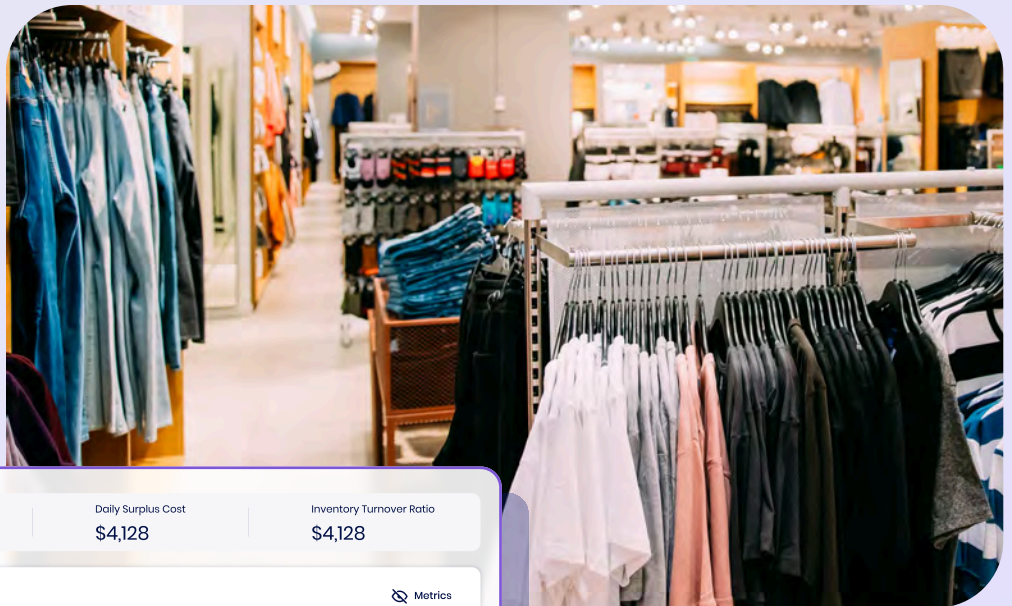


E-Book

# Creating Flow: Key Performance Metrics for Inventory Health & Margin Growth

The KPIs that matter for maximizing retail profits  
and minimizing waste



# Inventory Health & Flow: Performance Tracking for Growth

## What is Inventory Health?

Inventory health is a high-level assessment of retail's overall inventory efficiency within a specific frame of time. By measuring sales performance in the context of operational and cost efficiency, inventory health tells us if inventory execution is optimized to balance stock levels with demand in a way that maximizes profitability and minimizes waste.

Inextricably linked to market fluctuations, inventory health is not a static measurement or a strategic aim, but a living diagnostic tool for understanding and optimizing inventory flow toward continuous flow. Regularly checking flow KPIs is essential for maintaining inventory health and for ensuring your retail has the operational fitness it needs to deliver excellent service, and checking it regularly a necessary preventative measure against the operational and financial pressures that arise when flow is interrupted.



## Building Inventory Health

Advances in cloud and AI technologies have given retailers unprecedented visibility and computing power that could be used to monitor inventory health and facilitate continuous flow. But as waste and bankruptcies climb to an all-time high, the need for clear guidance on the foundations of inventory health—knowing how to measure and improve it—is more apparent than ever.

“Creating Flow: Key Performance Metrics for Inventory Health and Margin Growth” provides retailers with foundational knowledge on inventory health, performance tracking, and how to leverage both to increase margins and achieve strategic goals.

Flow:

# The Backbone of Inventory Health

Retail thrives on flow—on products flowing seamlessly from suppliers to stores and into customer hands—products flowing seamlessly from suppliers to stores, into customers' hands. When inventory flow is steady and efficient, businesses remain strong. When flow is interrupted, stock imbalances quickly metastasize, damaging efficiency, service, and profitability. Simply put, there's no success in retail without healthy inventory flow.

The deep connection between inventory health and flow informs us which key performance indicators are useful for assessing and improving both.

## The Three Pillars of Flow

Achieving inventory health requires a strategic balance of three fundamental elements:



### Availability

Ensuring the right stock is in the right locations when customers want it, reducing lost sales due to stockouts.



### Efficiency

Maintaining optimal stock levels to prevent overages that lead to markdowns and excess carrying costs.



