Module 5
Section B: Develop Inventory Strategy and Policy and Implement Inventory Control

Term
ABC classification

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Term
Consigned stocks

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Term
Continuous review system

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Term
Cycle counting

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Term
Cycle service level

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Term
Economic order quantity (EOQ)

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Term
Fixed order period system

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Term
Fixed order quantity system

Inventories, generally of finished goods, that are in the possession of customers, dealers, agents, brokers, etc., but remain the property of the manufacturer by agreement with those in possession. Syn.: consignment inventory, vendor-owned inventory. See: consignment.

The classification of a group of items in decreasing order of annual dollar volume (price multiplied by projected volume) or other criteria. This array is then split into three classes [...]. The [first] group usually represents 10 percent to 20 percent by number of items and 50 percent to 70 percent by projected dollar volume. The next grouping [...] usually represents about 20 percent of the items and about 20 percent of the dollar volume. The [third] class contains 60 percent to 70 percent of the items and represents about 10 percent to 30 percent of the dollar volume. The ABC principle states that effort and money can be saved through applying looser controls to the low-dollar-volume class items than to the high-dollar-volume class items. The ABC principle is applicable to inventories, purchasing, and sales. Syn.: ABC analysis, distribution by value. See: 80-20, Pareto analysis, Pareto's law.

An inventory accuracy audit technique where inventory is counted on a cyclic schedule rather than once a year. A cycle inventory count is usually taken on a regular, defined basis (often more frequently for high-value or fast-moving items and less frequently for low-value or slow-moving items). [the most effective of these] systems require the counting of a certain number of items every workday with each item counted at a prescribed frequency. The key purpose of [this] is to identify items in error, thus triggering research, identification, and elimination of the cause of the errors.

The inventory level on hand and on order for a continuous review system is checked whenever a change in inventory level occurs. When the reorder point is reached, a restocking order is released. See: fixed reorder cycle inventory model.

A type of fixed order quantity model that determines the amount of an item to be purchased or manufactured at one time. The intent is to minimize the combined costs of acquiring and carrying inventory. [To calculate this find the square root of ((2AS)/(iC)) where A = annual usage in units, S = ordering costs in dollars, i = annual inventory carrying cost rate as a decimal, and C = unit cost.] Syn.: economic lot size, minimum cost order quantity. See: total cost curve.

The probability of not having a stockout in any one ordering cycle, which begins at the time an order is placed and ends when the goods are placed in stock. Syn.: measure of service, service level.

An inventory system, such as economic order quantity, in which the same order quantity is used from order to order. The time between orders (order period) then varies from order to order. Syn.: fixed reorder quantity inventory model. See: fixed order period system.

A method of inventory planning that measures actual inventory levels at regular intervals of time; either an order is placed every time, or a check of inventory levels is made and an order placed if needed. Often the quantity ordered varies from period to period as inventory is restored to a predetermined level. See: fixed order quantity system.

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Term
Inactive inventory

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Term
Inventory accuracy

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Term
Inventory control

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Term
Inventory planning

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Term
Inventory turnover

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Term
Joint replenishment

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Term
Kanban

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Term
Kitting

When the on-hand quantity is within an allowed tolerance of the recorded balance. This important metric usually is measured as the percent of items with inventory levels that fall within tolerance. Target values usually are 95 percent to 99 percent, depending on the value of the item. For logistical operations (location management) purposes, it is sometimes measured as the number of storage locations with errors divided by the total number of storage locations.

Stock designated as in excess of consumption within a defined period; stocks of items that have not been used for a defined period.

The activities and techniques of determining the desired levels of items, whether raw materials, work in process, or finished products (including order quantities and safety stock levels). Syn.: material planning.

The activities and techniques of maintaining the desired levels of items, whether raw materials, work in process, or finished products. Syn.: material control.

