

# Chapter 15 Vocabulary

Write definition and one sentence for each word in notebook.

1. Purchasing
2. Model Inventory
3. Vendors
4. Trade Discount
5. Quantity Discount
6. Cash Discount
7. Secured Funds
8. Invoice
9. Financing Cost
10. Opportunity Cost
11. Storage Cost
12. Insurance Cost
13. Shrinkage Cost
14. Obsolescence Costs
15. Warehousing
16. Lead Time
17. Usage Rate
18. Safety Stock



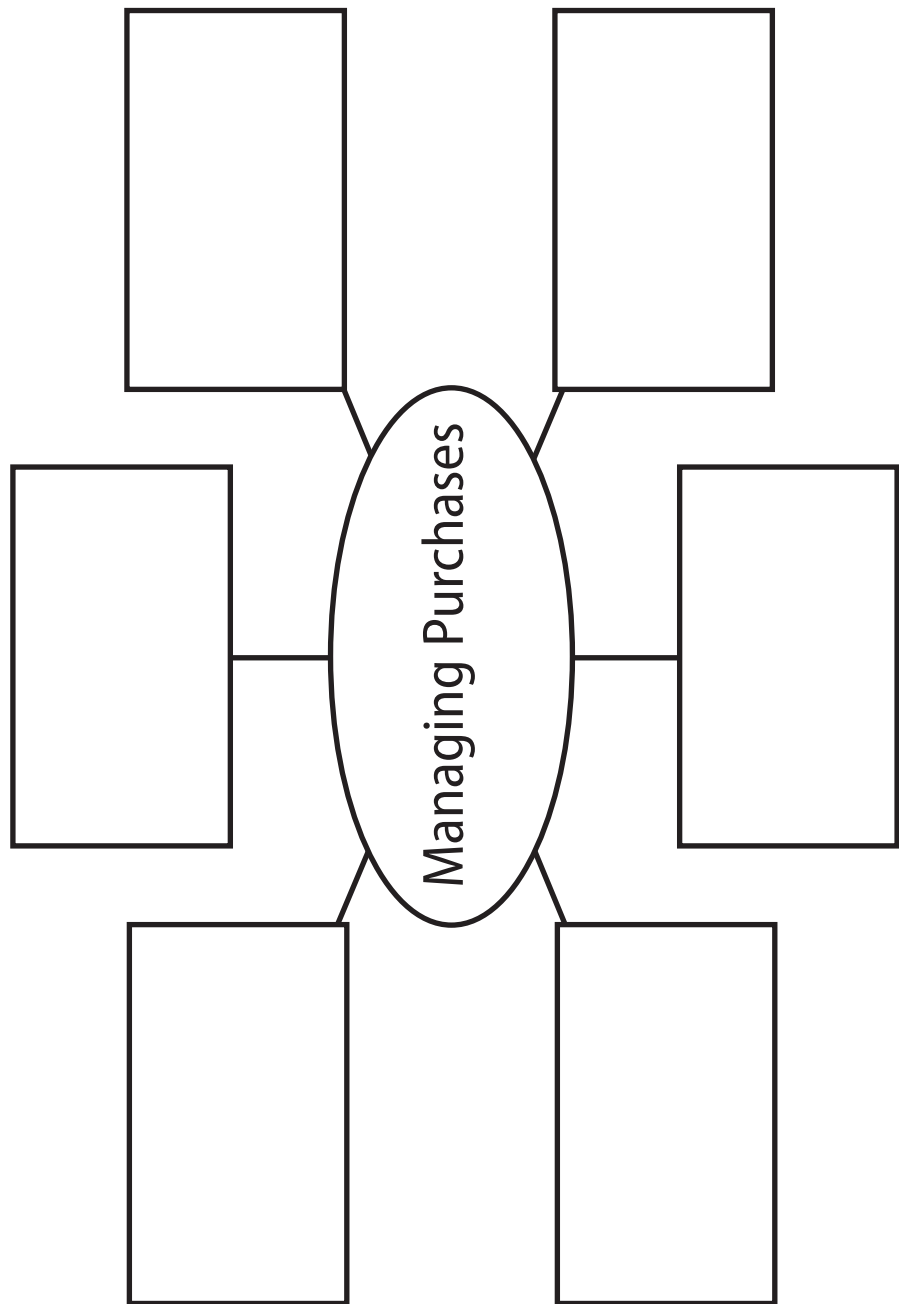
# Managing Purchasing and Inventory

CHAPTER

15

## Section 15.1 Purchasing Management

**Directions** Write the six key factors that enter into purchasing decisions.



## Managing Purchasing and Inventory

CHAPTER

15

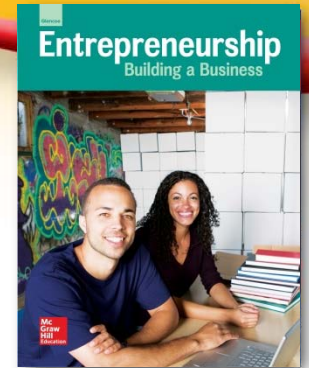
## Section 15.2 Inventory Management

**Directions** Write notes about the effects of too much or too little inventory.

Too Little Inventory	Too Much Inventory

CHAPTER  
15

# Managing Purchasing and Inventory



Section

15.1