### Velocity

Monitoring sell-through and turnover rates to ensure products are moving at a sustainable pace, keeping assortments fresh and cash flow positive.

When these three pillars work in harmony, retailers can meet customer demand while protecting profitability. But when one or more are misaligned, inventory health begins to deteriorate. By measuring key performance metrics for flow, retailers can gauge inventory health and understand how to improve it.

In the next section, we'll examine the root causes of poor inventory health, its impact on the industry at large, and how retailers can avoid becoming another statistic by tracking the right KPIs.

# Retail's Inventory Health Crisis: Origins and Impacts

Despite advances in supply chain technology and demand forecasting, inventory mismanagement remains a persistent challenge. Several factors have contributed to the industry's health crisis:

## **Rising consumer expectations**

Shoppers demand broader selections tailored to their unique preferences, increasing the need for expansive assortments and higher stock levels.

## **The need for instant gratification**

Customers expect products to be available on demand, requiring retailers to keep more inventory on hand, straining resources and increasing costs.

## **Shorter product lifecycles**

Fast-changing trends mean retailers have less time to sell inventory before it becomes obsolete, leading to more unsold stock and markdowns.



Until now, retailers have responded to consumer demand by doubling up on safety stock and product releases. The results of this approach have been catastrophic. Record highs in stock distortion and bankruptcies, plus sagging liquidity and profit margins point to an industry-wide inventory health emergency that demands quick and comprehensive intervention.



# By the Numbers: How Poor Inventory Health Impacts the Industry

## Inventory Distortion

Shortages and overages cost

**\$1.77T**

Source: [Retail Touch Points](#)

## Markdown Penetration

Fashion assortments on discount increased by

**5%**

Source: [Business of Fashion](#)

## Product Waste

**15-25%**

of fashion merchandise is never sold

Source: [Goldratt Group](#)

## Stock Levels

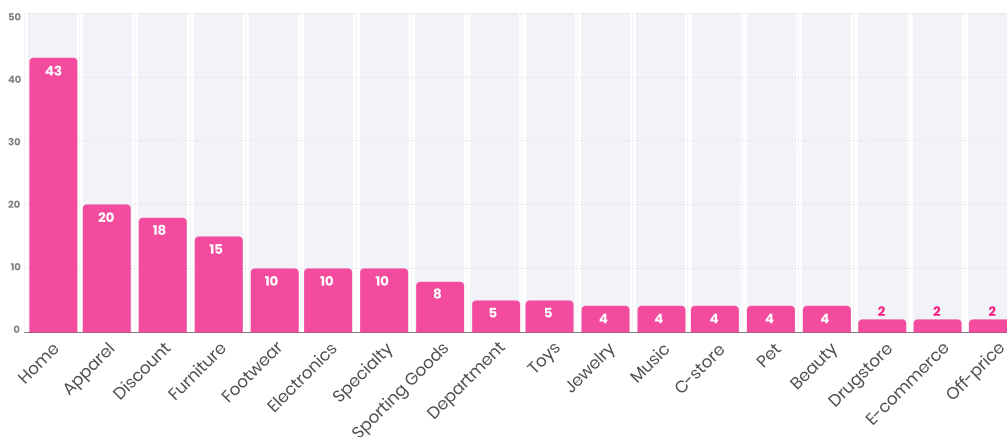
Inventory-to-sales ratio

**2.11**

Source: [statista.com](#)

## Bankruptcies by Segment

Fashion & apparel segment most at risk for bankruptcy



Source: [Retail Dive](#)

In this landscape, staying profitable is tougher than ever. In the next section, we review how retailers can recoup their businesses' operational health by using Key Performance Metrics to assess and improve inventory flow and fitness.

# Measuring Health with Flow: Key Performance Metrics

Since retail's en-mass migration to cloud-based management systems, the quantity and scope of inventory performance metrics has exploded. Much like fitness influencers on social media evangelize fads that have little to no impact on overall health, retail-tech influencers have focused attention on obscure, special interest metrics at the expense of tried and true measurements that comprehensively summarize inventory health.

Fortunately, the tenets of flow are straightforward, and captured by three standard metrics:

## **Availability KPI → Available To Sell (ATS)**

Available to Sell measures the quantity of inventory that is ready for immediate sale across stores and channels. The first line of defense in preventing stockouts and overages, ATS should be constantly monitored for highs and lows, and inventory adjusted to ensure stock levels are aligned with demand.

