

Module 6
Section A: Inventory Planning

Term
ABC classification

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Aggregate inventory management

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Anticipation inventories

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Buffer

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Cycle stock

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Decoupling

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Decoupling inventory

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Distressed goods

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Establishing the overall level (dollar value) of inventory desired and implementing controls to achieve this goal.

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.

In theory of constraints, time or material that supports throughput and/or due date performance.

Additional inventory above basic pipeline stock to cover projected trends of increasing sales, planned sales promotion programs, seasonal fluctuations, plant shutdowns, and vacations.

Creating independence between supply and use of material. Commonly denotes allocating inventory between operations so that fluctuations in the production rate of the supplying operation do not constrain the production or use rates of the next operation.

One of the two main conceptual components of any item inventory, [this] is the most active component. [It] depletes gradually as customer orders are received and is replenished cyclically when supplier orders are received. The other conceptual component of the item inventory is the safety stock, which is a cushion of protection against uncertainty in the demand or in the replenishment lead time. Syn.: cycle inventory.

Products that are damaged or close to their expiration date and cannot be sold at full price.

An amount of inventory maintained between entities in a manufacturing or distribution network to create independence between processes or entities. The objective of [this] is to disconnect the rate of use from the rate of supply of the item. See: buffer.

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Distribution inventory

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Excess inventory

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Finished goods inventory

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Fluctuation inventory

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Hedge inventory

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In-transit inventory

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Inactive inventory

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Inventory

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Any inventory in the system that exceeds the minimum amount necessary to achieve the desired throughput rate at the constraint or that exceeds the minimum amount necessary to achieve the desired due date performance. Total inventory = productive inventory + protective inventory + excess inventory.

Inventory, usually spare parts and finished goods, located in the distribution system (e.g., in warehouses or in transit between warehouses and the consumer).

Inventory that is carried as a cushion to protect against forecast error. Syn.: fluctuation stock. See: inventory buffer.

Those items on which all manufacturing operations, including final test, have been completed. These products are available for shipment to the customer as either end items or repair parts. Syn.: finished products inventory. See: goods.

Material moving between two or more locations, usually separated geographically; for example, finished goods being shipped from a plant to a distribution center.

A form of inventory buildup to buffer against some event that may not happen. [Planning] involves speculation related to potential labor strikes, price increases, unsettled governments, and events that could severely impair a company's strategic initiatives. Risk and consequences are unusually high, and top management approval is often required.

1) Those stocks or items used to support production (raw materials and work-in-process items), supporting activities (maintenance, repair, and operating supplies), and customer service (finished goods and spare parts). Demand for inventory may be dependent or independent. Inventory functions are anticipation, hedge, cycle (lot size), fluctuation (safety, buffer, or reserve), transportation (pipeline), and service parts. 2) All the money currently tied up in the system. As used in theory of constraints, inventory refers to the equipment, fixtures, buildings, and so forth that the system owns—as well as inventory in the forms of raw materials, work-in-process, and finished goods.

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

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Inventory buffer

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Inventory control

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Inventory investment

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Inventory management

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Inventory policy

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Lot-size inventory

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Maintenance, repair, and operating (MRO) supplies

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Obsolete inventory

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

Inventory used to protect the throughput of an operation or the schedule against the negative effects caused by delays in delivery, quality problems, delivery of an incorrect quantity, and so on. Syn.: inventory cushion. See: fluctuation inventory, safety stock.

The branch of business management concerned with planning and controlling inventories.

The dollars that are in all levels of inventory.

Inventory that results whenever quantity price discounts, shipping costs, setup costs, or similar considerations make it more economical to purchase or produce in larger lots than are needed for immediate purposes.

A statement of a company's goals and approach to the management of inventories.

Inventory items that have met the obsolescence criteria established by the organization. For example, inventory that has been superseded by a new model or otherwise made obsolescent. [It] will never be used or sold at full value. Disposing of the inventory may reduce a company's profit.

Items used in support of general operations and maintenance such as maintenance supplies, spare parts, and consumables used in the manufacturing process and supporting operations.

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Pipeline stock

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Raw material

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Rework

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Safety stock

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Scrap

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Seasonal inventory

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Semifinished goods

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Service parts

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Purchased items or extracted materials that are converted via the manufacturing process into components and products.

Inventory in the transportation network and the distribution system, including the flow through intermediate stocking points. The flow time through the pipeline has a major effect on the amount of inventory required in the pipeline. Time factors involve order transmission, order processing, scheduling, shipping, transportation, receiving, stocking, review time, and so forth. Syn.: pipeline inventory. See: distribution system, transportation inventory.

1) In general, a quantity of stock planned to be in inventory to protect against fluctuations in demand or supply. 2) In the context of master production scheduling, the additional inventory and capacity planned as protection against forecast errors and short-term changes in the backlog. Overplanning can be used to create [this]. Syn.: buffer stock, reserve stock. See: hedge, inventory buffer.

Reprocessing to salvage a defective item or part.

Inventory built up to smooth production in anticipation of a peak seasonal demand. Syn.: seasonal stock.

Material outside of specifications and possessing characteristics that make rework impractical.

Those modules, components, and elements that are planned to be used without modification to replace an original part. Syn.: repair parts, spare parts.

Products that have been stored in an uncompleted state and are awaiting final operations that will adapt them to different uses or customer specifications.

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Shelf life

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Stock keeping unit (SKU)

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Transit inventory

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Transportation inventory

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Wall-to-wall inventory

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Work in process (WIP)

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1) An inventory item. For example, a shirt in six colors and five sizes represents 30 [of these]. 2) In a distribution system, an item at a particular geographic location. For example, one product stocked at the plant and at six different distribution centers would represent seven [of these].

The amount of time an item may be held in inventory before it becomes unusable.

Inventory that is in transit between locations. See: pipeline stock, transit inventory.

Inventory [moving] between manufacturing and stocking locations. See: transportation inventory.

A good or goods in various stages of completion throughout the plant, including all material from raw material that has been released for initial processing up to completely processed material awaiting final inspection and acceptance as finished goods inventory. Many accounting systems also include the value of semifinished stock and components in this category. Syn.: in-process inventory.

An inventory management technique in which material enters a plant and is processed through the plant into finished goods without ever having entered a formal stock area. Syn.: four-wall inventory.