



Operational ERP Terms for Inventory Success



Essential terms for distribution, manufacturing, and wholesale professionals.

Your complete guide to all things Operational ERP

If your business is operating in the world of distribution and manufacturing software, there's lots of industry jargon that can trip you up. Whether coordinating drop shipping with other companies or simply streamlining your order processing, unfamiliar or unclear terms can slow anyone down.

So whether you're a seasoned professional in the distribution and manufacturing world, you're just starting out with your own business, or you're trying to help other team members understand these industry terms — the following definitions will bring you up to speed on everything from order processing to route planning.



BASIC ERP DEFINITIONS

Enterprise resource planning, or ERP, is the management of almost all the processes it takes to run a business. ERP can include human resources, marketing, inventory, order processing, sales and many other processes.

ERP software can specialize in different aspects of ERP, such as human resources management versus inventory management.

Customer Relationship Management (CRM)

Customer Relationship Management is the way businesses manage and analyze customer interactions and data throughout the sales lifecycle. The goal of CRM is to improve customer relationships, assist in customer retention, and drive sales growth.

Electronic Data Interchange (EDI)

Electronic Data Interchange allows a company to electronically send item information to an online retailer and to send order information from an online retailer to the company fulfilling the order. EDI allows businesses to sell their products through the online stores of big-box retailers such as Walmart, Target, and Best Buy.

▶ **WATCH:** Learn more about how EDI works with [SalesPad EDI | Integrated Product Fulfillment. Simplified.](#)

Inventory Management

Inventory management is the way a business supervises stock items, including the varied movement of raw materials and finished goods from vendors to warehouses, and from these facilities to the point of sale. Inventory management helps businesses control ordering, handle quantities, manage pricing, and storing of goods. A successful inventory management plan can ensure that goods are readily available upon request.

Multi-channel

Multi-channel refers to the different ways a company can interact with a potential customer on various platforms, including print, retail store, website, event, packaging, or word-of-mouth.

Omnichannel

Omnichannel refers to the way consumers engage with a company through different methods of shopping and contributes to the consumer's experience with a business. Omnichannel allows the customer to shop online (via desktop or mobile device), in store, or on the phone.

▶ **WATCH: Omnichannel Retail 101**, a complete guide to customer-focused, multi-channel retail from SPS Commerce.

Operational Enterprise Resource Planning (ERP)

SalesPad's brand of ERP is a little different than the traditional sense, and thus, we have coined the term Operational ERP. Distinct from the traditional definition of ERP, operational ERP is business management software that focuses focusing on the core functionality utilized by distribution and manufacturing companies — inventory management, purchasing, and order processing.

Operational ERP solutions leave the other ERP tasks of accounting, human resources, and marketing automation to integration partners — other companies and software who provide their own ERP specialities.



BASIC ERP DEFINITIONS

Order Processing

Order processing, or sales workflow, refers to the flow of an order. In a nutshell, taking an order from a customer, sending that order to be fulfilled (picking and packing), and then shipping it out. Basically, it's the movement of an order from initiation to completion.

Purchasing

Purchasing simply refers to buying goods from vendors in order to stock inventory at your facility. Generally, you can't sell inventory you don't have.

Workflow

Workflow is the defined path a document (sales order, purchase order, quote, invoice, sales receipt, return, refund) moves through until it is considered completed. This path includes different batches or queues that represent each stage in the workflow process. By establishing a clearly defined path for each document and specifying rules which must be met in order for documents to move between batches, errors are reduced, efficiency is increased, and a checks-and-balances system is created. Workflows are even better when automated (as much as possible).

ORDER PROCESSING AND PURCHASING TERMS

Order processing and purchasing is the everyday ebb and flow of items between sellers and buyers. While purchasing has more to do with the tangible products (and keeping those products in stock), order processing usually takes place via software systems.

Ideally, a business' order processing workflow is streamlined, automated and paperless.

Did you know?

Experts predict that by 2022 ecommerce will make up **17%** of all U.S. retail sales.

