

Figure #2, where the relationship between the cost of carrying, or possession, and the cost of acquisition at various turnover rates is indicated.

It is evident that as the rate of stock turnover is increased, total costs decline and profits increase—**BUT ONLY TO A CERTAIN POINT**. Eventually, a point will be reached at which the lower possession costs that are associated with the rapid turnover rates will be **MORE THAN OFFSET** by the higher acquisition costs attributable to stocks that are unduly low in relation to sales volume.

The most profitable turnover rate is the one that produces the **lowest overall cost**.

It is obtained when the **cost of possession** and the **cost of acquisition** are **reasonably balanced to maximize profits**.

To maximize profits, then, wholesale-distributors must carefully establish inventory management policies that take into account both inventory acquisition costs and inventory possession or carrying costs. Such cost analysis, to truly maximize profits, should be made by product lines as well as for the total inventory stock. Wholesale-distributors should carry only such slow-moving, "slow-turn" inventory as is necessary to meet the firm's customer service policies.

Figure 1

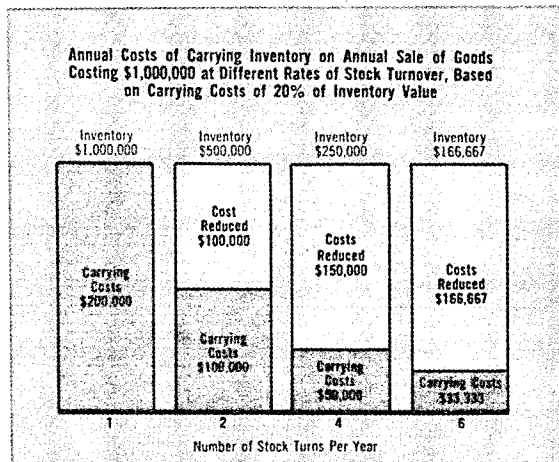


Figure 2