Coordinating the lot sizing and order release decision for related items and treating them as a family of items. The objective is to achieve lower costs because of ordering, setup, shipping, and quantity discount economies. This term applies equally to joint ordering (family contracts) and to composite part (group technology) fabrication scheduling. Syn.: joint replenishment system.

The number of times that an inventory cycles, or "turns over," during the year. A frequently used method to compute inventory turnover is to divide the annual cost of sales by the average inventory level. For example, an annual cost of sales of $21 million divided by an average inventory of $3 million means that inventory turned over seven times. Syn.: inventory turns, turnover. See: inventory velocity.

The process of constructing and staging kits.

A method of just-in-time production that uses standard containers or lot sizes with a single card attached to each. It is a pull system in which work centers signal with a card that they wish to withdraw parts from feeding operations or suppliers. [This] Japanese word, loosely translated, means card, billboard, or sign, but other signaling devices such as colored golf balls have also been used. The term is often used synonymously for the specific scheduling system developed and used by the Toyota Corporation in Japan. See: move card, production card, synchronized production.

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Term
Lot-for-lot (L4L)

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Term
Mean absolute deviation (MAD)

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Term
Min-max system

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Term
Order fill rate

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Term
Order point

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Term
Overstock

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Term
Point of sale (POS)

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Term
Safety lead time

The average of the absolute values of the deviations of observed values from some expected value. [This] can be calculated based on observations and the arithmetic mean of those observations. An alternative is to calculate absolute deviations of actual sales data minus forecast data. This data can be averaged in the usual arithmetic way or with exponential smoothing. See: forecast error, tracking signal.

A lot-sizing technique that generates planned orders in quantities equal to the net requirements in each period. See: discrete order quantity.

1) A measure of customer orders fulfilled from stock, usually expressed as a percentage. In a make-to-stock company, this percentage usually represents the number of items or dollars (on one or more customer orders) that were shipped on schedule for a specific time period, compared to the total that were supposed to be shipped in that time period. 2) In a make-to-order company, usually some comparison of the number of jobs or dollars shipped in a given time period (e.g., a week) compared to the number of jobs or dollars that were supposed to be shipped in that time period. Syn.: customer service ratio, fill rate.

A type of order point replenishment system where the minimum (min) is the order point, and the maximum (max) is the “order up to” inventory level. The order quantity is variable and is the result of the max minus available and on-order inventory. An order is recommended when the sum of the available and on-order inventory is at or below the min.

A supply or quantity of inventory in excess of demand or requirements.

A set inventory level where, if the total stock on hand plus on order falls to or below that point, action is taken to replenish the stock. [It] is normally calculated as forecasted usage during the replenishment lead time plus safety stock. Syn.: reorder point, statistical order point, trigger level. See: fixed reorder quantity inventory model.

An element of time added to normal lead time to protect against fluctuations in lead time so that an order can be completed before its real need date. When used, the MRP system, in offsetting for lead time, will plan both order release and order completion for earlier dates than it would otherwise. Syn.: protection time, safety time.

The relief of inventory and computation of sales data at the time and place of sale, generally through the use of bar coding or magnetic media and equipment.

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Term

Standard deviation

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Term

Two-bin inventory system

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Term

Visual review system

A type of fixed-order system in which inventory is carried in two [containers]. A replenishment quantity is ordered when the first [container] (working) is empty. During the replenishment lead time, material is used from the second [container]. When the material is received, the second [container] (which contains a quantity to cover demand during lead time plus some safety stock) is refilled and the excess is put into the working [container]. At this time, stock is drawn from the first [container] until it is again exhausted. Also used loosely to describe any fixed-order system even when physical [containers] do not exist. Syn.: bin reserve system. See: visual review system.

A measurement of dispersion of data or of a variable. [It] is computed by finding the differences between the average and actual observations, squaring each difference, adding the squared differences, dividing by n – 1 (for a sample), and taking the square root of the result.

A simple inventory control system where the inventory reordering is based on actually looking at the amount of inventory on hand. Usually used for low-value items, such as nuts and bolts. See: two-bin inventory system.