**Forrester report cited in an August 2017 story by Business Insider.*

PURCHASING TERMS

Backorder

A backorder occurs when an order is placed for a product that is temporarily out of stock. In most cases, a purchase order has gone out to the vendor to replenish said stock and (hopefully!) fulfill backorders.

Blind Shipping

Blind shipping is the vendor's role in the drop shipping process. You might also hear it referred to as a blind drop ship. In an effort to conceal that the product was shipped from a third-party vendor and not from the seller, the third party's information is removed from the shipping label and any documents that will accompany

the shipment and replaced by the seller's information. The customer is then "blind" to who actually fulfilled their order.

 **READ:** Learn more about blind shipping with **"What is Blind Shipping and Double Blind Shipping?"**



ORDER PROCESSING AND PURCHASING TERMS

Drop Shipping

Drop shipping is an order fulfillment method in which a company enlists a third-party vendor to ship the order directly to the customer, rather than keeping the inventory in stock.

 **READ:** Learn more about drop shipping with [What is Drop Shipping?](#)

Lead Time

The estimated amount of time that passes between sending a purchase order to a vendor and receiving the goods is called the lead time. It is very important to consider lead time when determining restocking strategies.

 **READ:** Learn about purchasing best practices with [Be Prepared: Purchasing and Restocking Strategies to Help You Maintain Inventory Control.](#)

Purchase Order (PO)

A request to purchase goods, a purchase order is a commercial document and the first official offer issued by a buyer to a seller, indicating types, quantities, and agreed prices for products or services.

Reorder Point

A reorder point is an inventory quantity that, once your inventory reaches this point, alerts you that it's time to create purchase order(s) to restock the inventory.

Vendor

Also known as a supplier, a vendor is a party in the supply chain that makes goods and services available to companies or consumers.

ORDER PROCESSING TERMS

Counter Sales

In many cases, counter sales and point of sale can be used interchangeably. At SalesPad, we define counter sales as an in-person transaction in a non-traditional retail environment, such as a walk-in customer to a large warehouse.

Document Splitting

Document splitting allows you to process an order even without all the needed inventory items on hand. Splitting fulfillment into separate workflows allows the part of the order that you currently have in stock to be completed immediately, while the remainder waits on backordered items to be received, processed, and shipped.

Ecommerce

Also known as online shopping, ecommerce refers to goods and services being marketed and sold over the Internet.

EMV chip/pin

Up until recently, swiping the magnetic strip on your credit card and providing a signature was used to validate card-present transactions. However, that was deemed insecure and prone to fraud. Today, a new, more secure method of validation is being implemented: the EMV chip and pin. The EMV chip is that small, metallic square you see on new credit cards, and instead of a signature, customers enter a 4-6 digit pin number.

This transition came with a shift in fraud liability. Before the switch, the fraud liability was almost always on the card issuer, no matter what. Now, the merchant must have a card swiper with EMV chip reader. If they don't, they will held liable for fraudulent purchases that happen in their store.

Invoice

Similar to a sales order, an invoice is an itemized list of goods purchased or services rendered and the dollar amount owed for those goods or services. The invoice is sent to the customer after the goods have already been exchanged.

PCI Compliance

PCI compliance is adherence to the set of policies and procedures developed to protect credit, debit, and cash card transactions and to prevent the misuse of cardholders' personal information. It applies to all companies that accept, process, store, or transmit credit card information.



ORDER PROCESSING AND PURCHASING TERMS

Point of Sale

The time and place at which a retail transaction is completed is called the point of sale. More specifically, a point-of-sale system refers to the combination of software and hardware that retailers use to process a customer in-person. When you are at your favorite clothing store and the cashier scans your items, swipes your credit card, and hands you a receipt, they're using a point-of-sale system.

Quote

A quote is an estimated cost of goods or services that is sent to a customer for review. Once approved, a quote can turn into either an order or an invoice.

Sales Order

Also known simply as an order, a sales order is an itemized list of goods purchased, used internally to fulfill an order. When payment on an order isn't immediate and goods are shipped without payment, a sales order turns into an invoice.

Smart Printing

Smart printing is the ability to automatically print a document based on its movement within your workflow. For example, you might choose to have a pick ticket automatically printed in your warehouse every time an order has been approved and is ready to pick, pack, and ship.

