



# Certified in Logistics, Transportation and Distribution

Inventory Costs





# CLTD On-Demand Training for Self-Study Professionals

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# **Inventory Costs**

## **1. Definition of Inventory Costs**

Inventory costs are all expenses associated with acquiring, holding, and managing inventory. They include purchase costs, carrying costs, ordering costs, stockout costs, and obsolescence costs. Understanding inventory costs is critical for balancing operational efficiency with financial performance and ensuring effective supply chain management.

## **2. Carrying (Holding) Costs**

Carrying costs are expenses incurred to store inventory, including warehousing, insurance, depreciation, taxes, and obsolescence. High carrying costs reduce profitability. Mastery involves calculating, monitoring, and optimizing stock levels to maintain service while controlling costs.

## **3. Ordering Costs**

Ordering costs are incurred when placing and receiving orders, including administrative expenses, supplier fees, and transportation setup. Efficient order management reduces these costs. Understanding the balance between ordering frequency and inventory levels helps minimize total inventory cost.

## **4. Stockout Costs**

Stockout costs occur when demand cannot be met due to insufficient inventory. They include lost sales, backorder handling, expedited shipping, and customer dissatisfaction. Mastery involves maintaining adequate safety stock to prevent service failures while minimizing excess inventory.

## **5. Purchase Costs**

Purchase costs are the direct expenses of acquiring inventory from suppliers, including unit price, shipping, taxes, and duties. Optimizing purchase quantities, negotiating prices, and leveraging bulk discounts reduce overall procurement costs.

## **6. Obsolescence Costs**

Obsolescence costs occur when inventory becomes outdated or unsellable due to product changes, expiration, or demand shifts. Mastery requires effective forecasting, inventory rotation, and timely clearance strategies to reduce financial losses.

## **7. Depreciation Costs**

Depreciation costs apply to inventory items whose value decreases over time, such as electronics or perishables. Accurate tracking and rotation strategies minimize financial loss and maintain asset value.

## **8. Insurance Costs**

Inventory insurance protects against loss, damage, or theft. Premiums are a component of carrying costs. Mastery involves balancing adequate coverage with cost-efficiency, particularly for high-value or high-risk inventory items.

## **9. Warehousing Costs**

Warehousing costs include rent, utilities, labor, equipment, and maintenance. Efficient warehouse design and operations reduce these costs while supporting timely inbound and outbound logistics. Understanding these costs supports lean inventory strategies.

## **10. Handling and Labor Costs**

Handling costs arise from moving, picking, packing, and storing inventory. Labor-intensive operations increase costs. Mastery involves optimizing warehouse layout, automation, and process efficiency to minimize handling expenses.

## **11. Financing Costs**

Financing costs include the interest or opportunity cost of capital tied up in inventory. Reducing excess inventory or optimizing reorder quantities improves cash flow and financial performance.

## **12. Transportation Costs**

Transportation costs occur when moving inventory between suppliers, warehouses, or customers. Efficient routing, consolidation, and carrier selection minimize costs while ensuring timely delivery.

## **13. Shrinkage Costs**

Shrinkage costs result from inventory loss due to theft, damage, or administrative errors. Accurate tracking, security measures, and periodic audits reduce shrinkage and its financial impact.

## **14. Opportunity Costs**

Opportunity costs reflect the value of alternative investments foregone by holding inventory. Excess inventory ties up capital that could be used elsewhere. Mastery ensures inventory levels are balanced against broader financial objectives.

## **15. Spoilage Costs**

Spoilage costs occur when perishable goods exceed shelf life or quality standards. Proper inventory rotation, storage conditions, and demand forecasting minimize spoilage and financial loss.

## **16. Administrative Costs**

Administrative costs include record-keeping, inventory reconciliation, reporting, and IT system management. Streamlining administrative tasks through automation reduces cost while maintaining accuracy and compliance.

## **17. Safety Stock Costs**

Maintaining safety stock incurs additional carrying costs but prevents stockouts. Mastery involves calculating optimal safety stock levels to balance service levels with cost efficiency.

## **18. Cycle Stock Costs**

Cycle stock costs are associated with maintaining inventory to meet regular demand during replenishment cycles. Efficient order quantities minimize these costs without risking stockouts.

## **19. Total Inventory Cost Optimization**

Optimizing total inventory cost involves balancing purchase, ordering, carrying, and stockout costs. Techniques like EOQ, ROP, and ABC analysis help achieve a cost-effective inventory strategy while maintaining service levels.

## **20. Continuous Monitoring and Improvement**

Regularly reviewing inventory cost components identifies inefficiencies and cost-saving opportunities. Continuous improvement, Lean, and Six Sigma principles ensure sustainable cost management and enhanced supply chain performance.

