

**Purchasing & Supply Management
Jargon Buster**

**from
The Chartered Institute
of Purchasing & Supply**

Introduction

Everyone uses jargon, but what it means is not always obvious. You can use this reference document – organised from A-Z - to look up terms and acronyms that are most used in purchasing and supply.

For terms not covered here, another helpful resource is 'The Official Dictionary of Purchasing & Supply (Terminology for Buyers and Suppliers) by Professor Jessop and H.K Compton.

A

ABC – Activity Based Costing

An approach to the costing and monitoring of activities that involves tracing resource consumption and costing final outputs.

(Source: Accounting for Non Accounting Students 4th Edition J.R Dyson, Pitman Publishing)

ABC Management

Application of Pareto's Law of the 80/20 rule: ABC classifications are determined in ascending rank order of all products according to the product classification as a percentage of the total purchasing spend. Ranking can also be by volume, value, weight etc.

ACH – Automatic Clearing House

Electronic method of making routine payments, replacing traditional cheques.

(Source: www.cips.org)

Acquisition

Often used interchangeably with Purchasing. Acquisition involves all the processes from confirming the contract/order to the payment of the invoice.

Act of God

An extraordinary circumstance which could not have been foreseen and which could not have been guarded against. *Pandorf V Hamilton (1886)*

(Source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Added Value

Commonly known as 'Value add'. The increase in realisable value resulting from an alteration in form, location or availability of a product or service, excluding the cost of the purchased materials and services

(Source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

ADR – Alternate Dispute Resolution

Can be defined as "... any type of procedure or combination of procedures voluntarily used to resolve issues in controversy. ADR procedures may include but are not limited to, conciliation, facilitation, mediation, early neutral evaluation, adjudication, arbitration and the use of ombudsmen. "ADR is not "giving away the farm", "paying a premium" or "an easy way out". It is a disciplined way of resolving issues in dispute.

(Source: www.adrgroup.co.uk The ADR Group)

Advance Payment

Payment made to a supplier prior to commencement of work or project. Often used as an incentive to reduce cost or to enhance any discounts available or to secure supply of products and services.

Advice Note

A document sent to a customer advising them of impending delivery of goods requested on a purchase order.

Affreightment

The contract for carriage of goods for a price which is called the freight

(Source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Agreement

A manifestation of mutual consent between two or more persons or organisations. An essential component of a valid contract and may be made by any means whatever, provided the parties communicate

(source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Aggregation

(EU) In order to determine whether the value of goods of a given kind reaches a threshold under the relevant directive, a buyer must combine, i.e. aggregate, the value of orders.

(Source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Air Waybill

A document used for the shipment of air freight by national and international air carriers that states the commodities shipped, shipping instruction, shipping costs.

(Source: www.ism.ws)

Approved List

List of approved suppliers. May also include a blacklist of non-approved suppliers.

(source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Arbitration

The referral of a dispute to one or more impartial persons with a formal or informal agreement to accept the decisions arrived at.

(source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

ARR – Average Rate of Return

A method that attempts to compare the profit of a project with the capital invested in it.

Normally expressed as a percentage

(Source: Accounting for Non Accounting Students 4th Edition J.R Dyson, Pitman Publishing)

Assets

Anything of value, owned by an organisation. Can come in the form of cash, buildings, production equipment, stock and brand.

Assignment

Traffic: A term commonly used in connection with bills of lading; involves transfer of rights, title, and interest for the purpose of assigning goods by endorsement of the bill of lading.

Purchasing: The act of having a party other than the initial seller, product and/or provide the goods or services so ordered by the buyer. In most cases, this is a boilerplate clause in contracts or purchase orders that does not permit it unless the buyer grants permission.

