ShipBob

Inventory Turnover Benchmarks Report

2022 EDITION

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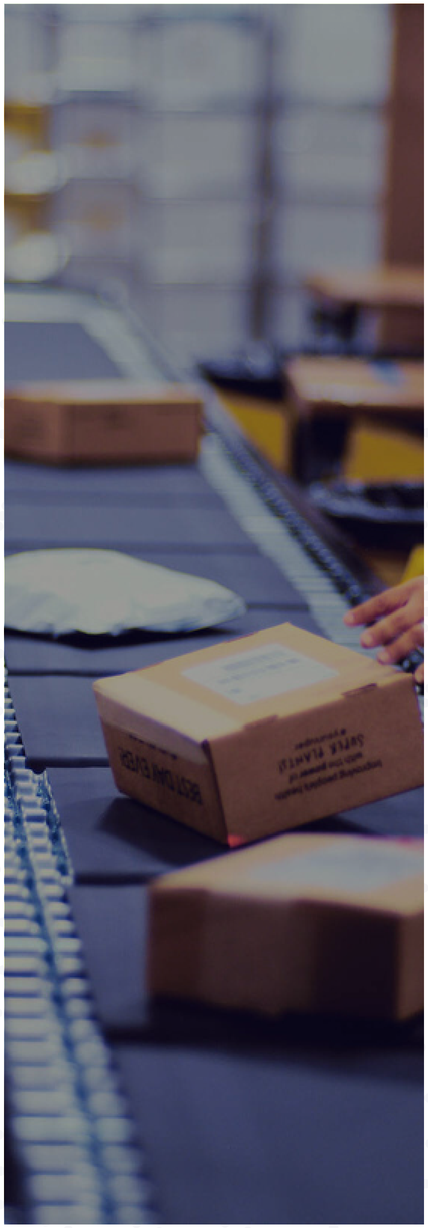


1. Introduction

As a supply chain and operations leader, you are constantly managing inventory across your manufacturing, freight, and fulfillment partners. It is 24/7 of balancing supply, demand, capital, space, lead times, and transit times.

At any point do you...

- Increase your order quantity for better unit economics?
- Speed up PO frequency or decrease your order quantity?
- Move bulk or slow-moving goods to a long-term storage facility?
- Retire certain SKUs to focus on your best-selling, most profitable products?
- Optimize your warehouse for smaller, faster-moving products?

Keeping a close pulse on your inventory turnover rate — one of many health metrics for an ecommerce business — can help you better understand areas of improvement.

First, let's define inventory turnover:

$$\frac{\textbf{Total units shipped over a time period}}{\textbf{Average units on hand during that time period}}$$

Example: If you sell 100,000 units over a year, while having an average of 20,000 units on hand at any given time during that year, your inventory turnover rate would be 5 (100,000 ÷ 20,000).

Turnover rate can be calculated monthly, quarterly, annually, etc., and your ideal turnover ratio will vary by industry, the products you're selling, and much more.

Having a higher rate means you're selling through the inventory you have on hand efficiently — but having a lower rate could be because you've raised venture capital and had the funds to acquire more inventory — or due to products not selling quickly enough.

There is no right or wrong turnover rate — but optimizing your product line, replenishment strategy, and even warehouse can help your bottom line.

Because the more SKUs and units you have that aren't turning over quickly, the more you're paying for warehousing and the more capital you have tied up in unsold goods that may lose value over time (when you may need that capital for more pressing things).

In this report, we'll walk you through how average inventory turnover rates have changed over the past couple of years and provide some actionable insights on how to improve your inventory turnover rate.

2. Background

ShipBob analyzed average inventory turnover rates across its customer base from January 1, 2020 through June 30, 2022, which encompasses:

- 100 million+ items shipped
- 1,000s of unique merchants with a minimum GMV of USD $50,000 and (mid-market/enterprise data set is for merchants with a minimum GMV of USD $20 million)

*Note: Our 2022 data set only uses data for the first half of the year.

