

## **ABSTRACT**

The inventory management has become more and more important these days. Inventory requires storage space and encounters other carrying costs. Inventory is damaging to a firm's financial health and competitive edge. The use of models for inventory cost reduction is widespread. The cost of inventory consists of ordering costs and holding costs. The inventory holding costs are one of the most important in inventory models which is illustrated in the literature.

The economic order quantity system is used to find the optimal order size of each order. When the small item order is placed, the frequency is high and it causes high annual inventory costs. While the large order is placed, the frequency is low and the annual inventory cost is low accordingly. But when the order is large, the average inventory level for each item is high. This causes high expenses of inventory holding. Thus, this study focuses on the application of economic order quantity to identify the best quantity for each purchase order and a suitable reorder point for ABC Company. The primary data and secondary data of ABC Company in 2013 are collected for computing economic order quantity and comparing its possible inventory management efficiency with that of the current ordering system of ABC Company.

Applied to economic order quantity the results indicate the best order quantity of ABC Company in 2013. The comparison of the results of inventory cost after applied economic order quantity with the actual inventory cause is shown. ABC Company is successful in using economic order quantity for the company cost reductions.