Methodology

[Science](), [Statistics]()

Methodology One of the most common methods to estimate inventory is the retail inventory method. Many popular retailers use this method because it isso accurate and allows inventory to be forecasted so that products are always on the shelf and ready for purchasing. In order to satisfy customer demand, there are three components that must be completed to determine the appropriate levels of inventory. First, the overall cost and retail value of the goods that have been purchased need to be known. Second, the firm needs to know those same variables for the goods that are available for sale. Finally, the total amount of sales for the preceding period is also needed. With all these figures, it can be possible to determine a system that replenishes inventory frequently enough so that customer demand is met. The computations go as follows:

1. Sales from the preceding period are subtracted from the retail value of the goods ready for sale. This is done to determine the amount of goods on hand.
2. Next, the cost of the goods available for sale is divided by the retail goods available.
3. The value of the inventory in terms of retail is changed to the cost of the ending inventory by using the cost-to-retail ratio.

Once the cost of the ending inventory is determined, the potential amount of sales for the next period can be calculated. In order to make sure that the amount of inventory available never goes below 90%, periodic checks can be made to either increase or decrease the amount of inventory on hand.