

# Questionnaire for Calculating Carrying Cost of Inventory

Please complete the sections below and a copy of the attached questionnaire for each stocking facility. Send the completed document(s) to:

**Effective Inventory Management, Inc.**  
**110 W Sandy Lake Road, Suite 102**  
**Coppell, TX 75019**  
Ph: (972) 304-3325  
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Email: carrycost@effectiveinventory.com

Your Name \_\_\_\_\_

Company \_\_\_\_\_

Address \_\_\_\_\_

City/Town \_\_\_\_\_ State/Prov \_\_\_\_\_

Postal Code \_\_\_\_\_ Country \_\_\_\_\_

Phone \_\_\_\_\_ Fax \_\_\_\_\_

Email \_\_\_\_\_

Distributor/Manufacturer/Retailer \_\_\_\_\_

Types of Products Sold \_\_\_\_\_

## AGREEMENT:

Please use the information in the attached questionnaire to calculate an inventory carrying cost for our company. We agree to allow Effective Inventory Management, Inc. (EIM) to use this data for comparative purposes, but acknowledge that EIM will not reveal our company name or location to any other party without our expressed written permission.

**Signed by Company Representative**

\_\_\_\_\_

**Print Name, Title, and Date**

\_\_\_\_\_

## Appendix A - Calculating the Carrying Cost Percentage and NIREP

*The cost of carrying inventory expresses what it costs you to maintain a dollar's worth of inventory in your facility for an entire year. The carrying cost can be calculated by answering the following questions:*

1. What was your total warehouse/store labor expense (wages and benefits) during the past 12 months? This includes the expense of inspection, putting away stock, moving material from bin to bin as necessary and filling customer orders.  
\_\_\_\_\_
2. What percentage of warehouse activity is dedicated to filling customer orders, transfers, and production assembly orders (typically about 80%)? \_\_\_\_\_. The remaining percentage of activity (typically about 20%) is dedicated to maintaining inventory in your warehouse. What is the percentage for your company?\_\_\_\_\_.
3. Calculate the amount spent on handling material by multiplying the percentage for maintaining inventory from #2 above by the answer to #1 \_\_\_\_\_.
4. If the warehouse is rented, what is the annual rent?\_\_\_\_\_
5. If the warehouse is owned, what is the rental cost of comparable warehouse space under a "triple net" lease (i.e. a lease where the tenant pays all utilities, maintenance)\_\_\_\_\_
6. What is the total square footage of your facility?\_\_\_\_\_
7. What percentage of the total square footage of your facility is used to stock material (i.e., your warehouse space as opposed to office space and/or production space)?\_\_\_\_\_
8. Multiply the answer to question #4 or #5 by the answer to question #7 \_\_\_\_\_. This is your cost of warehouse space. This expense must be "split" between sales/production expense and the cost of carrying inventory. We do this by multiplying the previous result by the percentage to maintain inventory in your warehouse calculated in step #2.\_\_\_\_\_
9. What were the property and other taxes on your facilities last year?\_\_\_\_\_ Multiply this value by the percentage in question #7 \_\_\_\_\_ to determine the warehouse's portion of this expense. This expense must be "split" between sales/production expense and the cost of carrying inventory. We do this by

multiplying the previous result by the percentage to maintain inventory in your warehouse calculated in step #2.\_\_\_\_\_.

