

Does inventory valuation contribute to retail firm failure?

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ABSTRACT

This study focuses on whether inventory valuation contributes to retail firm failure. This research is timely because of the so-called "retail apocalypse" in the United States. Here, the authors assume that inventory valuation impacts managerial decisions and that managerial decisions ultimately drive the success/failure of a given firm. Given that the retail business model is built around inventory, it seems logical to investigate whether inventory valuation is another antecedent to firm failure. Specifically, this research compares failed/continuing firms by analyzing financial ratios and price- versus cost-based inventory valuation methods. Preliminary findings suggest that the choice of inventory method is significant upon the determination of retail firm failure. These findings also suggest that firm profitability, liquidity, leverage, and cash flow ratios are predictors of failure as well. The findings should be of interest to struggling retailers, especially those contemplating changes in inventory valuation.

Keywords: Inventory Valuation, Firm Failure, Retail