INVENTORY TERMS & WAREHOUSE TERMINOLOGY

[CHEAT SHEET]

SHIPPING TERMINOLOGY

Freight Forwarder

A freight forwarder is a company responsible for coordinating the shipment of goods from one location to another, using single or multiple carriers via air, rail, marine or highway. Freight forwarding companies ship product on behalf of their customers and are experts in the efficient and cost-effective transportation of goods. They take responsibility for maintaining the condition of goods and making sure that product arrives at the right place on time. Freight forwarders will also negotiate with other members of the supply chain including customs, and are also responsible for managing the risk associated with moving products.

LTL Freight (Less Than Truckload)

An LTL shipment or LTL freight is the transportation of relatively small freight in which the entire shipment from one company is not large enough to take up an entire truck. In this situation, the company shipping the product only pays for the space in the truck that gets filled by that shipment, leaving the rest of the truck empty to be filled by other shipments from other companies. LTL shipments are a great option for smaller shipments with long lead times as the shipments typically take longer to arrive at the destination due to the combination of multiple shipments onboard and therefore frequent stops.

FTL Freight (Full Truckload)

An FTL shipment or FTL freight is a shipment that takes up an entire truck by itself. This is usually reserved for shipping multiple pallets of products or larger items. Since the truck is filled with only shipments from one business, the time it takes to get the product to the customer may be quicker, and the product stays on the truck the entire time which reduces the risk of damage. Even if you aren't able to fill an entire truck with your shipment, this option is beneficial for high-risk shipments.

JIT (Just In Time)

Just In Time is a strategy that applies to a variety of industries and processes. For certain customers, it often applies to the receipt of inventory or raw materials from suppliers just in time to align with production schedules, orders and shipping requirements. Also known as Stockless Purchasing, JIT adheres to a set of practices where a supplier holds the items ordered by the customer in its warehouse and slowly releases them as required by the customer. This strategy aims to increase efficiencies and decrease the costs associated with holding inventory. JIT only works if the entire supply chain is aligned to ensure product is ordered, shipped and received exactly when needed.

TERMINOLOGY AROUND COSTS

Landed Costs

Landed costs are the costs incurred with getting product from your supplier/manufacturer into your warehouse, not including the cost of the good itself. At a minimum, landed costs typically include insurance costs, storage costs, purchasing agency commissions, regulatory fees, freight costs and import costs. It is important to track and accurately associate landed costs with inventory items to track total costs and determine product pricing.

Rate Shopping

Rate shopping is the process of comparing costs across multiple solutions. For example, rate shopping can apply to comparing the costs of using different carriers when shipping products. Some inventory management software providers will include functionality that allows customers to easily and quickly compare shipping costs for multiple carriers on any given package or shipment to determine the best shipping method. Even if a business has a good relationship with existing carriers, you may be able to benefit from significant cost savings by comparing rates.

WAREHOUSE TERMINOLOGY

Virtual Warehouse

A virtual warehouse allows inventory to be physically housed anywhere – including at a distribution centre, temporary facility, within a specific section of an existing warehouse etc. - and then tracked and accounted for in warehouse management software as its own “warehouse” location. There are a variety of benefits to setting up a virtual warehouse, including the ability to separately track and manage inventory (such as B2C eCommerce inventory) from within the same physical location as inventory for wholesale (B2B) customers.

3PL Logistics

A 3PL logistics company is a 3rd party business that allows a company to outsource specific elements of inventory management and the supply chain. Depending on the 3PL in question, they may provide different services including management of all distribution activities, warehousing, fulfilment and shipping services. Working with a 3PL is beneficial to smaller businesses with limited resources and makes it easy to sell products to customers in other geographic locations by working with a 3PL in that region.

Cross-Docking

Cross-docking is a strategy for warehouse management where employees unload inventory/product from an incoming shipment during the receipt process and then load that material directly onto outbound trucks for shipment to customers – with little to no storage in between. Cross-docking is designed for specific warehouse operations, such as when dealing with time-sensitive and perishable inventory as it allows the product to get to the customers faster.

Non-Stocking Locations
Non-stocking locations are flow-through points for inventory that do not hold any inventory. An example of a non-stocking location is cross-docking. Where employees unload inventory/product from an incoming shipment during the receipt process and then load that material directly onto outbound trucks for shipment to customers – with little to no storage in between.