About the vendor

ShipBob is the leading global omnifulfillment platform designed for small and medium-sized businesses to provide them access to best-in-class supply chain capabilities. With over 30 fulfillment centers across the United States, Canada, Europe, and Australia, ShipBob supports over 7,000 ecommerce brands.

The ShipBob platform provides merchants with a single view of their business and customers across all of their sales channels, and enables them to manage products, inventory, orders, and shipments, and leverage analytics and reporting to run their business effectively.

Founded in 2014 out of Chicago, ShipBob was launched through Y Combinator by co-founders Dhruv Saxena and Divey Gulati, two entrepreneurs who saw a need for more efficient shipping for ecommerce businesses. Today, the company has raised $330.5 million in funding. Learn more by visiting ShipBob.com.

3. Inventory Turnover Benchmarks

This metric is incredibly important, which is why we're sharing benchmarks, so you can answer the question, "What do other companies like mine look like?"

The easiest way to think about annual inventory turn is how many times per year did I sell all the inventory I was holding?

To understand the percentile breakdowns, to be considered in the top 90% of merchants, the inventory turnover rate will be higher than 90% of all merchants. Similarly, the 10% bracket refers to being in the bottom 10% of all merchants, among the lowest inventory turnover rates.

Overall

2022
0.85 Average overall inventory turnover rate
1.01 Mid-market/enterprise average inventory turnover rate

2021
1.59 Average overall inventory turnover rate
2.05 Mid-market/enterprise average inventory turnover rate

2020
2.04 Average overall inventory turnover rate
3.02 Mid-market/enterprise average inventory turnover rate

2022

Percentile breakdown - All

90%	3.25
80%	2.01
70%	1.47
60%	1.14
50%	0.86
40%	0.65
30%	0.48
20%	0.33
10%	0.22

Percentile breakdown - Mid-market/enterprise

90%	3.40
80%	2.44
70%	1.83
60%	1.48
50%	1.21
40%	0.95
30%	0.71
20%	0.56
10%	0.42

2021

Percentile breakdown - All

90%	5.38
80%	3.58
70%	2.65
60%	1.97
50%	1.50
40%	1.16
30%	0.84
20%	0.55
10%	0.30

Percentile breakdown - Mid-market/enterprise

90%	5.77
80%	3.73
70%	3.10
60%	2.66
50%	2.31
40%	1.94
30%	1.66
20%	1.39
10%	1.15

2020

Percentile breakdown - All

90%	7.32
80%	4.55
70%	3.21
60%	2.37
50%	1.77
40%	1.30
30%	0.89
20%	0.59
10%	0.32

Percentile breakdown - Mid-market/enterprise

90%	8.10
80%	5.24
70%	4.63
60%	3.94
50%	3.15
40%	2.60
30%	2.20
20%	1.89
10%	1.33

Findings

We saw the highest inventory turnover rates in 2020 when the pandemic began, lockdowns were in effect, and ecommerce was surging over in-person shopping.

2021 numbers fell slightly during the year the world started to open back up a bit and supply chain delays plagued the industry.

In the first half of 2022, we see inventory turnover rates decline significantly, at a time when inventory that was delayed from Q4 2021 finally arrived for some merchants too late to sell during the holiday period, Russia invaded Ukraine and a recession threatened the world.

Every year, we see mid-market/enterprise merchants (those with a GMV of at least USD $20 million) with significantly better inventory turnover rates when broken out than the average of all merchants together. This could be due to more sophisticated forecasting strategies and tools and/or having access to more capital.

4. Recommendations

If your inventory turnover ratio is on the low side and you want to improve it, we've compiled some actionable ideas for how to do so depending on your brand's unique circumstances.

Review your website objectively

Before you make drastic decisions regarding your inventory, analyze your marketing to ensure that your messaging, visuals, and navigation are on point (on both desktop and mobile). Determine if demand is there — and if you're capturing it correctly.