## Purchase Planning and Management

Section

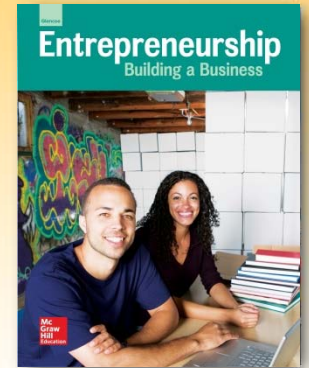
15.2

## Inventory Management

SECTION

15.1

# Purchase Planning and Management



## Buying Inventory

**Purchasing** decisions mean the difference between success and failure for the entrepreneur.

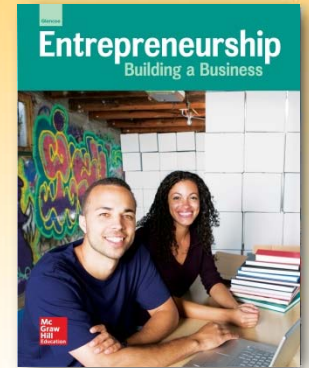
### **purchasing**

also known as procurement, the buying of all the materials needed by the organization

SECTION

15.1

# Purchase Planning and Management



## Developing a Model Inventory

As a beginning entrepreneur, after identifying your inventory needs, it is helpful to set up a **model inventory**.

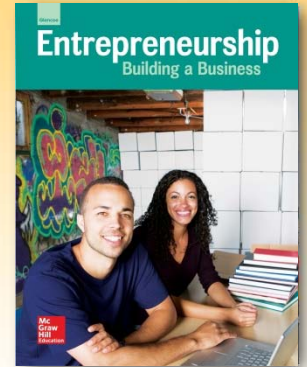
### **model inventory**

a target inventory of what a business thinks it will need to keep in stock

SECTION

15.1

# Purchase Planning and Management



## Developing a Model Inventory

When you are in business, you can rely on regular input from **vendors**.

