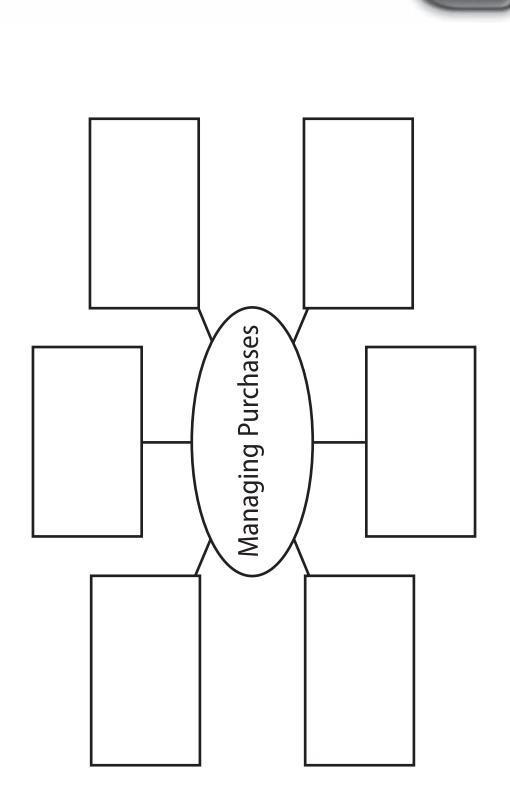
Chapter 15 Vocabulary Write definition and one sentence for each word in notebook.

- 1. Purchasing 2. Model Ir 3. Vendors Model Inventory
- 4. Trade Discount
- Quantity Discount
 Cash Discount
- 7. Secured Funds
- 8. Invoice
- 9. Financing Cost

- 10. Opportunity Cost
 11. Storage Cost
 12. Insurance Cost
- Shrinkage Cost
 Obsolescence Costs
- 15. Warehousing
- 16. Lead Time
- 17. Usage Rate
- 18. Safety Stock

Section 15.1 Purchasing Management

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



Managing Purchasing and Inventory

CHAPTER

15



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

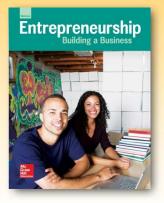
Too Little Inventory	Too Much Inventory



Section (15.1) Purchase Planning and Management



Purchase Planning and Management



Buying Inventory

SECTION

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

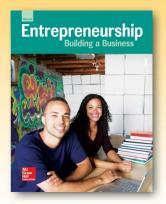
15.1

purchasing

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

SECTION

Purchase Planning and Management



Developing a Model Inventory

15.1

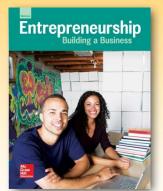
As a beginning entrepreneur, after identifying your inventory needs, it is helpful to set up a **model inventory**.

model inventory

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

SECTION

Purchase Planning and Management



Developing a Model Inventory

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

15.1

vendors

businesses that sell inventory to merchants

Chapter 15 Managing Purchasing and Inventory

Entrepreneurship: Building a Business

Graphic Organizer

Managing Purchases Key Factors That Affect Purchasing

Selecting the right quality

Buying the right quantity

Timing your purchases

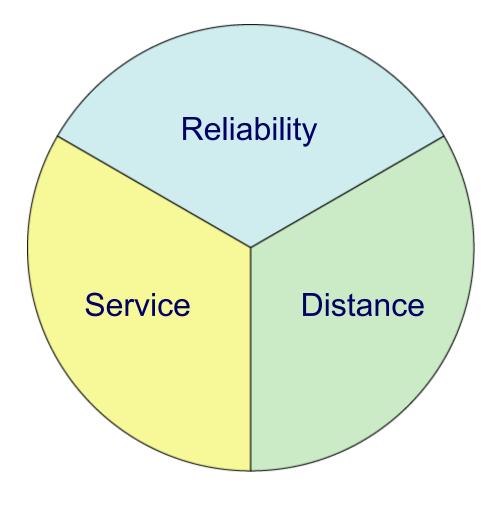
Choosing the right vendors

Getting the right price

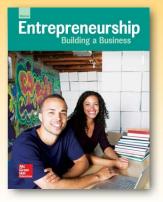
Receiving and following up on purchases



Choosing the Right Vendors Considerations in Vendor Selection



Purchase Planning and Management



Getting the Right Price

15.1

SECTION

Contact several vendors to find the best price.