(Glossary of terms formulated by Reginald Dyson)

Available Stock

The amount of stock that can be utilised or sold

AVCO – Average Cost

Term used for average valuation of stock

Average Inventory

The average stock level over a given period of time and usually calculated as follows:
Average Inventory = $\text{Opening stock} + \text{closing stock} / 2$

Average Rate of Return - ARR

An accounting methodology that measures the average net rate of return each year as a percentage of the initial cost of investment

B

Back Order

A purchase order that has only been partly fulfilled as a result of stock outs or some other reason

Bank Guarantee

A legal document issued by an insurance company or bank that places an obligation on them to pay the guarantee amount in the event of specified terms of default by the supplier.

Bar Code

A term used to describe a system of digit or other characters that can be used to identify and track units of goods or assets in an organisations storage and logistic system.

Batch

A definite quantity of some product manufactured or produced under conditions which are presumed uniform and for production control purposes passing as a unit through the same series of operations

(Source: Adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Best Alternative To A Negotiated Agreement – BATNA

A negotiation technique that is the measure of the balance of power in a negotiation, for example other parties need you in order to reach their objectives, your BATNA is strong; your negotiating circumstances are strong. If you want to buy a new car and the same model is for sale at several car dealers, you have a strong BATNA because you can benefit from their competition for your business.

Benchmarking

The process of comparing your own performance with others to identify areas for improvement.

Benefit Cost Analysis

A process of identifying and comparing the benefits and costs of a project.

Best Value

Often known as 'value for money'. The optimum combination of whole life costs and quality to meet the customer's requirement.

(Source: Draft Joint note on social issues in purchasing 2005)

BFO – Best and Final Offer

The final offer the buying organisation receives from a vendor

(Source: www.cips.org P&SM model)

Blanket Agreement

An agreement between buyer and seller whereby certain goods will be purchased at prices established or agreed by way of a formula over a period of time. Used to reduce the amount of small volume orders

Blanket Order

Purchase orders placed on suppliers that cover a range of products or a time period that commits to a volume of one product.

(Source: Adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

BOE – Bill of Exchange

A popular way of arranging payment and an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay, on demand, or at a fixed or determinable future time. A popular way of arranging payment.

(Source: Export Practice and Management 4th edition, Alan Branch)

BOL – Bill of Lading

This is a receipt for goods shipped on board a vessel, signed by the person (or his or her agent) who contracts to carry them and states the condition in which the goods were delivered to the ship. This is the document of title to the goods without which the buyer will not be able to obtain delivery from the shipping company.

(Source: Export Practice and Management 4th edition, Alan Branch)

BOM – Bill Of Materials

A list of all the components, including the quantities required, producing the required number of units of the end product.

(Source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Bond

In general, a bond is a deed by which a buyer binds himself to pay a sum of money at a certain time under certain circumstances

Bonded Goods

Products that are held pending any outstanding duties that needs to be paid. Usually stored in a bonded store or warehouse

Build Own Operate Transfer

A project methodology that ensure the transfer of a project back to the party granting the concession, either with, or at no cost.

Break Clause

A clause in a contract that allows the buying organisation to foreclose on the contract without redress should it wish to do so.

Business Balanced Scorecard

A balanced scorecard developed by Kaplan & Norton to overcome an imbalance in business planning. It is a management system that involves setting measures based upon the priorities of the strategic plan. It provides the key business drivers and criteria to motivate managers to develop and apply processes that will contribute to future success – rather than dwelling on historic performance. By requiring four perspectives, it provides a richer more holistic view of the organisation. The four perspectives: Financial, Customer, Internal Business Processes, Learning and growth

Business Continuity Planning

A methodology used to create a plan for how an organisation will resume partially or completely interrupted critical function within a predetermined time after a disaster or disruption.

Business Process Re-engineering (BPR)

The fundamental rethinking and radical redesign of business processes. To achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service and speed.

(Source: originator of concept Michael Hammer, CIPS Professional Stage Study Guide – Operations Management)

Buy Back

A transaction in which the seller agrees to purchase goods or services from the buyer up to an agreed percentage of his deliveries to the buyer.

(Source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

C

Call off

Specific request for delivery(ies) under a previously agreed terms of business such as a blanket order or framework agreement.

