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What is days sales in inventory?

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WHAT DOES IT MEAN?

A company's days sales in inventory (also called DSI or days in inventory) refers to the average number of days that a firm takes to convert its inventory into sales.

It can be estimated by dividing the average inventory of the company, say, over a year, by its average daily cost of goods sold. It can also be computed over a monthly or quarterly period.

WHY IS IT IMPORTANT?

DSI is a reflection of how quickly the company is able to convert its inventory goods into sales.

A decrease in DSI over time indicates that the company has been able to turn over its inventory quicker into sales. The shorter the DSI, the faster the inventory turns.

DSI is also a reflection of the market demand for the company's products. A decrease in DSI over time may be an indication of an increase in the demand for the company's products or that the company's sale strategies have been effective in stimulating sales.

An increase of DSI over time, however, may indicate that the company is finding it harder to push its products into the market or that the company's products are non-competitive or staying longer in its warehouses or shophouses.

By examining how DSI changes over time, one can detect subtle changes in a company's management of its production-to-sale cycle, as well as the competitiveness of its business and products.

IF YOU WANT TO USE THE TERM, JUST SAY:

"As the festive season comes to an end, retailers have begun discounting their merchandise in order to prevent the build-up of inventory and cash tied up in days sales in inventory."

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