## **Efficiency KPI → Sell-Through Rate (STR)**

Sell-Through Rate measures how much received inventory actually sells. High STR is the ultimate mark of efficiency, indicating that inventory is aligned with demand, that items are being sold at full-price, and waste is kept at a minimum.

## **Velocity KPI → Inventory Turnover Ratio (ITR)**

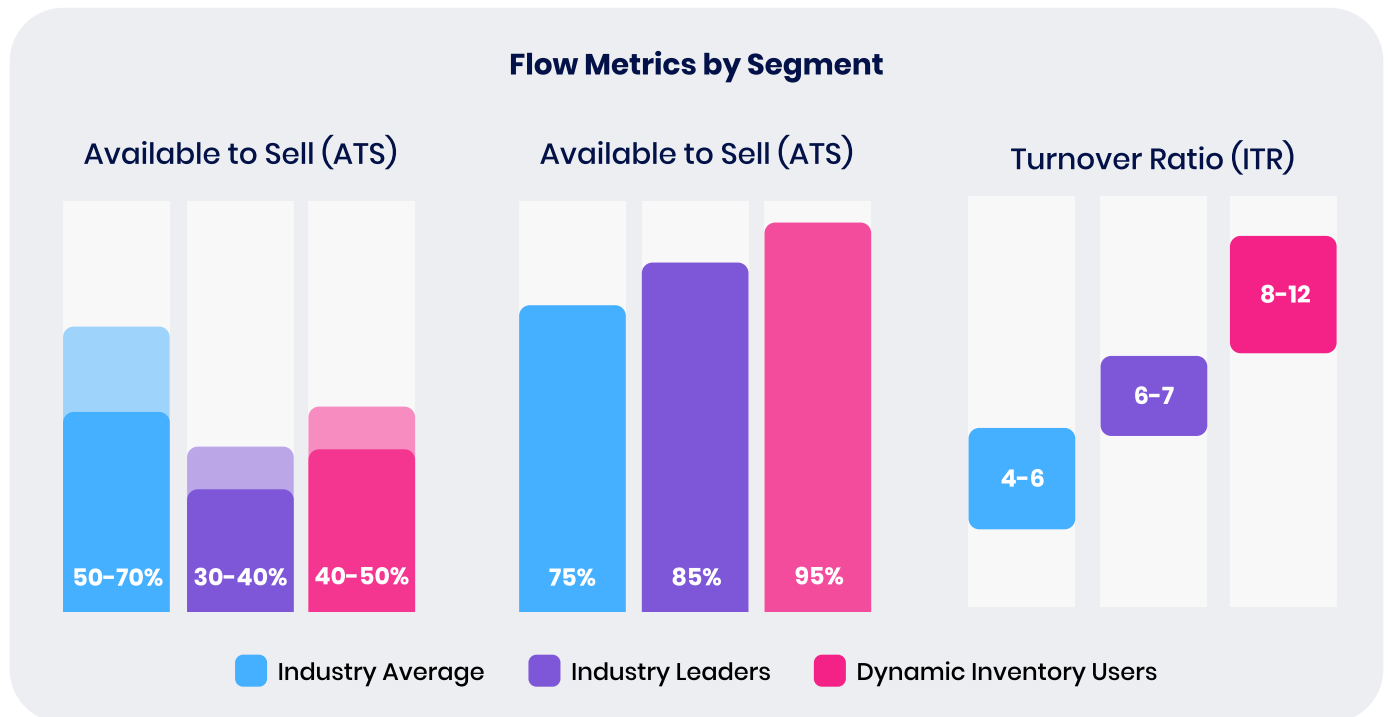
Inventory Turnover measures how quickly a retailer sells and replaces its stock. In today's fast-changing market, turnover must be swift to meet consumer demand for newness, variety, and immediate availability. A sign of inventory that's always in motion, steady ATS and high STR are the building blocks of fast inventory turns.

The aggregate of ATS, STR, and ITR provide a high-level picture of overall inventory health.

# Benchmarking Success

## Flow KPIs from Across the Industry

See the below flow metric comparisons by segment to see how your retail measures against industry averages, industry leaders such as Zara and H&M, and retailers who utilize dynamic inventory management.



