Module 4
Section C: Inventory

Term
ABC classification

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Term
Acquisition cost

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Term
Anticipation inventories

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Backorder

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Buffer

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Carrying cost

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Configuration management

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Term
Cycle counting

The cost required to obtain one or more units of an item. Computed as: order quantity times unit cost. See: ordering cost.

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 unfilled customer order or commitment. [This is] an immediate (or past due) demand against an item whose inventory is insufficient to satisfy the demand. See: stockout.

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

The cost of holding inventory, usually defined as a percentage of the dollar value of inventory per unit of time (generally one year). [This] depends mainly on the cost of capital invested as well as costs of maintaining the inventory such as taxes and insurance, obsolescence, spoilage, and space occupied. Such costs vary from 10 percent to 35 percent annually, depending on type of industry. [It] is ultimately a policy variable reflecting the opportunity cost of alternative uses for funds invested in inventory. Syn.: holding costs.

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

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.

Formal procedures to identify and document the physical characteristics of a product or project, control changes, and support an audit to verify conformance.

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Cycle stock

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Decoupling

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Distribution center

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Echelon

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End-of-life management

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Fixed order quantity

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In-transit inventory

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Inventory

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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.

A level of supply chain nodes. For example, a supply chain with two independent factory warehouses and nine wholesale warehouses delivering product to 350 retail stores is a supply chain with three [of these] between the factory and the end customer. One [of these] consists of the two independent factory warehouses, one consists of the nine wholesale warehouses, and one consists of the 350 retail stores. Each [of these] adds operating expense, holds inventory, adds to the cycle time, and expects to make a profit. See: disintermediation.

A location used to store inventory. Decisions driving warehouse management include site selection, number of facilities in the system, layout, and methods of receiving, storing, and retrieving goods.

A lot-sizing technique in MRP or inventory management that will always cause planned or actual orders to be generated for a predetermined fixed quantity, or multiples thereof, if net requirements for the period exceed [this].

Planning for the phase-out of one product and the phase-in of a new product to avoid both the excessive inventory of and an out-of-stock situation with the old product before the replacement product is available.

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.

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

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Inventory accuracy

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Inventory adjustment

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Inventory control

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Inventory management

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Inventory ordering system

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Inventory planning

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Inventory visibility

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Landed cost

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A change made to an inventory record to correct the balance in order to bring it in line with actual physical inventory balances. The adjustment either increases or decreases the item record on-hand balance.

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.

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

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

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.

Inventory models for the replenishment of inventory. Independent demand inventory ordering models include fixed reorder cycle, fixed reorder quantity, optional replenishment, and hybrid models, among others. Dependent demand inventory ordering models include material requirements planning, kanban, and drum-buffer-rope.

This cost includes the product cost plus the costs of logistics, such as warehousing, transportation, and handling fees.

The extent to which inventory information is shared within a firm and with supply chain partners.

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Life cycle analysis

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Lot-for-lot (L4L)

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Ordering cost

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Physical inventory

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Safety lead time

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Safety stock

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Term
Time-phased order point (TPOP)

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Term
Warehouses (distribution centers)

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

A quantitative forecasting technique based on applying past patterns of demand data covering introduction, growth, maturity, saturation, and decline of similar products to a new product family.

1) The actual inventory itself. 2) The determination of inventory quantity by actual count. [It] can be taken on a continuous, periodic, or annual basis. Syn.: annual inventory count, annual physical inventory. See: periodic inventory.

The costs that increase as the number of orders placed increases. Used in calculating order quantities. Includes costs related to the clerical work of preparing, releasing, monitoring, and receiving orders; the physical handling of goods; inspections; and setup costs, as applicable. See: acquisition cost, inventory costs.

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.

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.

Facilities used to store inventory. Decisions driving warehouse management include site selection, number of facilities in the system, layout, and methods of receiving, storing, and retrieving goods.

MRP-like time planning logic technique for independent demand items, where gross requirements come from a forecast, not via explosion. Can be used to plan distribution center inventories as well as to plan for service (repair) parts, because MRP logic can readily handle items with dependent demand, independent demand, or a combination of both. An approach that uses time periods, thus allowing for lumpy withdrawals instead of average demand. When used in distribution environments, the planned order releases are input to the master schedule dependent demands. See: fixed reorder quantity inventory model.

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Work in process (WIP)

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.