

What is Minimum Order Quantity and How to benefit from MOQ

Minimum Order Quantity

The benefits



Introduction

Minimum order Quantity is a simple and yet a very effective term in the business industry, specifically for inventory. Before I begin explaining about Minimum Order Quantity, let me start off with a small illustration. I believe it will help you understand better.

My friend, Anna, is the proud owner of a pet food and accessories store. She sells her products in a retail as well as online platform. Anna is doing great in her business and she has tie ups with multiple vendors and they have set a Minimum Order Quantity for

Dogs and Cats Food - 1000 kgs or \$1000

(This means Anna has to buy products worth \$1000 or at least 1000 kgs of dog & cat food)

Pup Chew Toys - 50 units or \$800

(This means Anna has to buy products worth \$800 or at least 50 units of Chew Toys)

This is known as the **Minimum Order Quantity (MOQ)**



What is Minimum Order Quantity

Minimum Order Quantity is the minimum amount or order quantity set by a supplier that can be ordered by a company. This means a retailer or business owner cannot order any given quantity they desire, but they have to adhere to the MOQ threshold value.

So, let us say, Anna wants to buy 20 units of Chew Toys. But as the MOQ is set at 50 units or \$800, she cannot order anything less than the set MOQ.

This can also be considered as a win-win situation for both, the wholesalers and the retailers. You see, when the retailer is aware that he has to buy a Minimum Order of certain quantity, he can always negotiate on the price, bargain a little, and try to lower the product prices. He can always debate on the fact that he is adhering to the set MOQ, so kindly give some consideration on the prices.

On the other hand, the wholesaler is also very relaxed and less worrisome about his stock, as he knows most of the orders as bulk orders. So, there is always scope of growing further and knowing that at the end of the day, his products will be mostly sold out. Also, through a MOQ, he understands the kind of stock he needs to manufacture or stock on a daily or monthly basis. And thus, staying ahead of the situation, keeping his sanity by having peace of mind, and always knowing that his stock is always going to go out in bulk.!



This is a great start for any company as they need not worry about running low on stock. Also, the wholesalers can breathe with ease as the retailers or business owners are not

continuously ordering multiple products with short spans, but instead, they are buying the products in bulk. Also, there are definitely chances that your MOQ may not match up with the wholesaler or your manufacturer's MOQ. There will be decisions to take in such cases, but having said that, either way it is always beneficial for your growth. Alice Walton very rightly explained us inventory as,

“One of the great responsibilities that I have is to manage my assets wisely, so that they create value.”

Minimum Order Quantity helps determine the minimum quantity of any product a company needs to have in their inventory. Thus, helping them manage their inventory wisely.

Minimum Order Quantity Formula

Before you panic and run away from maths, let me stop you there.! This is not complicated and trust me, I will help you easily blend into it. Then, this formula will be like a piece of cake for you and yes, certainly very helpful.!

There are few terms that you need to know to calculate your MOQ. Again, they are easy to understand and I will explain the terms as well.!

1. **Demand** - Understand your demand by staying in constant touch with your suppliers. For retailers it will be either manufacturers or wholesalers. And for wholesalers they will be manufacturers. So, stay in touch with them for knowing the latest trends, also track your inventory, and forecast demand.
2. **Order Cost** - Know the amount you need to pay for your orders.
3. **Holding Cost** - Also calculate the holding cost that includes duration of storage and any special requirements.

So, the formula is:

Formula (Check Comment)

Is it mandatory to set MOQ policies?



Umm. NO. Setting MOQ terms or policies are not mandatory at all. MOQ just helps keep things in order or balance work life and a sane state of mind. In other words you can say, MOQ helps bring clients that really want to buy. So rather than having multiple clients (let's say 50 clients) that purchase **\$10** worth goods, you set your MOQ at **\$500 on total order** and reduce your price to **\$5**. This way, though you will get limited clients but your products will go out in bulk, cash inflow will increase, and the targets will be achieved.

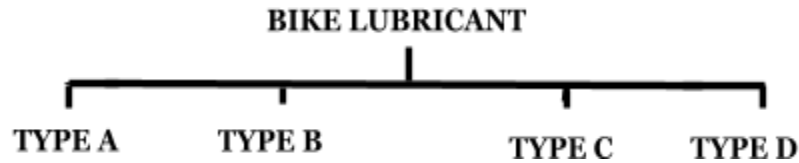
Tips to use Minimum Order Quantity (MOQ) for your benefit

Now, I understand that many manufacturers or businesses have set a MOQ. As a new retailer or wholesaler you might find it hard to purchase bulk orders without any certainty. In such cases, what can you do to fully optimize this process.

1. Discounts and Incentives



As a wholesaler you need to stay in stock and keep recycling your inventory. In order to exhaust most of your inventory at one go itself, you can always offer incentives and discounts. Let's say Francis is a wholesaler for Bike lubricant. He has various variants in them.



Francis has 100 quantities in each variant and wants to push out the maximum number of units. So, he can give several offers to his clients such as:

The set MOQ is 20 quantities. So if his clients purchase 20 units of each variant; instead of \$50 per unit, they can buy it for \$10 each unit.

OR

The set MOQ is \$1200. So if his clients purchase goods worth \$1200, then Francis will give 10 units as an incentive.

Also, in cases of Retailers. You can offer free shipping for orders above \$500 or buy 4 units of a product and get 1 unit Free. Such incentives are always an attractive selling point for the customers.

2. Use Sympathetic Expressions

While dealing with the wholesaler, try explaining to him, 'This is my first time. Please excuse me from the MOQ policy this time'. Most of the wholesalers may consider this, but not necessarily, all will go easy on you. But, hey! There is no harm in trying.! Also, if they don't give you a pass, you can always try bringing down the MOQ a bit. So, if the wholesaler is selling at a Minimum Order Quantity of 200 units, you can try bargaining it to 100 units.

3. Maintain Strong Relationships



No business is 100% successful without having strong relationships. When you are in good terms with your manufacturer or wholesaler, things automatically smoothen out a bit. Good relations and good faith tend to make people bend a little. So, if your wholesaler is very stringent on MOQ rules in the initial stages, there are high chances that after having strong relationships, he will let go those rules. You see, basically these policies are built by business owners to safeguard their profits, sales, and payments. Once they see for themselves that you are regular in payments, always have bulk orders, and have good relations, they will always show some considerations towards your work.

4. Bring Compatible Combinations Together



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There is always a way out.! Saying so, when a manufacturer sets a Minimum Order Quantity, then instead of getting worked out, just ask, ‘Is it fine if I mix and match, rather than buying the same product?’ Most of the manufacturers allow mixing and matching. This way, you always have the liberty to bring home various combinations and various styles rather than buying the same product in bulk quantities.

So, suppose a Clothing wholesaler has set his MOQ at 100 pieces, so instead of buying 100 units of jeans, you can buy 50 units of jeans and 50 units of shirts.

Conclusion

Minimum Order Quantity is not always as difficult as it seems to be. Infact, most of the time it is a good thing for the business. It helps you to keep your stock levels within count and running out of stock is hardly possible. But again, if you are already high in stock, the same thing can be harmful for you. Thus, keeping regular inventory counts is also crucial. These tips can help you work around Minimum Order Quantity (MOQ) and also, stay in great terms with your vendors. Nevertheless, [Orderhive](#) has always been very helpful in educating terms and its utilities. You can always reach out to us and you know, you can trust us in creating a name for yourself.

References

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