

## Glossary

### **1. Backorder**

A customer order that cannot be filled when presented, and for which the customer is prepared to wait for some time.

### **2. Backorder Costs**

This is the real and perceived costs of the inability to fulfil an order. The costs can include negative customer relations, interest expenses, etc. The costs are typically represented in financial reports on a per-unit basis.

### **3. Demand**

A schedule of how much consumers are willing and able to buy at all possible prices during some time period.

### **4. Economic Order Quantity**

The economic order quantity is the amount of inventory to purchase that balances the cost of placing an order of inventory with the cost of carrying the inventory.

### **5. Inventory**

Inventory is a company's merchandise, raw materials, and finished and unfinished products which have not yet been sold.

### **6. Inventory Carrying Cost**

This is the cost to a business of storing its inventory over a period of time. It includes taxes, insurance, the physical cost of storage, and opportunity cost.

### **7. Order Cost**

Order costs include the expenses involved in placing an order for a quantity of material, but this does not include the actual cost of the material itself.

### **8. Order Cycle Time**

Order cycle time is the period between placing of one set of orders and the next.

### **9. Order Lead Time**

This is the period between placing an order and receiving the ordered item.

### **10. Procurement**

This is the act of obtaining or buying goods and services. The process includes preparation and processing of a demand as well as the end receipt and approval of payment.

**11. Replenish**

Replenish is to fill or make complete again or to add a new stock or supply.

**12. Shortage Costs**

Costs incurred when an item is out of stock; also called stockout costs. These costs include the lost contribution margin (cm) on sales plus lost customer goodwill.

**13. Supply**

A schedule of how much producers are willing and able to sell at all possible prices during some time period.

**14. Surplus**

The situation resulting when the quantity supplied exceeds the quantity demanded of a good or service, usually because the price is for some reason below the equilibrium price in the market.

**15. Trade-off**

Trade-off is giving up some of one thing to get some of another thing.