### **vendors**

businesses that sell inventory to merchants

# Graphic Organizer

## Managing Purchases

### Key Factors That Affect Purchasing

Selecting the right quality

Buying the right quantity

Timing your purchases

Choosing the right vendors

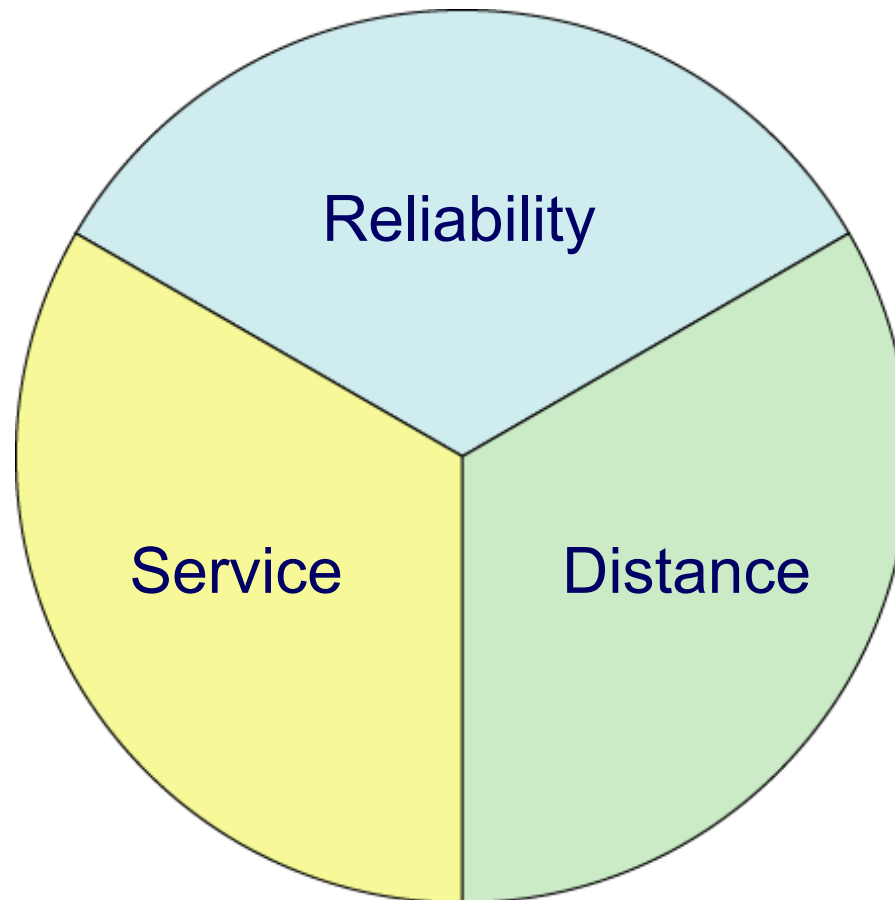
Getting the right price

Receiving and following up on purchases



# **Graphic Organizer**

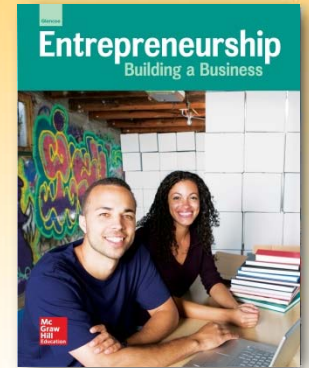
## **Choosing the Right Vendors** **Considerations in Vendor Selection**



SECTION

15.1

# Purchase Planning and Management



## Getting the Right Price

Contact several vendors to find the best price.

A purchase discount, such as a **trade discount**, can affect prices.

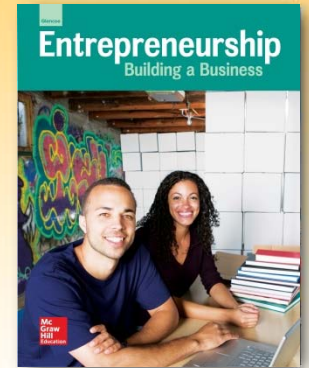
### trade discount

a discount from the list price of an item allowed by a manufacturer or wholesaler to a merchant

SECTION

15.1

# Purchase Planning and Management



## Getting the Right Price

An entrepreneur may be able to take advantage of a **quantity discount** or a **cash discount**.

### cash discount

an amount deducted from the selling price for payment within a specified time period

# Graphic Organizer

## Getting the Right Price

### Dating Terms

Early  
payment

Advance  
dating

Extra dating

End-of-  
month  
(EOM)  
dating

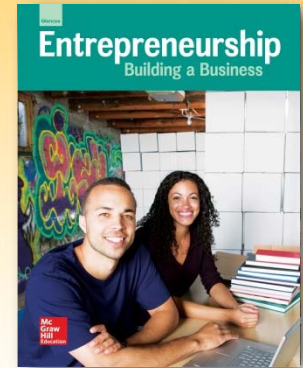
Receipt-of-  
goods  
(ROG)  
dating



SECTION

15.1

# Purchase Planning and Management



## Getting the Right Price

Until you establish a good working relationship, your new vendor may request **secured funds**.

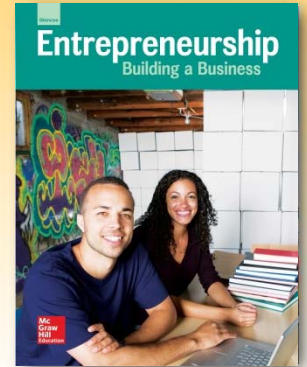
### **secured funds**

a form of guaranteed payment, such as a credit card, a cashier's check, a wire transfer, or cash

## SECTION

## 15.1

# Purchase Planning and Management



## Receiving and Following Up on Purchases

When you receive a shipment from a vendor, it should be accompanied by an **invoice**, indicating size, cost, selling price, and other similar information.

