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Chapter 15: Purchases and Inventory Management—Glossary

80/20 inventory rule. Eighty percent of a business' sales come from 20 percent of its inventory.

buffer stock. Additional stock that is kept above the minimum amount required to meet forecasted sales. Also called *safety stock*.

economy of scale. Decrease in unit cost of a product resulting from large-scale manufacturing operations.

electronic data interchange (EDI). Standard transfer between organizations of electronic data for business transactions, such as orders, confirmations, and invoices.

inventory management. Inventory management is the process of acquiring and tracking product orders, keeping adequate supplies and assortment of products, and organizing products in warehouses and retail locations.

invoice. Official bill or notice to pay.

just-in-time inventory (JIT). When a business orders just enough stock needed for any given point in time to meet demand.

lead time. Lead time is the total time it takes from placing an order until it is received.

manual-tag system. System where you remove the price tag when an item is purchased.

packing slip. Included in a shipment of goods, it lists the contents of the box or container.

periodic inventory control. Taking a physical count of merchandise on a regular, or periodic, basis.

perpetual inventory-control system. Perpetual inventory system is a method of keeping inventory that shows the quantity on hand at all times.

physical inventory. Actual count of items in inventory, which is used to verify the inventory-control system's counts.

point-of-sale (POS) software. Computerized inventory control system that usually begins right at the cash register and records each sale as it happens.

product specification sheet. Provides product facts, including sizes, colors, materials, and weights.

productive inventory. Twenty percent of a business' inventory that produces the most sales.

purchase order. A purchase order is a form completed by the buyer listing the quantity, variety, and price of the products ordered.

purchasing. Purchasing is the process of buying merchandise for resale to customers.

purchasing management. Purchasing management includes ordering the merchandise that is needed, receiving the merchandise into stock once it arrives, and paying the vendor for the order.

quality control. Activity of checking goods as they are produced or received to ensure the quality meets expectations.

radio frequency identification (RFID). Card imbedded with a chip that transmits information about a product's location and use over short-range radio waves to a computer, where the data can be crosschecked with a database. Not often used in a retail setting.

receiving record. Receiving record is a form on which all merchandise received is listed.

stockout. When a business has too little inventory.

turnover rate. Number of times inventory has been sold during a specific time period, usually one year. Also known as *turnover ratio*.

unit-control system. Can range from simply visually determining if more stock is needed to a system of bin tickets.

vendor. Companies that sell products to other businesses.