

Glossary of key terms

aged creditors report The amount owed by creditors, or accounts payable, classified by age of debt.

aged debtors report The amount owed by debtors, or accounts receivable, classified by age of debt.

algorithm A process or set of rules used for a mathematical calculation.

BACS (bankers automated clearing services) An electronic bulk clearing system generally used by banks and building societies for low-value and/or repetitive items such as standing orders, direct debits and automated credits such as salary payments.

cleared funds Cleared funds are funds that have actually been cleared through the banking system and are available for use. It is the cleared funds balance, if overdrawn, which is used to calculate overdraft interest.

cycle count The process of counting and valuing selected stock items at different times, on a rotating basis, so that all stocks are counted two, three, four or more times each year.

effectiveness The utilisation of resources such that the output of the activity achieves the desired result. In other words, efficiency alone is not enough – efficiency in areas from which optimised output is what is required to be effective (to avoid being a ‘busy fool’).

efficiency The achievement of either maximum useful output from the resources devoted to an activity, or the required output from the minimum resource input.

ergonomics The study of the efficiency of persons in their working environment.

heijunka The smoothing of production through the levelling of schedules. This is done by sequencing orders in a repetitive pattern and smoothing the day-to-day variations in total orders to correspond to longer-term demand.

jidoka Autonomation, which increases productivity through eliminating the non-value adding need for operators to watch machines, thus freeing them for more productive work, for example, quality assurance.

kanban A signal, for example, a card used in JIT production to prompt top up of materials or components driven by demand from the next process.

letter of credit A document issued by a bank on behalf of a customer authorising a third party to draw funds to a specified amount from its branches or correspondents, usually in another country, when the conditions set out in the document have been met.

manufacturing resource planning (MRPII) An expansion of material requirements planning (MRPI) to give a broader approach than MRPI to the planning and scheduling of resources, embracing areas such as finance, logistics, engineering and marketing.

master production schedule A time-phased statement (usually computerised) of how many items are to be produced in a given period (like a giant timetable), based on customer orders and demand forecasts.

materials requirement planning (MRPI or MRP) A system that converts a production schedule into a listing of the materials and components required to meet that schedule, so that adequate stock levels are maintained and items are available when needed.

Pareto analysis Analysis of a frequency distribution with a small proportion (say 20%) of the items accounting for a large proportion (say 80%) of the total. Examples may be seen in around 80% of sales of a company being derived from about 20% of its customers, and 80% of the value of its stocks being held in 20% of its items.

poka yoke Failsafe devices, support *jidoka* by preventing parts being mounted or fitted in the wrong way and alerting operators by flashing lights, ringing buzzers – it is a method of spotting defects, identifying, repairing and avoiding further defects.

pull system A system whose objective is to produce or procure products or components as they are required for use by internal and external customers, rather than for stock. This contrasts with a ‘push’ system, in which stocks act as buffers between processes within production, and between production, purchasing and sales.

Romalpa clause A contractual clause, named after a case in which its effect was litigated in 1976, by which the ownership of goods is to remain with the seller until they have been paid for. This can provide a useful protection for the seller in the

event of the buyer's insolvency. Its value may be questionable if the goods are mixed with other goods in a manufacturing process or if they are resold to a third party.

vendor managed inventory (VMI) The management of stocks on behalf of a customer by the supplier, the supplier taking responsibility for the management of stocks within a framework that is

mutually agreed by both parties. Examples are seen in separate supermarket racks maintained and stocked by merchandising groups for such items as spices, and car parts distributors topping up the shelves of dealers/garages, where the management of the stocks, racking and shelves is carried out by the merchandising group or distributor.