SOP to POP

SOP (sales order processing) to POP (purchase order processing) refers to a link between a sales order and a purchase order. SOP to POP allows you to purchase items that you want to sell but don't currently have on-hand, and it ensures that your purchased items are tied to the correct sales orders. SOP to POP covers your bases when you're experiencing item shortages but customers are seeking to buy those same items from you.

INVENTORY AND SUPPLY CHAIN TERMS

Inventory and supply chain management can seem like the “nuts and bolts” of warehousing and manufacturing. After all, this is where items are “kitted” after purchase or delivered using route planning.

Assemblies

An assembly is an end item composed of parts or subassemblies meant to serve a particular function. Assemblies can be “disassembled” without necessarily being rendered unusable or destroyed.

Barcoding

Barcoding is the the most common form of automatic identification used in automatic data-capture technologies. This means, by using barcodes, computers systems are able to capture data about items and products without human involvement. Barcodes track virtually everything — from retail goods to medical records, and machinery to human beings.

Bill of Materials (BOM)

A bill of materials, or BOM, is a list of everything needed to manufacture an end product. Think of a BOM as a recipe — it includes the raw materials, components, and processes needed to complete the end product, as well as partially completed parts that will later be integrated into the whole of the end product.



INVENTORY AND SUPPLY CHAIN TERMS

Cycle Counts

Cycle counting is a way to audit inventory by counting a small batch of inventory, rather than the entire inventory.

Demand Planning

Demand planning lives up to its name — it's a supply chain management process used to predict changing levels of demand for a product. Demand planning allows you to better align your inventory with demand, therefore increasing profits.

Equipment Tracking

Equipment tracking refers to the method of tracking physical assets (such as inventory and products), either by scanning barcode labels attached to the assets or by using tags with GPS, BLE, or RFID which broadcast their location.

Inventory Adjustments

Inventory adjustments must be made when there are increases or decreases in inventory because of theft, loss, damage, or errors in the amount of items received.

Kitting

Kitting is when individual items are packaged or made available as a group or “kit” to customers. Kitting is typically done at the time of sale, unlike assemblies.

Order Fulfillment

Order fulfillment is everything a company does between receiving an order from a customer (the point of sale) and placing the product in the customer's hands.

LIFO

LIFO, or “Last-in, First-out,” is an accounting method of valuing inventory which assumes that the last items purchased are the first sold.

Manufacturing

Manufacturing, simply put, is turning raw materials or parts into a finished product to be sold. Manufacturing typically uses a combination of man and machine efforts on a large scale to produce goods.

Receiving

Receiving is an administrative function that involves checking of the quality, quantity, and condition of the incoming goods, and followed by their proper storage.

Route Planning and Dispatch

Route planning involves the planning of routes and schedules for transporting goods. Dispatch is the actual assigning of drivers to routes, and managing the drivers and vehicles to ensure that orders are met and goods are delivered.

Serial/Lot Tracking

Serial or lot tracking is the process of tracking numbers assigned to products from receiving to final sale. Lot, or batch, numbers can be assigned to groups of products. For example, all the apples picked on a certain day at an orchard will go into the same bucket, or lot. All the apples will be labeled with the lot number from their respective buckets. On the other hand, serial numbers are more unique — no two products will have the same serial number. Serial numbers can be used to track warranties or other services that involve individual items or products.

A LAST WORD

So, there you have it — common terms you hear thrown around on a daily basis, not just in manufacturing and warehousing, but in almost any field related to retail or supply chains or distribution.

You get the idea.

All these processes and tools are pretty interconnected. Whether you're working in customer service, warehouse management or sales (and if you're a small business owner, you might be doing all of these things!), knowing these industry terms will help you have a well-rounded picture of your business.





We know the ground level terms because we've been there. Built from a partnership between a small business owner and a developer, SalesPad knows ERP. It's why we exist, and why more than 15,000 people trust SalesPad to manage their distribution operations.

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SalesPad Cloud is an all-in-one, easy-to-use application which combines your inventory, sales, and purchasing operations across any number of locations into one centralized platform.

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