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# Micro-Learning Programs in Supply Chain Management & Procurement



Enhance your professional edge with Fhyzics Business Consultants' Micro-Learning Programs in Supply Chain Management and Procurement. Designed as focused, two-hour Executive Development Programs, these sessions deliver practical insights and tools to solve real-world business challenges. Conducted in small batches for personalized learning, participants gain a deeper understanding of key supply chain and procurement strategies that drive efficiency and profitability. Each participant receives a certificate of completion, adding value to their professional profile and career growth. Whether you aim to advance in your current role or explore new opportunities, this program equips you with the knowledge and confidence to excel.





# Micro-Learning Programs in Supply Chain Management



1. Fundamentals of Supply Chain Management
2. Supply Chain Planning and Optimization
3. Demand Forecasting Techniques
4. Inventory Control and Management
5. Distribution and Logistics Strategy
6. Warehouse Layout and Operations Efficiency
7. Supply Chain Risk Management
8. Supply Chain Performance Metrics (KPIs)
9. Lean Supply Chain Practices
10. Agile and Responsive Supply Chains
11. Sales and Operations Planning (S&OP)
12. Supply Chain Network Design
13. Supply Chain Digital Transformation
14. AI and Data Analytics in Supply Chain
15. Supply Chain Sustainability and Green Logistics
16. Reverse Logistics and Returns Management
17. Supply Chain Collaboration and Integration
18. Supplier Relationship Management in SCM
19. Global Supply Chain Strategy
20. Transportation Management Systems (TMS)
21. Inventory Optimization Models
22. Demand-Driven MRP (DDMRP) Concepts
23. Blockchain Applications in Supply Chain
24. Supply Chain Cost Reduction Techniques
25. SCOR Model and Process Improvement

# Micro-Learning Programs in Supply Chain Management ...



26. Capacity Planning and Resource Allocation
27. Managing Supply Chain Disruptions
28. End-to-End Supply Chain Visibility
29. Cold Chain Logistics Management
30. Supply Chain Compliance and Ethics
31. Import–Export Procedures and Documentation
32. Managing Third-Party Logistics (3PL) Providers
33. Supply Chain Collaboration Technologies
34. Production Planning and Scheduling
35. Strategic Supply Chain Design Using Case Studies
36. Circular Economy in Supply Chain
37. Vendor-Managed Inventory (VMI)
38. Transportation Optimization Techniques
39. E-Commerce Supply Chain Models
40. Omni-Channel Fulfillment Strategies
41. Warehouse Automation and Robotics
42. SCOR DS Roadmap for Supply Chain Excellence
43. Customer-Centric Supply Chain Strategies
44. Supply Chain Finance and Working Capital Management
45. Supply Chain Data Visualization Using Power BI
46. Strategic Sourcing in Supply Chain Context
47. Supply Chain Benchmarking and Best Practices
48. Integrated Business Planning (IBP)
49. Supply Chain in Crisis Management and Recovery
50. Future Trends and Technologies in Supply Chain

# Micro-Learning Programs in Procurement



1. Fundamentals of Procurement Management
2. Strategic Sourcing and Category Management
3. Supplier Selection and Evaluation
4. Contract Management Essentials
5. Cost and Price Analysis in Procurement
6. Negotiation Strategies for Procurement Professionals
7. E-Procurement and Digital Tools
8. Procurement Planning and Budgeting
9. Risk Management in Procurement
10. Supplier Relationship and Performance Management
11. Sustainable and Ethical Procurement
12. Total Cost of Ownership (TCO) Analysis
13. Make-or-Buy Decision Frameworks
14. Procurement Policies and Governance
15. Procurement in Public vs. Private Sectors
16. Procurement Audit and Compliance
17. Procurement Data Analytics and Reporting
18. Procurement Scorecards and KPIs
19. Strategic Supplier Partnerships
20. Category Strategy Development
21. Managing Global and Offshore Procurement
22. Negotiation Simulation Workshop
23. Contract Law for Procurement Managers
24. Cost Reduction Strategies in Procurement
25. Supplier Risk Assessment Models

# Micro-Learning Programs in Procurement ...



26. Procurement Process Mapping and Improvement
27. Procurement Automation and AI Applications
28. Managing Procurement Teams Effectively
29. Procurement Ethics and Transparency
30. Procurement in the Digital Supply Chain
31. Vendor Consolidation Strategies
32. Spend Analysis and Optimization
33. Demand Forecasting for Procurement
34. E-Auction and Reverse Bidding Techniques
35. Inventory and Procurement Alignment
36. Procurement in Project-Based Organizations
37. Supplier Onboarding and Development
38. Procurement Market Intelligence
39. Measuring Supplier Innovation
40. Procurement in Times of Supply Disruption
41. Cross-Functional Collaboration in Procurement
42. Writing Effective RFPs, RFQs, and RFIs
43. Contract Negotiation Best Practices
44. Green Procurement and Circular Economy
45. Legal Aspects of Procurement Contracts
46. Performance-Based Contracting
47. Procurement Leadership and Strategic Influence
48. Cost Avoidance and Value Creation in Procurement
49. Managing Procurement with Power BI Dashboards
50. Future Skills and Trends in Procurement





## Fhyzics Business Consultants Pvt. Ltd.

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