It's important to note that the **industry averages** for inventory are not benchmarks for optimal inventory health. Retailers whose numbers fall within the range of industry standards can expect profit margins to fall within the industry's yearly average range of two to four percent.

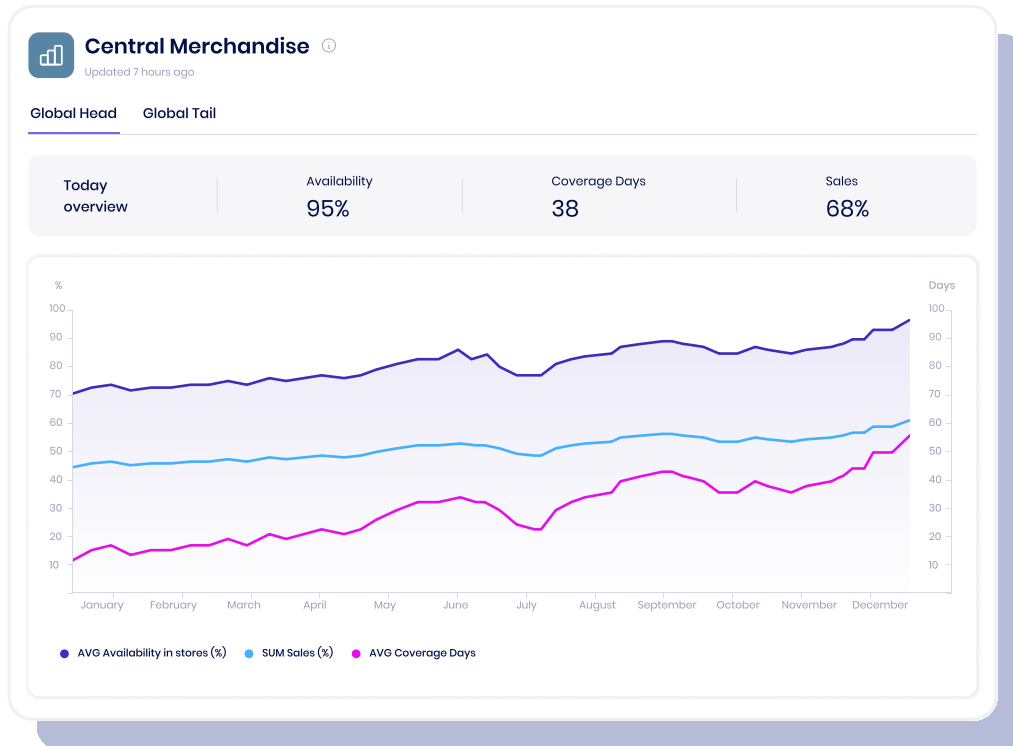
Retailers who wish to exceed the industry's four-point ceiling should refer to the industry's top-earning brands to set their benchmarks:

Retailers that use AI to dynamically adjust inventory in-season have been shown to dramatically increase inventory health. Sell-through, turnover, and availability all drive inventory health—when it's strong, turnover is high, markdowns stay low, and business flows. And when inventory flows, so does the business.

The next sections will explore how retailers can interpret their ATS, STR and ITR data to determine overall inventory health.

# Understanding Available to Sell

For retailers with cloud-based inventory management, ATS is an early detection tool for inventory dysfunction. ATS helps retailers see the peaks and valleys of demand in real time, enabling them to see the efficacy of their latest distributions, while providing queues for effective redistribution. As a general rule, a moderate ATS ensures stock balance and availability, the building blocks for healthy STR and ITR.



## What ATS Means for Inventory Health

- **ATS Below 40%** → This signals a high sell-through rate, but also carries potential risk of stockouts. Retailers operating with ATS below 40% must ensure they have [real-time replenishment systems](#) in place to prevent missed sales opportunities.
- **ATS Between 41 and 60%** → This range is considered optimal for most fashion retailers. It indicates a healthy balance between available inventory and sell-through, ensuring stock availability without excessive overstock.
- **ATS Above 60%** → A high ATS points to overstock, a symptom of poor inventory health, whose effects ripple across the supply chain in the form of increased markdowns and carrying costs, and slower turnover.