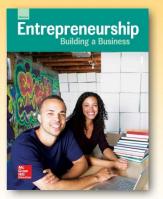
A purchase discount, such as a **trade discount**, can affect prices.

trade discount

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

SECTION

Purchase Planning and Management



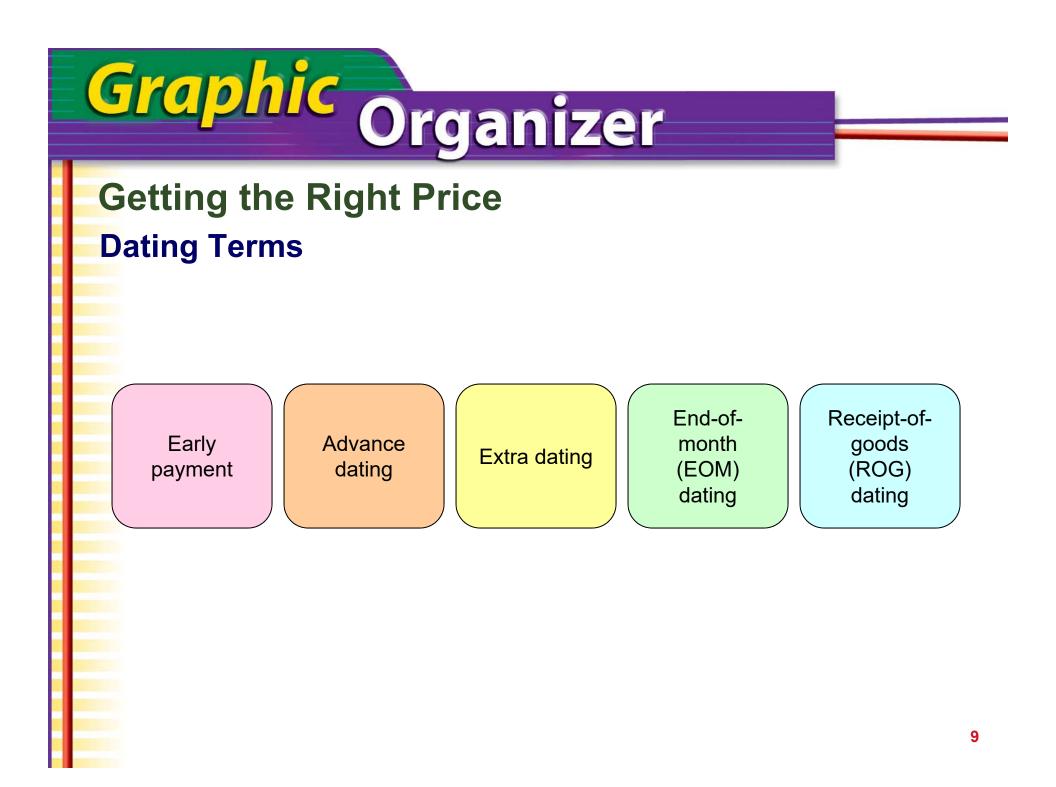
Getting the Right Price

15.1

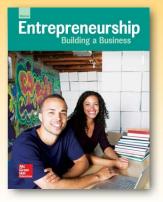
An entrepreneur may be able to take advantage of a **quantity discount** or a **cash discount**.

cash discount

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



Purchase Planning and Management



Getting the Right Price

15.1

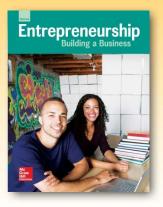
SECTION

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

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.

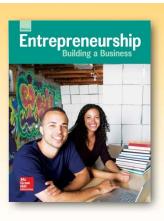
15.1

SECTION

invoice

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

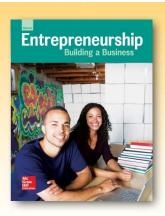




When you keep too much inventory on hand, the cost of inventory can increase by as much as 25 percent. Added costs include:

- financing
- opportunity
- storage

- insurance
- shrinkage
- obsolescence



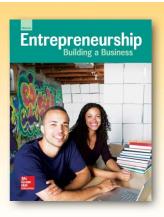
Inventory Management

SECTION

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



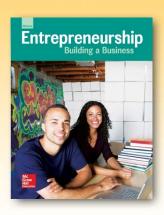
Inventory Management

SECTION

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



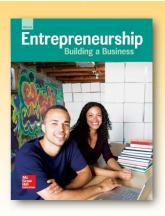
Inventory Management

SECTION

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



Inventory Management

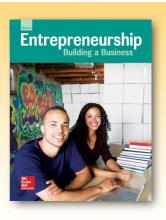
SECTION

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



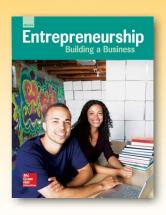


Planning Inventory

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

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

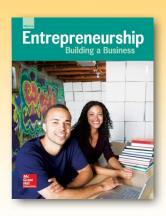




Inventory Control

Inventory control systems include:

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



Warehousing

SECTION

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

15.2

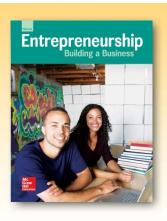
warehousing the act of holding and handling goods in a warehouse

Graphic Organizer



20





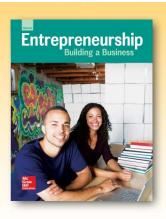
Reordering

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

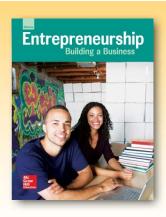




Reordering

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.



Reordering

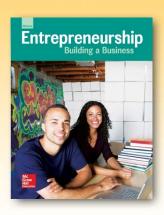
SECTION

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

15.2

lead time

the gap in time between placing an order and receiving delivery



Reordering

SECTION

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

15.2

safety stock

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

Chapter 15 Managing Purchasing and Inventory Section 15.1 Purchasing Management Section Review: Problem Solving

Directions Ever since you opened your convenience store, you have maintained the same practice when vendors come by with your order. You or your employees would check in vendors by the front door. Once checked in, the vendors move the shipment to the store-room while you and your employees resume attending to customers. Admittedly, it is a loose way to run an operation. But the system has worked well and kept the time spent on the process at a minimum.

At least it has worked well up until now. Over the last month, several shipments appeared to be short as stock was taken out to price and put on the shelves.

When you spoke to your employees individually, none of them had any idea what happened to the merchandise. In addition, each insists that he or she was thorough when checking in vendors.

You have never had any reason to doubt your employees. Nonetheless, the one-month time frame coincides very closely with the length of employment of your most recent hire. You are very much inclined to fire this employee as the solution to your problem.

Before you make your final decision, take the time to ask yourself the following questions. Your answers might lead to a different decision. Use the Chapter 15 section on receiving and following up purchases and your experience to guide your thinking.

1. What are all the possible causes of the problem?

Continued on next page

Na	am	ıe
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2. How could you correct each of the situations (other than the option you considered originally)?

3. What is your best course of action? Identify and explain the one or two most useful strategies for solving the problem. Why did you select these solutions?

Chapter 15 Managing Purchasing and Inventory Section 15.2 Inventory Management Section Review: Planning

Directions Old George is a pretty fair mechanic who owns his own shop down in Ohmigosh, where he is best known for being tight with his money. This story might explain why.

Some years ago George heard there was going to be a shortage of engine blocks due to a union disagreement at a major manufacturer. Since George already did a large amount of business rebuilding engines for the local raceway, he doubled his normal inventory. In order to accomplish this, he got a loan from the local bank. This meant that George now was living on a very tight profit margin. But he figured when the shortage hit, the number of customers would increase substantially, and he would really make a profit then.

Now, he also had problems storing the engines. Since his garage was not very big, he had to put some in a back room. He was a bit concerned about security, but he had never had trouble before.

One month following the purchase and delivery of the engine blocks, the raceway announced that it would be closing. George could not believe his ears. He was ruined!

Years later, George is still fixing engines, but he demands cash up front before he will order a part. Not too long ago, he sold (practically gave) the last of those engines to a neighborhood teenager restoring an old car. Yep, old George is tight with a dollar down in Ohmigosh.

1. What mistakes do you think George made that led to his loss?

Continued on next page

Varr	ne	Date	Class
	In Chapter 15, the section on inve much inventory. Describe those t		
3.	What might George have done dif	ferently in order to	have minimized his risk?
	What did you learn from George t your business?	hat will be helpful t	o you as you manage inventory fo

Chapter 15

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.

Chapter 15

Continued on next page

Name	
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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 ΤF buy products or materials that match your competitors' inventory. **15.** Purchases should be planned to minimize the amount of time TF that money and storage spaced are tied up. ΤF **16.** Reliability, distance, and service are factors in choosing a vendor. ΤF **17.** A key concept in buying products or materials is "the lowest price is the best price." TF **18.** Purchase discounts, if available, should be weighed into final buying decisions. ΤF **19.** Vendors view late payment for products and materials as an accepted way of doing business. ΤF **20.** Follow-up on purchases includes keeping track of how well the products or materials work out. ΤF **21.** A company can have too little inventory, but they can never have too much.

Date Class

Chapter 15

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.

13. _____ procedures are necessary to maintain inventory at a proper level.

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

Class:

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.

Name:

Date: