

Section-2

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What is the difference b/w Ordering Cost and Carrying Cost?

Ordering Cost :-

1→ Time Spent finding Suppliers and expediting ~~Cost~~ Orders

2→ Clerical Costs of preparing purchase Orders

3→ Transportation Costs

4→ Receipt of Inwards goods, unloading, inspection and Transfer.

5→ One or many people are responsible for sourcing product, processing order and paying accounts

6→ Cost of procurement and inbound logistics cost form a part of Ordering cost.

7→ Ordering cost is dependent and varies based on two factors.

The cost of Ordering excess and the cost of ordering too less.

8. Both these factors move in opposite directions to each other. Ordering excess quantity will result in carrying cost of inventory. Where as ordering less will result in increase of replenishment cost and ordering cost.

9. These both cost together are called total stocking cost. If you plot the order quantity vs the TSC you will see the graph decline gradually.

10. This functional analysis and cost implication form the basis of determining the inventory procurement decision by answering the two basic fundamental:
How much to order and when to order

Carrying cost →

- 1 → Financing expenses.
- 2 → The cost of storage space & warehousing
- 3 → Security, which may include security restricted
- 4 → Insurance against theft, loss or damage
- 5 → Opportunity cost - Capital tied up in inventory that could be spent.
- 6 → Deterioration theft, spoilage
- 7 → Building rent & warehousing expenses including overheads such as electricity, temperature cost
- 8 → In carrying cost maintainance various types of cost.
 - 1 → Inventory storage cost
 - → Cost of Capital