10. What were the inventory taxes on your stock inventory last year?\_\_\_\_\_. This entire amount will be allocated to the carrying cost of inventory.
11. What were the total facility utilities last year?\_\_\_\_\_ Multiply this value by the percentage in question #7\_\_\_\_\_ to determine the warehouse's portion of this expense. If you can determine the actual warehouse utility expense substitute this number. This utility expense must be "split" between sales/production expense and the cost of carrying inventory. We do this by multiplying the previous result by the percentage to maintain inventory in your warehouse calculated in step #2.\_\_\_\_\_.
12. What was your total warehouse maintenance expense last year?\_\_\_\_\_ Multiply this value by the percentage in question #7\_\_\_\_\_. This expense must be "split" between sales/production expense and the cost of carrying inventory. We do this by multiplying the previous result by the percentage to maintain inventory in your warehouse calculated in step #2.\_\_\_\_\_.
13. What was your total warehouse supply expense (excluding shipping materials)?\_\_\_\_\_. As this does not include shipping materials the entire amount will be allocated to the cost of carrying inventory.
14. What was the cost of warehouse equipment that was expensed (i.e. not capitalized) last year?\_\_\_\_\_ This expense must be "split" between sales/production expense and the cost of carrying inventory. We do this by multiplying the previous result by the percentage to maintain inventory in your warehouse calculated in step #2.\_\_\_\_\_.
15. What was the total depreciation expense for warehouse equipment last year? This expense must be "split" between sales/production expense and the cost of carrying inventory. We do this by multiplying the previous result by the percentage to maintain inventory in your warehouse calculated in step #2.\_\_\_\_\_.
16. What was the value of written-off inventory last year?\_\_\_\_\_. This entire amount will be allocated to the carrying cost of inventory.
17. What was the value of inventory shrinkage last year, not included in the written-off inventory value?\_\_\_\_\_ . This entire amount will be allocated to the carrying cost of inventory.

18. What is the value of your excess inventory (see chapter eight) that has not been written off?\_\_\_\_\_. What is a realistic liquidation value for this inventory?\_\_\_\_\_.
19. What was the cost of insuring your warehouse and equipment last year?\_\_\_\_\_. If you only have a total facility insurance expense, multiply this amount by the percentage in step #7 above. This expense must be “split” between sales/production expense and the cost of carrying inventory. We do this by multiplying the previous result by the percentage to maintain inventory in your warehouse calculated in step #2.\_\_\_\_\_.
20. What was the cost of insuring your inventory last year?\_\_\_\_\_. This entire amount will be allocated to the carrying cost of inventory.
21. If additional labor was necessary to conduct physical counts of your inventory, what was the cost of this labor (includes taxes and benefits)? \_\_\_\_\_. This entire amount will be allocated to the carrying cost of inventory.
22. If you borrow money to finance your inventory, what is the average outstanding balance over the past 12 months? \_\_\_\_\_ What is the annual interest rate?\_\_\_\_\_ Multiply these two answers to calculate your annual interest expense. \_\_\_\_\_
23. If you borrow money to finance warehouse equipment or improvements, what is the total of annual payments (including principal and interest)? \_\_\_\_\_ This expense must be “split” between sales/production expense and the cost of carrying inventory. We do this by multiplying the previous result by the percentage to maintain inventory in your warehouse calculated in step #2.\_\_\_\_\_.
24. If you finance your inventory purchases, what interest rate could you expect to receive if you invested that money in a relatively safe income-producing investment?\_\_\_\_\_
25. What was your average inventory value over the past 12 months (sum of month ending inventory values divided by 12)?\_\_\_\_\_
26. How much of your total inventory do you own? That is, the answer to #25 minus the average outstanding balance from #22 above.\_\_\_\_\_
27. Calculate your opportunity cost by multiplying the answer to #24 by the answer to #26 \_\_\_\_\_
28. Calculate the sum of the answers to questions 3, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 19, 20, 21, 22, 23 and 27 and then subtract the liquidation value recorded in question #18\_\_\_\_\_.

29. To calculate your cost of carrying inventory, divide the answer to question #28 by the answer to question #25\_\_\_\_\_.

30. To calculate your NIREP, divide all of your annual costs (sales/production expenses excluded above and other expenses from your profit and loss statement) that were not used in calculating the carrying cost by your annual sales (expressed as a monetary amount)\_\_\_\_\_.

If you have any questions in completing this questionnaire, please give us a call at (972) 304-3325 or email at [info@EffectiveInventory.com](mailto:info@EffectiveInventory.com).