

Self assessment

[Business](#), [Marketing](#)



SELF ASSESSMENT IN RETAIL MARKETING Question Accounting for Inventory

Shrinkage In the context of marketing, inventory shrinkage refers to unexpected decrease in total inventory levels as a result of unforeseeable causes like theft. In the US, most start-up retailers close down soon after opening their business as a result of high inventory shrinkage. High rate of inventory shrinkage implies substantial decrease in actual inventory levels as compared to budgeted stock levels. In order to mitigate commercial effects of this marketing vice, managers employ various techniques, which include the merchandise budget planning. Toomey (2010) says that merchandise budget planning accounts for inventory shrinkage by indicating deviation between budgeted losses and losses caused by stock theft. Every merchandise budget factors in inventory losses expected as a result of conventional damages during stock handling, losses from discounts and those from general sales activities. In this context, any substantial divergence between the planned loss and actual losses after sales will account for inventory shrinkage.

Question 2: Calculating Additions to Stock

Sales = \$26, 000, stock 1 = \$100, 000 and stock 2 = \$88, 000. Difference in stock value = \$12, 000. This value represents inventory shrinkage within a single sales period of \$26, 000. Additions to stock is given by; $(\text{value of stock 1}/\text{sales}) \times (\text{sales} - \text{inventory shrinkage})$. Additions = $(100, 000/26, 000) \times 14000 = \$53, 846$.

Question 3: Stock-to-sales ratio for six months

Based on the formula $\text{GMROI} = \text{Gross Margin} \times (\text{Sales}/\text{Average Inventory Cost})$. Gross margin = $46/100$. This means $1.3 = 0.46 \times \text{sales-to-stock ratio}$.

Therefore, sales to stock ratio = 2.8 : 1. In this case, the stock-to-sales ratio for 6 months = 2.8 : 1.

Question 4: Difference in Stock-to-Sales ratio

In retail marketing, the concept of stock-to-sales ratio shows the relationship between the quantity of inventory in stock and the amount of sales. In August, there will be a high stock-to-sales ratio as compared to that of September. According to Toomey (2010), a high ratio in August means that substantial value of capital is tied up in inventory with little sales. On the contrary, September comes with significant sales; hence the ratio reduces as inventory value melts away due to increasing sales.

Question 5: Pareto's 80-20 Rule

This rule helps retail managers to acknowledge the fact that approximately 80% of sales will come from 20% of the entire stock. On the contrary, 20% of the stock levels will cause 80% of the losses incurred during sales. According to Toomey (2010), the Pareto rule helps retail managers to focus on only 20% of the inventory levels. This rule should serve as a reminder that managers should focus on controlling inventory levels of fast-selling merchandise and maintain the slow 80% merchandise at minimum levels.

Reference List

Toomey, J. (2010). *Inventory Management: Principles, Concepts and Techniques*. Harrisburg: Spring Publishing.