Get an outsider to comb through your online shop, as a different pair of eyes may uncover insights into why certain products are not so popular. At the same time, ask yourself:

- **Are your product descriptions compelling enough?**
- **Are your product listings filled with imagery and videos that entice people to buy?**
- **Do you have walls of text that can be replaced by bullets or icons?**
- **Do you have enough social proof and first-hand accounts of customers using your products?**
- **Are you missing any key decision-making aides, such as sizing charts?**
- **Are any products too similar to visitors?**
- **Are the amount of choices overwhelming?**
    - **If so, do you need to simplify the number of options, or create a quiz that points customers in the right direction?**
- **Can people tell what you sell when they land on your site? Is my website easily navigable?**
- **Are products and product categories grouped in a way that makes sense?**
- **Are all of your sales channels up-to-date with your product catalog for a consistent experience?**

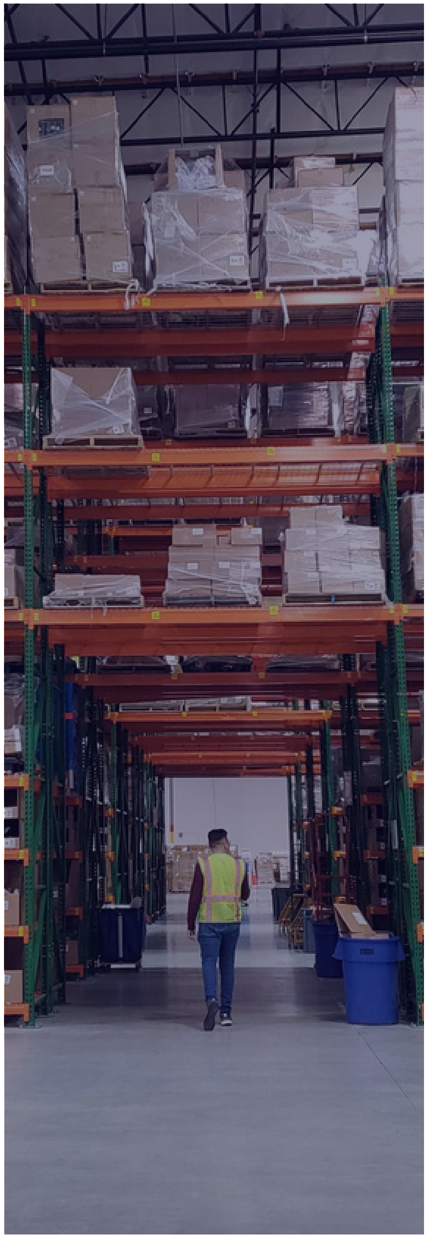
Store excess inventory separately

Separating out long-term and short-term storage can improve a facility's inventory turnover ratio, and even save some brands money in certain scenarios.

For lower-velocity items (and in cases of excess inventory that won't sell out for a while), a longer-term storage option in a less expensive facility may be a more cost-effective solution to low inventory turnover.

If space is tight, or if you outsource fulfillment, it may be cheaper to keep bulk inventory separate from your 3PL, since fulfillment centers are designed to turn over products quickly (unlike a warehouse designed for pure storage).

Geography can also impact storage costs, depending on the real estate market — so if you have a supplier that requires a high minimum order quantity (MOQ), if you're getting more inventory upfront at a better price per unit, or if you're simply ordering more now to avoid potential delays, consider less expensive, rural areas to minimize storage costs.



Distribute select SKUs

If you want to split your inventory among multiple fulfillment centers, analyze your sales data to understand which SKUs make sense. Unless you only sell a few products, you probably won't need to store 100% of your product range in multiple locations; Instead, look to stock the best-sellers and items that get shipped most often.