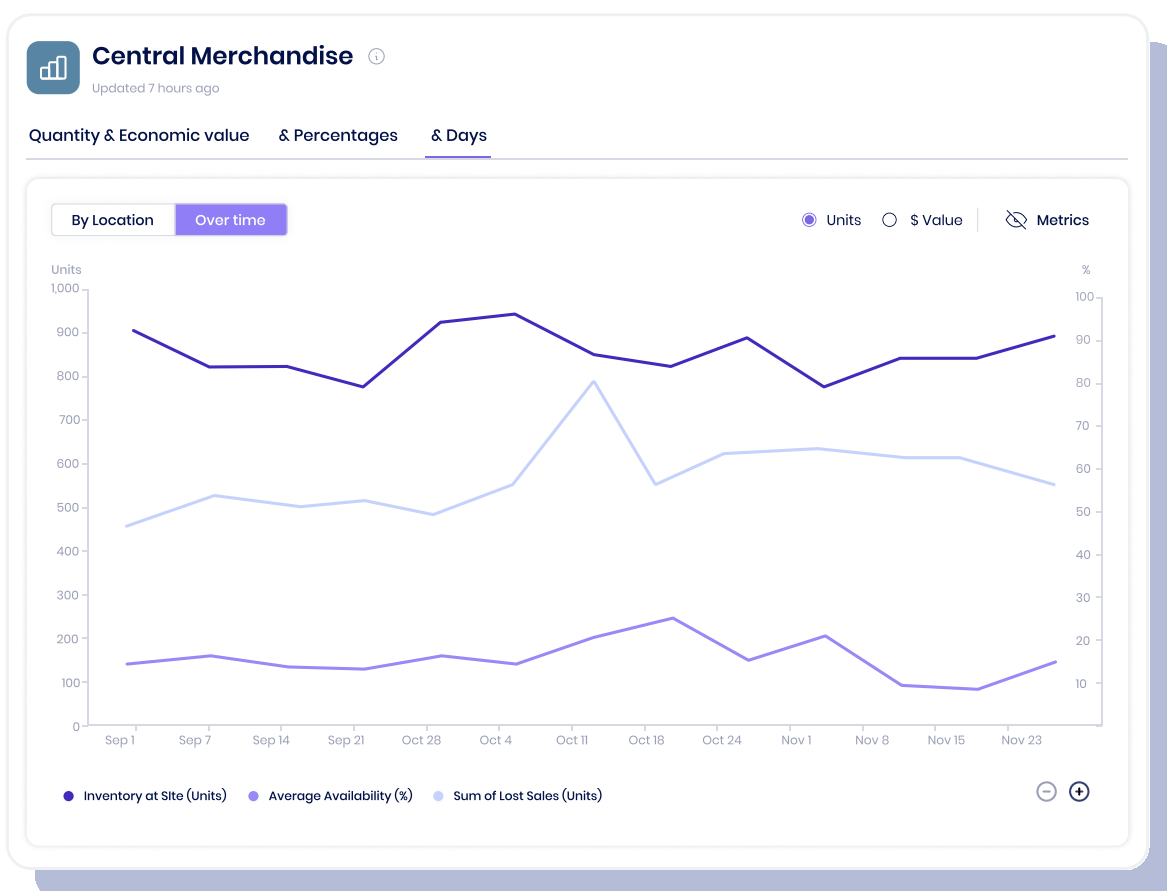
# Understanding Sell-Through Rate

STR rates vary by segment and type. Fast-fashion brands like H&M and Zara achieve the industry’s highest STR through reliance on [dynamic inventory management systems](#) that provide ongoing adjustments to align stock levels to demand.

Retail Sector	Fashion & Apparel	Fast Fashion	Luxury Fashion	Electronics	Beauty & Cosmetics	Home Goods & Furniture
<b>Ideal STR (%)</b>	50% - 80%	70% - 90%	30% - 50%	40% - 70%	60% - 85%	25% - 50%

## What STR Means for Inventory Health

- **STR below 50%** → Inventory health is poor, severe misalignment between products and demand, high incidence of overstock and slow-movers will require liquidation via markdowns
- **STR between 51% and 75%** → Satisfactory balance between demand and inventory, but health can be easily compromised by demand fluctuation or other supply chain disruptions
- **STR above 76%** → Indicates superior inventory health, products are effectively aligned with local demand, inventory flow and freshness supports margin growth



# Understanding Inventory Turnover Rate

Inventory Turnover Rate (ITR) measures how quickly a retailer sells and replenishes inventory over a given period. A high ITR is a sign of efficient inventory flow. Conversely, low ITR indicates that flow is blocked and inventory health is at risk.