Capacity Requirements Planning (CRP)

Process of establishing, measuring and adjusting the levels of capacity in an organisation within the context of Manufacturing Resource Planning (MRP 2)

(Source: adapted from www.ism.ws)

Capital

The funds (money) available to allow an organisation to invest

Capital Expenditure

Funds used by an organisation to either purchase a new asset or upgrade an existing one, usually high in value.

Capital Goods

Usually productive goods that involve the expenditure of capital that are recorded on an organisations balance sheet at the installed cost less depreciation.

Carriage Insurance Paid (CIP)

Commonly described and an Incoterm. This term is the same as "freight/carriage paid to" but with the additional requirement that the seller has to procure transport insurance against the risk of loss or damage to the goods during the carriage. The seller contracts with the insurer and pays the insurance premium.

(Source: http://learning.unl.ac.uk/int_purchasing/incoterms/incoexp_c.htm)

Carriage Paid To (CPT)

Commonly describes as an Incoterm. This term means the seller pays the freight for the carriage of the goods to the named destination. The risk of loss or damage to the goods and any cost increases transfers from the seller to the buyer when the goods have been delivered to the custody of the final carrier, and not at the ship's rail.

(Source: http://learning.unl.ac.uk/int_purchasing/incoterms/incoexp_c.htm)

Carrier

An individual, partnership, or corporation that moves goods and/or passengers

Cartel

An agreement between organisations to sell their products higher than they would under free competition with one another. Common types of cartel are 'price fixing' and 'market sharing'.

(Source: Adapted from the official dictionary of purchasing & supply by KH Compton and DA Jessop)

Cash flow

The movement of cash into (positive flow) and out of (negative flow) within an organisation.

(Source: Adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Cash On Delivery (COD)

Cash payment for purchases and their transportation. Payments made upon their delivery prior to release of the goods by the carrier. A common precaution used by sellers shipping to organisations in bankruptcy or of doubtful credit rating.

(Source: adapted from www.ism.ws)

Caveat Emptor

'Let the buyer look after himself' or 'let the buyer be on his guard'. It reflects the tendency of the law to protect the possessor of property against more powerful forces.

(Source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Chapter 11

Named after the US Bankruptcy code 11, chapter 11 is a form of bankruptcy that involves a re-organisation of a debtors business affairs and assets. Chapter 11 is generally filed by corporations which require time to restructure their debts. A Chapter 11 re-organisation is the most complex and generally the most expensive.

(Source: digitalprecision.net/c/chapter_11_bankruptcy.html)

Chartered Institute of Purchasing & Supply (CIPS)

CIPS is an international organisation, based in the UK, serving the purchasing and supply profession. Dedicated to promoting best practice, CIPS provides a wide range of services for the benefit of members and the wider business community.

CIPS provides a programme of continuous improvement in professional standards and raises awareness of the contribution that purchasing and supply makes to corporate, national and international prosperity. In 1992, CIPS was awarded a Royal Charter in recognition of its leading role.

Codes

A set of voluntary principles or rules on any subject agreed by all parties involved, for example a code of ethics is a set of rules governing the morality in which procurement is undertaken.

Co-Destiny

Co-Destiny is a strategic relationship where the organisations involved choose to share common destinies in all aspects of their business for their mutual benefit. The relationship relies on total trust and both organisations become fully inter-dependent and as such, they succeed or fail together

Collective Bargaining

Refers to the right for workers' organisations to negotiate with employers or employers' organisations on behalf of their members to determine working conditions and terms of employment.

Collusion

The action in agreement or concert with others, either in a clandestine manner or for an illegal end or by illegal means or by some or all of these.

(Source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Collusive Bidding

An unethical and illegal practice in which suppliers act in collusion to "fix" their bids in a collectively advantageous manner and thus eliminate genuine competition in bidding.

(Source: adapted from www.ism.ws)

Competence Trust

An expectation that the partner will perform competently (technical and managerial etc), and in accordance with professional standards.

