustainable levels, resulting in stockouts and service failures that far outweigh the working capital saving.



Fix: Pair inventory turnover with a service level KPI. Improve turnover only when service level targets are being consistently met.

Mistake 2 — Applying one benchmark to all SKUs

A 6× inventory turnover target makes sense for a fast-moving grocery product. Applying the same target to a slow-moving industrial spare part will produce systematic understock on critical items. SKUs have different demand profiles, lead times, criticality, and margin structures.



Fix: Segment your SKU base by demand velocity, margin contribution, and criticality. Set differentiated targets for each segment.

Mistake 3 — Measuring too many KPIs

A 40-metric dashboard creates a paradox of choice. When everything is important, nothing is. Teams lose focus, reviews become unfocused, and the metrics themselves lose credibility.



Fix: Limit active KPIs to 6–10 per team or function. Review the set quarterly — retire metrics that aren't driving decisions.

Mistake 4 — Ignoring data quality

KPIs calculated on poor data are worse than no KPIs — they create false confidence in incorrect conclusions. Phantom inventory, unrecorded adjustments, and inconsistent cost accounting all undermine inventory metrics.



Fix: Conduct a data quality audit before launching a KPI programme. Invest in data governance as a precondition for measurement.

Mistake 5 — Static planning assumptions

Many businesses set safety stock levels, reorder points, and service level targets once — and never revise them. As demand patterns shift, supplier performance changes, and product lifecycles evolve, static assumptions become increasingly wrong.



Fix: Review planning parameters quarterly at minimum. For high-velocity SKUs or volatile categories, review monthly.

Mistake 6 — No ownership

A KPI that everyone sees but no one owns will not improve. Without clear accountability, underperformance generates conversation but not change.



Fix: Every KPI must have a named owner — a person responsible for explaining performance and driving improvement. Ownership should match authority: only assign a KPI to someone who can actually influence it.

Mistake 7 — KPIs without action

The most common and most damaging mistake is tracking KPIs without acting on them. Measurement is not management. A metric that is regularly reported but never acted upon is a waste of time and a signal to the team that performance doesn't really matter.



Fix: For every review meeting, the output should include specific actions, owners, and deadlines — not just observation. If a KPI is consistently reported but never triggers action, remove it from your dashboard.

KPI Glossary

Quick-reference definitions for every key term used in this guide.

Backorder Rate	The percentage of ordered units that could not be shipped immediately due to insufficient stock.
Carrying Cost %	The total annual cost of holding inventory — storage, financing, insurance, obsolescence, handling — as a percentage of average inventory value.
Case Fill Rate	Fulfilment performance measured at case or pallet level rather than by individual unit.
Cash Conversion Cycle	The time taken to convert inventory investment back into cash, combining DSI, DPO and DSO.
Days Sales of Inventory (DSI)	The average number of days it takes to sell through average inventory. Also called Days Inventory Outstanding (DIO).
Dead Stock	Inventory with no sales activity over an extended period (typically 12+ months), tying up capital and risking total loss of value.
Demand Variability (CV)	How much demand fluctuates relative to its average, expressed as the coefficient of variation.
Fill Rate	The proportion of ordered units actually shipped.
Forecast Accuracy	How closely demand forecasts match actual demand over a defined period.
Forecast Bias	A systematic tendency to over- or under-forecast demand. More damaging than random error when persistent.

GMROI	Gross Margin Return on Inventory Investment — gross margin generated per pound of inventory investment.
Gross Margin %	The proportion of revenue retained as gross profit after cost of goods sold.
Inventory Aging	How long stock has been held since receipt, used to identify slow-moving and dead stock.
Inventory Turnover	How many times average inventory is sold and replaced over a period.
Lead Time Consistency	The variability of supplier lead time, expressed as a coefficient of variation.
MAPE	Mean Absolute Percentage Error — the average absolute percentage error across a set of forecasts.
Markdown %	The price reduction required to sell inventory not moving at full price.
OTIF	On Time In Full — whether deliveries arrive at the agreed time and quantity.
Perfect Order Rate	The percentage of orders delivered on time, complete, undamaged, and accurately invoiced.
Phantom Inventory	Stock recorded as available in the system but not physically present.
Pick Accuracy	The percentage of warehouse order lines picked correctly.
Reorder Point (ROP)	The inventory level at which a replenishment order should be triggered.

ROII	Return on Inventory Investment — net profit generated per pound of inventory investment.
Safety Stock	Buffer inventory held to protect against demand variability and supply uncertainty.
Sell-Through Rate	The percentage of received stock sold within a given period.
Service Level	The percentage of customer orders fulfilled without a stockout.
Stock-to-Sales Ratio	Inventory on hand relative to sales volume for a period.
Stockout Rate	How frequently demand events result in a stockout.
Supplier OTIF	On Time In Full performance applied to inbound supplier deliveries.

Worksheets and Checklists

Five practical templates to put this guide to work. Print them, fill them in, and use them in your next planning review.

WORKSHEET 01

KPI Health Check

Score your current measurement maturity. For each KPI, tick whether you measure it, rate your data quality 1–5, and note whether it's reviewed and acted upon.

KPI	MEASURED?	DATA QUALITY (1–5)	REVIEWED REGULARLY?	DRIVES ACTION?
Inventory Turnover	☐ Yes ☐ No		☐ Yes ☐ No	☐ Yes ☐ No
Service Level	☐ Yes ☐ No		☐ Yes ☐ No	☐ Yes ☐ No
Fill Rate	☐ Yes ☐ No		☐ Yes ☐ No	☐ Yes ☐ No
Forecast Accuracy	☐ Yes ☐ No		☐ Yes ☐ No	☐ Yes ☐ No
GMROI	☐ Yes ☐ No		☐ Yes ☐ No	☐ Yes ☐ No
Carrying Cost %	☐ Yes ☐ No		☐ Yes ☐ No	☐ Yes ☐ No
Supplier OTIF	☐ Yes ☐ No		☐ Yes ☐ No	☐ Yes ☐ No
Stockout Rate	☐ Yes ☐ No		☐ Yes ☐ No	☐ Yes ☐ No

Scoring: count the KPIs you measure, review regularly, AND act on. **0–2:** Reactive — focus on data foundations. **3–5:** Aware — build review discipline. **6–8:** Proactive — refine targets and ownership.

Carrying Cost Calculator

Build a consolidated view of your true inventory holding cost. Enter your annual figures, total them, and divide by average inventory value.

COST COMPONENT	ANNUAL AMOUNT (£)
Storage (warehousing, racking, utilities)	
Inventory financing (cost of capital / interest)	
Insurance	
Shrinkage & obsolescence provision	
Handling & labour	
Total annual holding cost	
Average inventory value	
Carrying Cost % ($\text{Total} \div \text{Avg Inventory} \times 100$)	

Benchmark: most businesses run at 20–35% of inventory value. A result above 35% signals significant opportunity to reduce inventory investment or holding costs.

WORKSHEET 03

Safety Stock & Reorder Point

Calculate statistically grounded safety stock and reorder points for a key SKU.

INPUT	VALUE
Service level factor (Z) — 1.65 @ 95%, 2.33 @ 99%	_____
Std. deviation of demand (σ)	_____
Lead time (in demand periods)	_____
Safety Stock = $Z \times \sigma \times \sqrt{\text{Lead Time}}$	_____
Average demand per period	_____
Reorder Point = (Avg Demand $\times$ Lead Time) + Safety Stock	_____

WORKSHEET 04

KPI Prioritisation Matrix

Score each candidate KPI 1–3 on the four criteria, then total. Prioritise KPIs scoring 9–12.

CANDIDATE KPI	STRATEGIC (1–3)	DATA READY (1–3)	DECISION IMPACT (1–3)	LOW COST (1–3)	TOTAL
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

WORKSHEET 05

Supplier Scorecard

Score each supplier against the five weighted dimensions. Multiply each score by its weight and total for an overall rating.

DIMENSION	WEIGHT	SCORE (1-5)	WEIGHTED
OTIF	35%	_____	_____
Lead Time Consistency	20%	_____	_____
PO Accuracy	20%	_____	_____
Quality / Rejection Rate	15%	_____	_____
Responsiveness	10%	_____	_____
Overall supplier rating	100%	_____	_____

ABOUT AGR INVENTORY

Stop guessing. Start planning with precision.

AGR is inventory optimization software built for wholesalers, retailers, and distributors who want to stop guessing and start planning with precision. We help businesses reduce overstock, eliminate stockout, improve forecast accuracy, and free up working capital — without adding complexity.

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