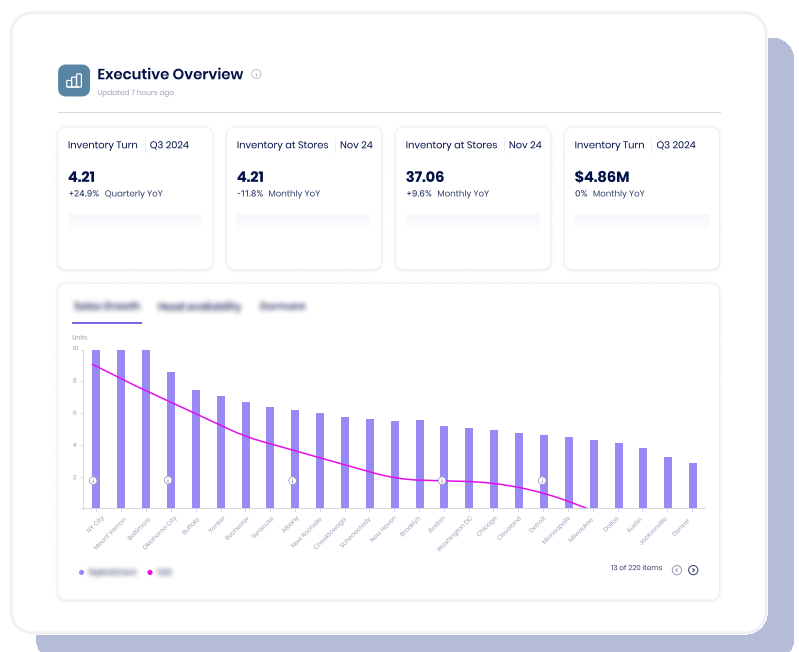
## ITR by Retail Sector

STR rates vary by segment and type. Fast-fashion brands like H&M and Zara achieve the industry's highest STR through reliance on [dynamic inventory management systems](#) that provide ongoing adjustments that tune stock levels to demand.

Retail Sector	Ideal ITR (Annual)
Fast Fashion (Zara, H&M)	8 - 12+
Mid-Tier Fashion (Gap, J.Crew)	4 - 6
Luxury Fashion (Gucci, Prada)	2 - 4
Department Stores (Nordstrom, Macy's)	3 - 5
Off-Price Retail (TJ Maxx, Ross)	6 - 10
Big-Box Retailers (Target, Walmart)	6 - 8
E-commerce Apparel (Amazon Fashion, ASOS)	5 - 8

## What ITR Means for Inventory Health

- **ITR below 4** → Inventory is turning too slowly, leading to excessive carrying costs, markdown risks, and stagnant stock that reduces profitability.
- **ITR between 4-8** → A balanced turnover rate, indicating sustainable inventory flow, but requiring close monitoring to avoid overstock or stockouts.
- **ITR above 8** → Strong inventory health, products are aligned with demand, reducing excess inventory and maximizing full-price sales.



Retailers that monitor and optimize ITR ensure that inventory moves efficiently, keeping assortments fresh while minimizing waste and markdown exposure.

# The Path to Inventory Wellness

Today's technology landscape is abundant with real-time tools for monitoring the essential KPIs for safeguarding inventory health and raising it to new heights.

Rising above the pitfalls of poor inventory health requires retailers to shift from forecast-driven management toward dynamic, data-driven inventory management. This means moving away from rigid seasonal planning toward real-time demand allocation—ensuring that inventory is placed where it will sell fastest. By continuously monitoring the metrics that matter, retailers can break free from inventory stagnation, reduce markdowns, and maintain a healthy, profitable product flow.

## A New Checklist for Optimal Inventory Health

### ✓ **Dynamic**

Shift from rule-based action plans to demand-driven decisions.

### ✓ **Daily**

Move beyond seasonal forecasts to real-time, short-term predictions.

### ✓ **SKU-level**

Optimize inventory at the SKU level, not just at the style or product level.

With a strong foundation in inventory health and understanding of how to track and improve flow, retailers can stay agile, responsive, and resilient in an evolving market.