Reverse Logistics/Reverse Supply Chain
Reverse logistics is essentially managing product returns and relates to the movement of goods from the customer back to the vendor. This process also applies to sending an unsold product back to the manufacturer to be taken apart, sorted, reassembled or recycled. Utilizing efficient reverse logistics strategies minimizes inventory holding costs and improves the RMA process.

RMA (Return Merchandise Authorization)
RMA or Return Merchandise Authorization is the process for dealing with customer returns. It is important to track and manage the RMA process as it provides businesses with better insight into what products are being returned the most and why, and if the return process is easy and intuitive for customers (without making it so easy that it encourages returns). Efficient RMA processes improve customer satisfaction and retention by helping businesses pay more attention to faulty goods and repairs of merchandise.

Bin and Shelf Locations
Bin and shelf locations refer to the designated physical space in a warehouse or facility where inventory is kept. Having properly labelled bin locations per product or groups of products helps keep your warehouse organized and makes the put-away and picking process more efficient. Bin locations can be based on types of products such as finished goods, raw materials, heavy items or fragile items, based on storage requirements such as cold storage, or based on order patterns such as fast-moving items. With properly labelled bin and shelf locations, warehouse employees can easily find products and keep the warehouse organized.

Cycle Counting

Cycle counting involves regularly counting a small subset of inventory at a specific warehouse location on a specific day, to count through your entire inventory over a period of time and then repeating regularly. Cycle counting is a tool for monitoring variances in inventory to make sure that the information you have about inventory availability in your systems matches what you physically have in your warehouse. While some variance in these two numbers is expected, large variances can indicate broader issues such as unreliable systems, bad processes or employee theft. The benefits of cycle counting are that they are less disruptive to daily operations vs. a full count of all inventory items and they allow you to catch any issues promptly.

First In, First Out (FIFO)

FIFO stands for First In, First Out and refers to a method of inventory management and accounting that assumes that the first items received into inventory will be the first items sold and shipped out of inventory. This means that the oldest items received in your warehouse are the first items to be picked, packed and shipped. This is especially useful for businesses that deal with inventory items that have a limited shelf life as it allows the business to sell items according to the earliest expiration date and helps deal with obsolescence. For accounting purposes, the FIFO method provides a view of the cost of an item based on its timeline, or the price paid at the time of purchase.

Last In, First Out (LIFO)

LIFO stands for Last In, First Out and refers to a method of inventory management and accounting where the most recent (or last items) received into inventory will be the first items sold and shipped out of inventory. This method is frequently used in the Cost of Goods Sold calculation (COGS) when the costs of goods are rising. It allows a company to record the cost of the most recently purchased items (which are typically more expensive) as the COGS. While this may decrease the profits for a business, it can result in less corporate tax a company has to pay.

Reorder Point

The reorder point in inventory management is the level of inventory which triggers an action to replenish that particular inventory stock. Reorder point takes into account lead times (how long it will take a new product to arrive) and is based on minimum inventory levels.

Lead Time Management

Lead time management refers to the process of tracking the time from when inventory leaves the supplier/manufacturer to when it is supposed to arrive at the wholesaler or distributor. Lead time management takes into account the mode of transportation (such as air vs. ground) and is a key performance indicator (KPI) for supply chain management to help identify any inefficiencies in the supply chain. Proper lead time management also helps with customer service as it allows you to provide your customers with an accurate idea of when they will be receiving a shipment of goods.

Minimum Inventory Levels

Minimum inventory levels are the lowest amount of a product that you can have in stock and still be able to fulfil customer orders. This number is based on historical data, lead times and expected demand. It also prevents you from keeping too much inventory on hand and incurring those costs.

Maximum Inventory Levels

Opposite to minimum inventory levels is the maximum inventory level. This is the most amount of product you would want to have on hand for a SKU to meet demand. Maximum inventory levels help prevent overstocking which can lead to obsolete inventory and incur storage costs.

Safety Stock

As the name suggests, safety stock is like an emergency fund of inventory. Keeping safety stock allows you to continue to sell products and ship orders if your supply chain is disrupted or your inventory gets damaged.