Frequently Asked Questions

1. What is price discount?

Answer:

Price discount, mean that the suppliers provide inventory at price lower than the per unit price on single item purchase. Price discounting may be an attractive strategy for both supplier and purchaser.

2. What is the benefit of the price discount to supplier?

Answer:

For supplier, the price discount encourages fast movement (or turnover) of inventory to next distribution channel. This, in turn, lowers the carrying cost of supplier.

3. What is the effect of discount on cost?

Answer:

As the discount quantity goes up, the item cost goes down, but the carrying cost increases because the order sizes are large.

4. What do you mean by quantity discount?

Answer:

An incentive offered to a buyer that results in a decreased cost per unit of goods or materials when purchased in greater numbers. A quantity discount is often offered by sellers to entice buyers to purchase in larger quantities.

5. What are the factors to be considered while giving quantity discount? **Answer:**

Quantity discounts are often offered for extremely purchased items; hence it is necessary to evaluate the economic trade-off between the savings in purchase cost and ordering cost and the increased cost of holding inventory.

6. What are the ways in which quantity discount are offered? **Answer:**

Quantity discounts are usually offered in one of the following two ways:

- All units' quantity discounts
- Incremental (or marginal unit) quantity discount

7. What are the assumptions of quantity discount? **Answer:**

The assumptions in quantity discount are:

- Demand is known and constant
- Shortage is allowed
- Replenishment is instantaneous

8. How do we compute the total cost for an EOQ model?

Answer:

We computed the total cost (including the total purchase cost) for the EOQ model as follows:

Total cost = Total ordering cost + Total carrying cost + Total purchase cost.

9. Why calculus method is not used for calculating the total cost? **Answer:**

The total cost curves do not intersect each other because C_i less than C_i -1.Since the total cost curve is discontinuous, therefore, the calculus method for finding minimum value of TC cannot be used.

10. What is the easy method to find optimal order quantity?

Answer:

An easy method to find optimal order quantity, Q^* , which gives the minimum total annual cost TC, is stated below: TC_i^* (Q) is equal to total purchase cost of the item plus total minimum variable inventory cost is equal to DC_i plus TVC* is equal to DC_i plus square root of $2DC_0$ into (r.C_i).

11. What do we mean by one-price break?

Answer:

One-price break is a model where the supplier gives a price break at one quantity level b_1 .

12. What do you mean by two price break?

Answer:

Two price break model where the supplier gives a price break at two quantity level b_1 and b_2 .

13. What are the four steps to analyses the quantity discount model?

Answer:

The four steps are

- 1. Calculating the price for quantity discount
- 2. Identify the quantity level
- 3. Calculate the total cost
- 4. Select the lowest cost level

14. When to order in a continuous inventory review system?

Answer:

When to place an order in a continuous review inventory system is a function of the lead time, or how much time it takes between ordering the units and receiving the units, and the daily demand rate.

15. What are the advantages of quantity discount?

Answer:

The advantage of quantity discount is it helps in reducing production cost, selling cost, increase consumption, increase the manufacturers profit and reduce the consumer's price.