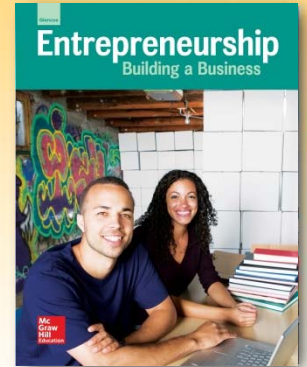
### invoice

an itemized statement of money owed for goods shipped or services rendered

SECTION

15.2

# Inventory Management



## Inventory Management

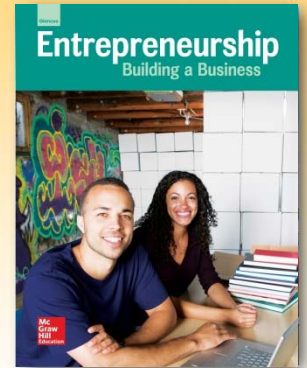
When you keep too much inventory on hand, the cost of inventory can increase by as much as 25 percent. Added costs include:

- financing
- opportunity
- storage
- insurance
- shrinkage
- obsolescence

SECTION

15.2

# Inventory Management



## Inventory Management

**Financing cost** on excess inventory can impact the prices businesses charge customers.

### financing cost

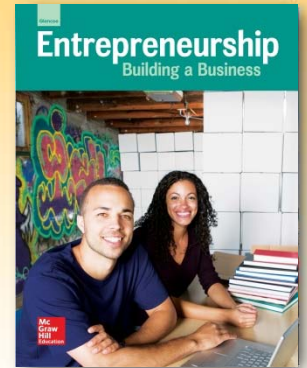
the cost of interest paid to borrow money to purchase inventory



SECTION

15.2

# Inventory Management



## Inventory Management

A business can incur **opportunity cost** and **storage cost** by keeping too much inventory.

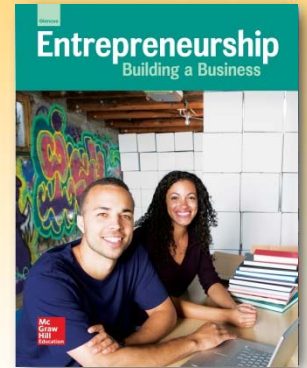
### storage cost

the cost associated with renting or buying space needed to store inventory

SECTION

15.2

# Inventory Management



## Inventory Management

A business with sound inventory procedures can reduce **insurance cost** and **shrinkage cost**.

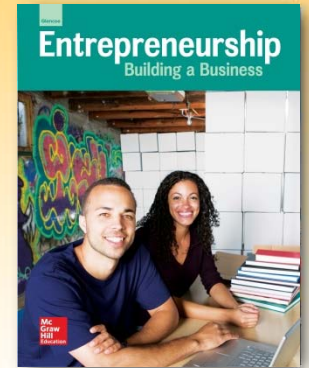
### shrinkage cost

the cost associated with the loss of inventory items that are broken, damaged, spoiled, or stolen

SECTION

15.2

# Inventory Management



## Inventory Management

A business must closely monitor inventory turnover rates in order to control **obsolescence cost** on items that remain in inventory too long.

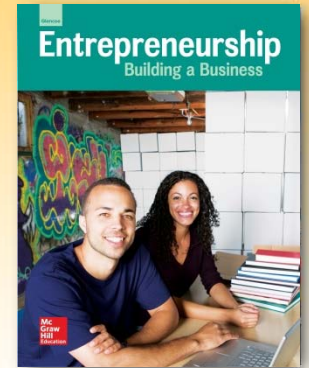
### obsolescence cost

the cost associated with products or materials that become obsolete while in inventory

SECTION

15.2

# Inventory Management



## Planning Inventory

There are two steps involved in determining the amount of inventory you need:

1. Calculate the supply you need.
2. Calculate the inventory investment.



SECTION

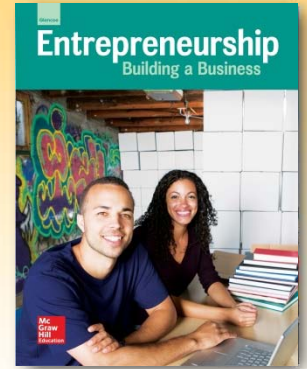
15.2

# Inventory Management

## Inventory Control

Inventory control systems include:

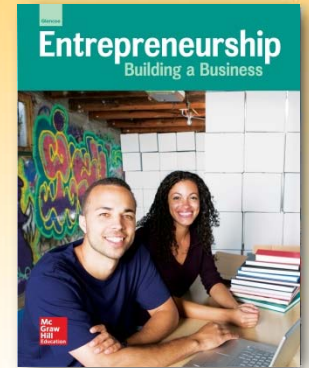
- visual inventory system
- perpetual inventory system
- partial inventory system
- just-in-time (JIT) inventory system



SECTION

15.2

# Inventory Management



## Warehousing

**Warehousing** operations can occur in a dedicated structure or in an assigned space within a structure.

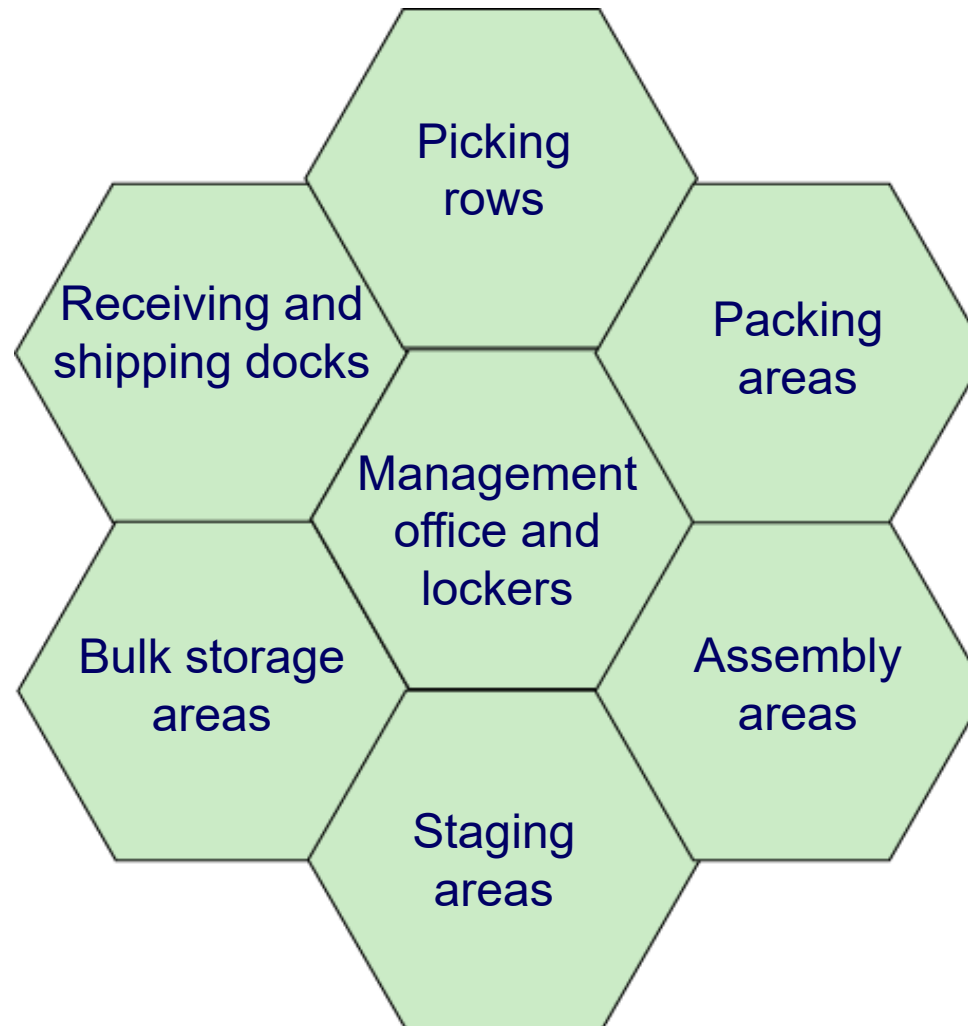
### warehousing

the act of holding and handling goods in a warehouse

# Graphic Organizer

## Warehousing

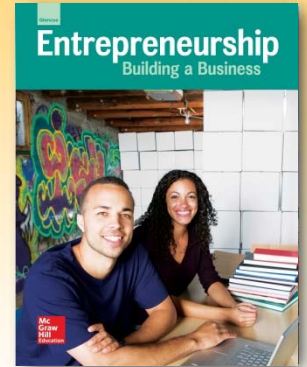
### Warehouse Operations Areas



## SECTION

## 15.2

# Inventory Management



## Reordering

To maintain proper inventory levels, you need to decide when and how much to reorder.

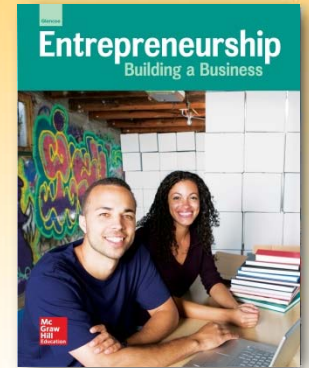
The type of inventory you keep determines which reordering system is best for you:

- periodic reordering
- nonperiodic reordering

SECTION

15.2

# Inventory Management



## Reordering

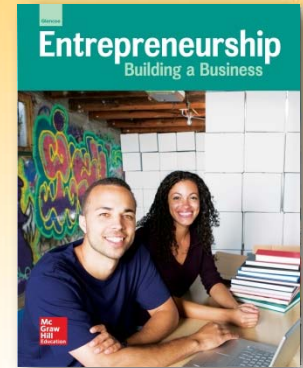
Products or raw materials that are inexpensive, used often, and/or easy to get should be reordered periodically.

A sandwich shop might restock bread daily.

SECTION

15.2

# Inventory Management



## Reordering

**Lead time** must be considered for inventory that is suited to nonperiodic reordering.

### lead time

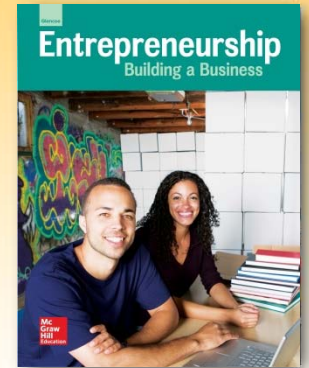
the gap in time between placing an order and receiving delivery



SECTION

15.2

# Inventory Management



## Reordering

When using a nonperiodic reordering system, inventory needs must be projected so that **usage rate** can be calculated and **safety stock** is available.

### safety stock

a cushion of products or materials that prevents a business from running out of inventory while waiting for an order



[illegible][illegible]



2. In Chapter 15, the section on inventory management lists six costs associated with too much inventory. Describe those that relate to George's decision and result.