> **"ShipBob's Inventory Planner integration allows us to have all of our warehouse forecasting and inventory numbers in one platform. We can create ShipBob WROs directly in Inventory Planner and have the inventory levels be reflected immediately. It also provides forecasting for each individual ShipBob warehouse, so we know how many units we need to ship each week to cover a certain period and also to not run out of stock."** *- Marc Fontanetta, Director of Operations at BAKblade*

Improve your replenishment timing

Reordering SKUs at the right time can be challenging. Restock too early, and you may have too much working capital tied up in inventory, or a surplus of stock that goes obsolete; restock too late, and you risk stocking out of items and disappointing customers with backorders.

To time inventory replenishment correctly, you need to calculate reorder points and safety stock. Additionally, consider setting automatic reorder notifications when your unit count for any particular SKU hits a certain level. Many tools enable this, and some even help you automate reordering inventory altogether.

> **"ShipBob's analytics tool is really cool. It helps us a lot with planning inventory reorders, seeing when SKUs are going to run out, and we can even set up email notifications so that we're alerted when a SKU has less than a certain quantity left."** *- Oded Harth, CEO & Co-Founder of MDacne*

Compare inventory value with cubic volume

Not all inventory is created equal. When space is limited or has a price tag associated with it, understanding the average storage space required can help add another layer of evaluation.

For example, let's say one pallet can only fit 25 pillows — each of which has a manufacturing value of $5 and a retail value of $50. However, that same pallet can fit 300 units of compact electronics — each of which has a $10 manufacturing value and $90 retail value — in the same amount of space.

Before even calculating the entire landed cost, each pallet of the same size from this example has the following potential return:

The total potential revenue of the 25 pillows sold at $50/each is $1,250.
The total manufacturing value is $125 (25 * $5), so the total potential profit is: $1,125

The total potential revenue of the 300 electronics sold at $90/each is $27,000.
The total manufacturing value is $3,000 (300 * $10), so the total potential profit is: $24,000

Since the fixed warehousing cost is the same for both pallets, if you were planning on selling the same amount of pillows as electronics in the same timeframe (let's say 300 units each), you're paying 12x the storage costs for the pillows compared to the electronics. One pallet holds all 300 electronics, but you'd need 11 extra pallets to house the 275 remaining units of pillows.

Say that it takes you twice as long to sell the 300 pillows as compared to the 300 electronics. You're doubling storage again, for a whopping 24x in warehousing costs and much less potential profit.

The bulkier a product, the higher the storage cost per unit. If the SKU doesn't have a big profit margin, you may want to consider cheaper warehousing alternatives.

Optimize the warehouse space

Every warehouse needs each SKU to be stored separately and not mixed to reduce the chance of a mis-pick, and the efficient use of space is very important when it comes to storage. While you have to match a facility to your growth goals (i.e., if you plan on growing, you won't want to immediately outgrow your space; but if you don't grow fast enough, you'll severely under-utilize and likely over-pay for it), there are some steps you can take to make better use of your existing space. If you lease or own your own warehouse, you can:

- **Reorganize the space to increase the total SKU locations, or even re-rack rows to grow higher if you have vertical room above (storing pickable inventory in the bottom of the aisles and excess inventory above, which can be retrieved via forklifts when stock is getting low).**
- **Store SKUs that are frequently ordered together closer to one another to reduce the distance traveled within the warehouse to pick each order.**
- **Set up batch picking (also known as cluster picking), where certain SKUs are pulled aside in one area so a picker can focus on orders with those inventory items consecutively, eliminating the need to go back and forth between picking aisles.**
- **Perform periodic warehouse audits to identify inefficiencies, and move out obsolete inventory.**
- **Monitor your return rate and inventory that gets sent back, which can also lead to inefficient storage.**

Retire poor-performing SKUs

Many brands assume that having a large product range will equate to better customer retention and a higher lifetime value — but the reality is that many SKUs don't sell quickly or drive much revenue, and are unprofitable.

What are the pros and cons of having a high SKU count?

Pros:

- There is more variety to please shoppers.
- There are more upsell opportunities for your business.
- You can introduce existing customers to new products and try to reach more customers with new products.

