How to Calculate Your Restaurant Inventory Turnover Rate

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What is an Inventory Turnover Rate?

A restaurant's inventory turnover rate (also called ITR) is how many times your restaurant sold its total average inventory during a period of time.

Your ITR is used to help assess how well your restaurant is operating in comparison to other concepts and the industry as a whole.

An ITR also provides you with valuable insight into how your business is doing with inventory, sales, and cost.

Calculating Inventory Turnover

There are two accepted ways to calculate your restaurant’s inventory turnover rate.

Inventory Turnover (ttm) COS:

The first, more preferred method, is to calculate your turnover rate based on Cost of Goods Sold (may also be referred to Cost of Sales or Cost of Revenue on your income statement).

Inventory Turnover = COGS / Average Inventory

Average Inventory = (Beginning Inventory + Ending Inventory)/2

Inventory Turnover (ttm) Sales:

The alternative formula for calculating turnover uses the total annual sales of your restaurant and divides it by your average inventory.

Total annual sales / Average inventory

Average Days in Inventory

Now you have your inventory turn rate, this can be used to compare your restaurant to other similar concepts in your market.

But you can also use your inventory turnover rate to calculate the average days on hand for your inventory.

Why is average days on hand important?
Knowing your average days on hand for inventory allows you to understand the turnover rate for your restaurant in terms of length of time.

Calculate your inventory days as follows:

Inventory days = 365 / Inventory Turnover Ratio

What’s a Good Inventory Turnover Rate?

The average turnover rate for restaurants in Q2 of 2018 was 17.82 (COGS) or 40.32 (sales).

Although the average ITR was 17.82, rates will vary based on the type of restaurant you own.

So what’s an optimal ITR?

To lower food waste and avoid spoilage, you’ll want to make sure your turnover rate is high. A high ITR usually indicates that sales are healthy and you're using your inventory efficiently.

A low ITR can either indicate that you’re holding too much inventory or that sales are low.

A low turnover rate doesn’t always mean that a restaurant is having issues. It’s important to look at the full picture.

Improving Your Turnover Rate

When Your ITR is too high:

A high ITR will allow you to turn inventory faster and have less money tied up in current assets. But, in some cases, your ITR may be too high.

When your ITR is too high, it's likely that you're running out of important items or having to 86 a dish because you've under-ordered on supplies.

Our suggestion is to use technology to keep track of your inventory, whether that lives in an Excel, a POS, or an inventory management and Food Cost solution like Orderly.

When Your ITR is low:

If your ITR is low, you're probably not making enough sales for the amount of inventory that you're carrying. Over-ordering supplies will increase your chances of food waste or supplies getting stockpiled.

Our suggestion is to pay attention to inventory levels. Are you ordering against a par? Are you using technology to your advantage? Do you know, on average, how much you should be ordering each week? Watch your inventory levels and make sure you know exactly how much to order and when.

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