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3. What might George have done differently in order to have minimized his risk?

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4. What did you learn from George that will be helpful to you as you manage inventory for your business?

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## Chapter 15 Managing Purchasing and Inventory



### Test Prep Matching

**Directions** The following statements are comments you might hear from business owners. Match the letter of the inventory costs in the right column with its corresponding statement in the left column. Answer choices may be used more than once.

- A. financing costs
- B. opportunity costs
- C. storage costs
- D. insurance costs
- E. shrinkage costs
- F. obsolescence costs

1. \_\_\_\_\_ My warehouse roof leaked during the storm and several cases of merchandise were ruined.
2. \_\_\_\_\_ I have such an overload of stock, I had to rent storage units to put it in.
3. \_\_\_\_\_ Merchandise has been disappearing overnight.
4. \_\_\_\_\_ If I could get rid of my dead inventory now, I could get a good deal on a carload of stock.
5. \_\_\_\_\_ I can't just take my chances that nothing will go wrong.
6. \_\_\_\_\_ I have a lot of products to sell, but they are out of date.
7. \_\_\_\_\_ The only thing I can do with these broken materials is just throw them in the garbage.
8. \_\_\_\_\_ The rent just went up on my warehouse.
9. \_\_\_\_\_ My cash flow has gotten tighter since interest rates went up and banks got restrictive about lending.
10. \_\_\_\_\_ The power was out for days and the meat and dairy products went bad.
11. \_\_\_\_\_ No one wants to buy these cell phones since the updated model with gaming capability came out.
12. \_\_\_\_\_ As a fireworks retailer, I pay a lot of money to guard against losses and liability in case of an explosion.
13. \_\_\_\_\_ These billiard tables are popular, but they sure take up a lot of warehouse space.