Cons:

- Inventory forecasting is more challenging with every additional SKU.
- You have a lot of capital tied up in inventory that's unsold and risks becoming obsolete or unsellable.
- Storage is more expensive.
- It’s easy to overestimate the use of new colors and slight variations. Customers can become overwhelmed with too many choices and never skim through your entire catalog.

For a lot of brands, 3 SKUs make up 50% of sales (or even the top 2 best-sellers are 90% of revenue). An ideal SKU count can vary for each vertical and business, but too many SKUs too fast can impact your financials.

SKU rationalization is the process of identifying whether a product on the SKU level should be discontinued due to declining sales and overall profitability.

This process is very relative to your brand’s size (a small ecommerce business should not be comparing themselves to public companies). Rationalize SKUs on pace with cash flow, margin, lead time, and MOQ, and be sensible to what a customer really needs.

You can also sell through a SKU until it’s done without planning on replenishing it at all.

> **"We roll out new products and designs 1-3 times a month and send new inventory to ShipBob each week. It’s really easy to create new SKUs and restock existing ones using ShipBob’s technology, which is especially important with high inventory turnover."** - *Carl Protsch, Co-Founder of FLEO*

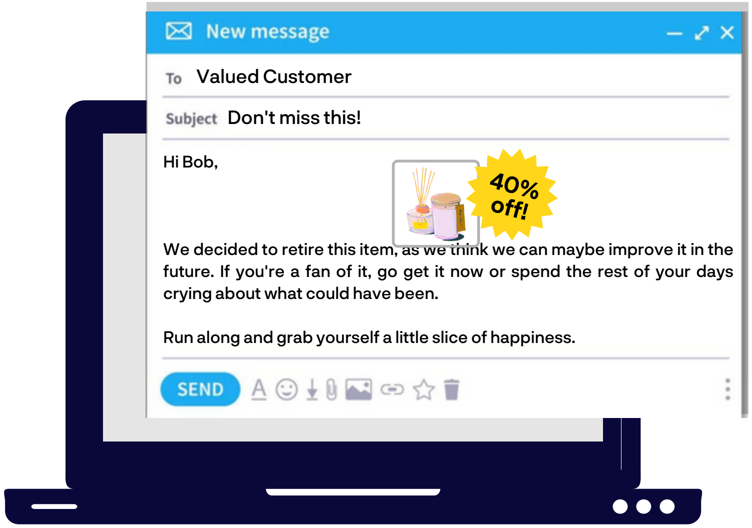
Dispose or donate excess inventory

Once you identify SKUs that have low inventory turnover rates, or you've come to the realization that you need to retire a SKU, you'll need to find ways to get rid of the remaining inventory, such as:

- **Bundle slow-moving SKUs with best-selling items.**
- **Offer slow-moving SKUs as mystery items for a very low price (note: if it's a mystery shirt, for example, be sure to get the size).**
- **Include slow-moving SKUs as freebies or gifts for customers that spend a certain amount.**
- **Email your database about the product you're ending as a last chance to buy notice.**
- **Donate the items to a charity in need. If you're a ShipBob customer, we partner with GiveNkind to match donated items with nonprofits in need. As GiveNkind's #1 partner, our customers have been able to donate millions of dollars of goods. Learn how to donate here.**
- **Dispose of your inventory. If you're a ShipBob customer, learn how to dispose of it here.**
- **Write off unsold inventory at the end of year or accounting period (after consulting with your accountant).**
- **Run a flash sale to greatly discount the products.**

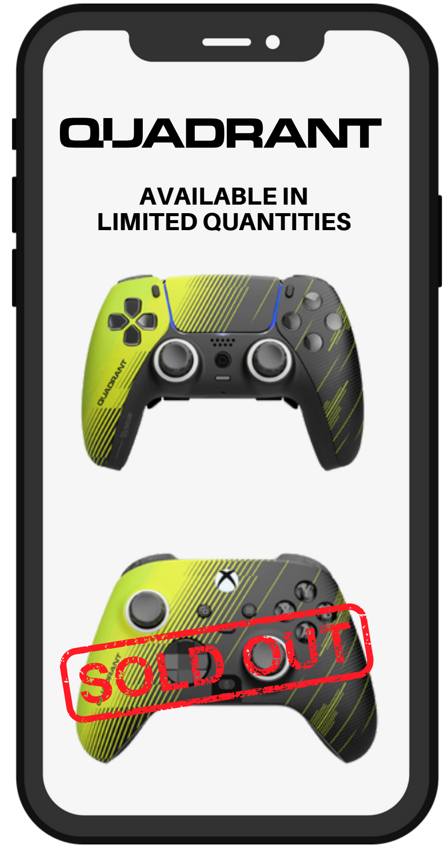
Traditional flash sale promotions can be successful but consider getting creative with the messaging, as seen on the right.

Ultimately, these steps should make room in your warehouse, reduce the capital you have tied to inventory, simplify your inventory management process, reduce labor associated with inventory tracking, and help you focus on your most profitable SKUs.



Consider product 'drops'

Not to be confused with dropping or removing products from your store, the drop model refers to announcing a new product with a limited number of units to entice people to buy now before they're sold out — a very common model that both Millenial and Gen Z audiences are familiar with. Drops have also helped mask supply chain delays given their 'surprise' nature of timing.



This is a lower stakes route from the beginning, as it allows you to test a product's popularity first via a small batch before making it a regular on the store. This exclusivity angle helps create scarcity, build momentum, and ultimately sell through the inventory quicker, essentially getting it out the door immediately.

Some brands go so far as utilizing this model for backorders to secure the capital upfront. While the drop model works for certain industries much better than others (e.g., merch, celebrity products, brand collabs, etc.), it's still worth testing the product until it sells out — even if you don't sell out in 15 seconds. Maybe it becomes part of a semi-regular rotation — giving people all the more reason to sign up for your email list and pay close attention.

"We offer a select number of units each release and they sell out really fast. Our last drop sold out in 18 minutes! The key to this model is ensuring we are able to fulfill a massive spike in demand. With ShipBob, we trust that orders will get out in a timely manner. The entire way we do drops has changed, and we look at logistics totally differently now." *- Will Kerr, Apparel Lead at Quadrant*

5. How ShipBob Helps

ShipBob's fulfillment solutions include both a warehouse management system (WMS) for in-house fulfillment, as well as hands-off tools and fulfillment services for brands that don't want to run their own warehouse. For both solutions, ShipBob offers an international fulfillment network and dashboard with a built-in inventory management system.

- **Monitor SKU velocity to quickly identify slow-moving products.**
- **Set reorder point notifications at the SKU level to be automatically alerted once inventory levels hit a certain threshold.**
- **Calculate inventory turnover rate to see how many times inventory is sold and then replaced in a specific time period.**
- **Gain visibility into inventory activity (what's coming in and what's leaving) across fulfillment centers and sales channels in real time through a centralized dashboard.**
- **See daily average products sold, how much inventory is left, and how long it will last with the ability to simulate different scenarios for changes in demand.**
- **Bundle products with ease and update accurate inventory counts for each SKU that's within the bundle.**
- **Utilize integrations to automate placing new purchase orders for timely replenishment.**
- **View historical stock levels at any point in time from any warehouse location.**
- **Compare your current and ideal distribution across fulfillment center locations to optimize product allocation.**
- **Visualize average storage cost per unit over time.**

Read what ShipBob customers have to say about our inventory tools:

“ShipBob provides us with specific reporting that helps us make decisions that directly benefit the health of our business. Their analytics tool has been great to have. We can see inventory reconciliations and easily view SKU velocity, transit times, and inventory distribution recommendations.”

- Pablo Gabatto,
Business Operations Manager at Ample Foods

"I am a bit of an analytics nerd, so I love the ShipBob dashboard because I didn’t have access to this level of visibility before. I also love the ability to see remaining inventory — that’s so huge. Before, we were counting one by one in my house, but that’s being taken care of by ShipBob now."