## True/False

**Directions** Circle the **T** if the statement is true and **F** if the statement is false. If the statement is false, write a correct version on the line below.

14. A guiding principle in determining the quantity to purchase is to buy products or materials that match your competitors' inventory. **T F**

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15. Purchases should be planned to minimize the amount of time that money and storage space are tied up. **T F**

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16. Reliability, distance, and service are factors in choosing a vendor. **T F**

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17. A key concept in buying products or materials is "the lowest price is the best price." **T F**

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18. Purchase discounts, if available, should be weighed into final buying decisions. **T F**

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19. Vendors view late payment for products and materials as an accepted way of doing business. **T F**

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20. Follow-up on purchases includes keeping track of how well the products or materials work out. **T F**

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21. A company can have too little inventory, but they can never have too much. **T F**

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**Entrepreneurship Chapter 15 Study Guide**

*Indicate the answer choice that best completes the statement or answers the question.*

1. Includes products for resale or the materials to create such products.
  - a. inventory      b. vendors
  - c. invoice      d. warehousing
2. This inventory systems shifts most of the inventory chores to the vendor.
  - a. partial inventory system      b. visual inventory system
  - c. perpetual inventory system      d. just-in-time inventory system
3. Money lost when products or materials become obsolete while in inventory.
  - a. obsolescence costs      b. opportunity costs
  - c. storage costs      d. insurance costs
4. Money lost when inventory items are broken, damaged, spoiled, or stolen.
  - a. storage costs      b. financing costs
  - c. obsolescence costs      d. shrinkage costs
5. Involves the operations that are associated with holding and handling goods.
  - a. receiving dock      b. shipping dock
  - c. warehousing      d. bulk storage areas
6. This inventory system compares how much inventory you have on hand with what you want to have on hand.
  - a. partial inventory system      b. visual inventory system
  - c. just-in-time inventory system      d. perpetual inventory system
7. Discounts that vendors give to buyers who place large orders are called
  - a. trade discounts.      b. quantity discounts.
  - c. cash discounts.      d. markdown discounts.
8. When a business receives a shipment, they must check the purchase order against the
  - a. safety stock.      b. warehousing.
  - c. invoice.      d. inventory.

*Enter the appropriate word(s) to complete the statement.*

9. The \_\_\_\_\_ system is a combination of inventory systems.
10. Manufacturers follow up on the \_\_\_\_\_ of materials used to make their products.
11. No matter which inventory control system a business uses, it should always conduct periodic \_\_\_\_\_ counts.
12. The \_\_\_\_\_ system tracks inventory as it is sold and subtracts it from the inventory list.
13. \_\_\_\_\_ procedures are necessary to maintain inventory at a proper level.

Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

### **Entrepreneurship Chapter 15 Study Guide**

14. The purpose of inventory management is to find and maintain \_\_\_\_\_ that are neither too small nor too large.

15. Effective managers follow up on how their purchased \_\_\_\_\_ performs.

16. Retailers and wholesalers follow up on \_\_\_\_\_ and returns.

*Match each item with the correct statement below.*

- a. trade discounts
- b. secured funds
- c. vendors
- d. usage rate
- e. cash discounts
- f. model inventory
- g. safety stock
- h. lead time

17. businesses that provide inventory as opposed to supplies

18. discounts that allow buyers to deduct a percentage from the purchase amount if payment is received by a specified date

19. the cushion of products that keeps a business from running out of inventory while it awaits delivery of an order

20. target inventory of what a business thinks it needs to keep in stock

21. the gap in time between placing an order and receiving the delivery

22. the speed at which inventory is used in a given period of time

23. discounts off suggested retail prices that manufacturers grant to wholesalers and retailers

24. a form of guaranteed payment such as a credit card, cashier's check, wire transfer, or cash

Write a 100-word paragraph that answers the following:

25. Discuss the four systems that businesses use to track their inventory.