- Andrea Hamilton,
Founder of The Finer Things 1920

"We have access to live inventory management, knowing exactly how many units we have in each fulfillment center. It not only helps with our overall process in managing and making sure our inventory levels are balanced but also for tax purposes at the end of the year. ShipBob simplified the entire process for our accountants and for us."

- Matt Dryfhout,
Founder & CEO of BAKblade

“Right now, in terms of all inventory and sales channels, ShipBob is our main hub. You can have stock in 2 fulfillment centers for 10 channels and know the totals. ShipBob is the only platform where we can see all-in-all what has occurred. The analytics are amazing."

- Jordan and Anouk Rondel,
Owners of The Caker

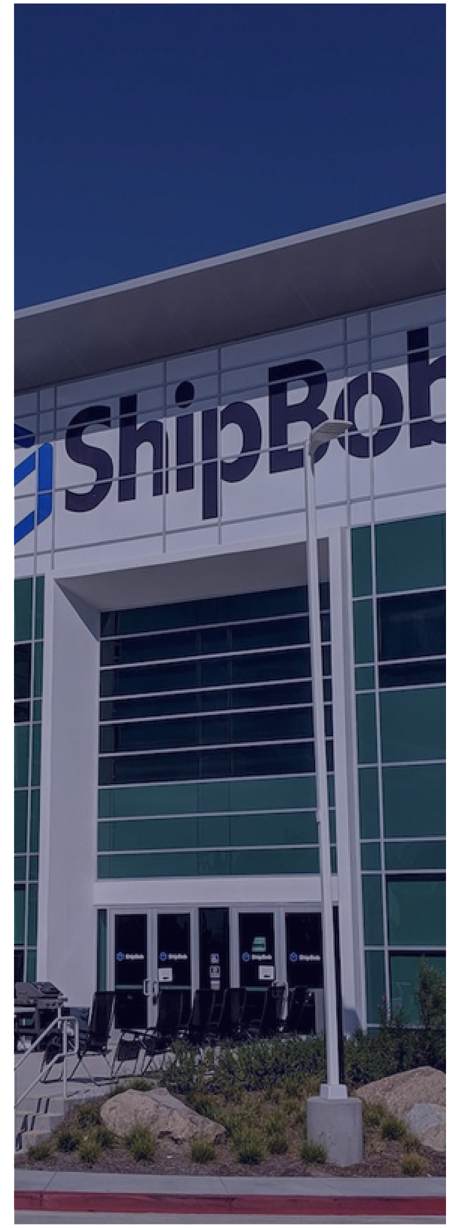
6. Conclusion

Managing inventory can feel like a never-ending balancing act between SKUs, units, space, and velocity changes (both planned with seasonality and unplanned). Improving your inventory turnover rate is one way to improve costs, cash flow, organization, and even catalog management.

Of course, inventory turnover does not tell the full story of a business's health — for example, a business may be stockpiling to get ahead of demand for a major celebrity campaign, or just raised capital for a bigger inventory run — and the inventory turnover rate can drop over a time period when things are going well (or about to go very well) on the revenue side.

Brands are cautiously optimistic for the 2022 holiday season. If the last two peak seasons have taught us anything, it's that ecommerce brands are adaptable and resilient. If you wish to have a sustainable, long-term business that makes it through uncertain times like economic downturns, keep a close eye on your inventory management strategy.

Optimizing the number of SKUs you sell, units on hand, use of space, PO frequency, and cash flow may look very different for your business compared to others. Monitoring and actioning off of your inventory turnover rate is just one part of a complete ecommerce inventory strategy.



Learn more about ShipBob

ShipBob is a global omnifulfillment platform that supports over 7,000 ecommerce brands with a global network of 30+ fulfillment centers across the US, Canada, United Kingdom, European Union, and Australia.

For questions, contact Kristina Lopienski at klopienski@shipbob.com.
Submit a media inquiry. Get more information about ShipBob's fulfillment solution.