(Source: Presentation on Key Supplier Account Management, by Michael Winslow)

Computer Aided Design

The use of a wide range of computer based tools that assist engineers, architects and other design professionals in their design activities.

Computer Aided Manufacture

Is a software process that can directly convert an object (product drawing) into code so that a machine, such as a lathe or milling machine can manufacture the product.

Continuous Improvement

A process of improving an organisations or supplier's performance over a given period of time with agreed areas or criteria requiring improvement

Contract

A 'business contract' implies the entry into an unambiguous legal agreement with a company, another party, person (other supplier) to deliver supplies (goods/services) or to do something (e.g. construct a building) on mutually agreed terms.

(Source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Contract Management

The activities of a buyer before, during and after a contract period to ensure that all parties to the contract fulfil their contractual obligations. An important aspect of this is managing the relationships between all parties in the most effective way so as to ensure the contract meets the optimum combination of cost, time and quality.

(Source: Adapted from CIPS definition in the contracts management Knowledge Summary)

Contractual Trust

Keeping promises (written and oral) and abiding by the accepted rules of business practice and behaviour as a whole

(Source: Presentation on Key Supplier Account Management, by Michael Winslow)

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) has become the broadly accepted phrase to describe a collection of related disciplines, all of which combine to represent an organisation's overall ethos – its personality, philosophy and character, as regards its role in the world in the largest sense.

(Source: CIPS publication 'The Ethical Decision')

Corruption

Any action that involves inducement by means of improper 'consideration'.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Cost

The total sum involved including price plus any additions that may be associated with ownership and use. Note: Cost is not, and should not be used as a synonym for PRICE or VALUE

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Cost and Freight (CFR)

Commonly described as an Incoterm. Under this term the seller must pay the costs necessary to bring the goods to the named port of shipment, the risk of loss or damage to the goods, as well as any additional expenses, is transferred from the seller to the buyer when the goods pass the ship's rail. Insurance is the buyer's responsibility

(Source: Export Practice and Management 4th edition, Alan Branch)

Cost Insurance Freight (CIF)

Commonly described as an Incoterm. This is CFR with the additional requirement that the seller procure transport insurance against the risk of loss or damage to goods. The seller must contract with the insurer and pay the insurance premium. Insurance is generally important in international shipping because transport companies have restricted liability for loss or damage.

(Source: http://learning.unl.ac.uk/int_purchasing/Incoterms/Incoexp_c.htm)

D

Define, Measure, Analyse, Improve, Control - DMAIC

5 stages of 6 Sigma Quality, Improvement and Assurance

Delivery At Frontier (DAF)

An Incoterm. DAF means that the seller's obligations are fulfilled when the goods have arrived at the frontier but before the customs border of the country named in the sales contract. The term is primarily used when goods are carried by rail or truck. The seller bears the full cost and risk in delivering the goods up to this point, but the buyer must arrange and pay for the goods to clear customs.

(Source: http://learning.unl.ac.uk/int_purchasing/Incoterms/Incoexp_c.htm)

Delivered Ex - Ship (DES)

An Incoterm. DES means the seller makes the goods available to the buyer on board the ship at the destination named in the sales contract. The seller bears the full cost and risk involved in bringing the goods there. The cost of unloading the goods and any customs duties must be paid by the buyer.

(Source: http://learning.unl.ac.uk/int_purchasing/Incoterms/Incoexp_c.htm)

Delivered Ex – Quay (DEQ)

An Incoterm. DEQ means the seller has agreed to make the goods available to the buyer on the quay or the wharf at the destination named in the sales contract. The seller bears the full cost and risks in delivering the goods to that point including unloading. There are two variations of ex quay contracts: "ex quay duty paid" and "ex quay duty on buyer's account." In the first, the duty is paid by the seller. In the second, the duty also is paid by the seller, but the buyer must reimburse the seller.

(Source: http://learning.unl.ac.uk/int_purchasing/Incoterms/Incoexp_c.htm)

Delivered Duty Unpaid (DDU)

An Incoterm. Delivered duty paid or Under these terms, the seller fulfils his obligation to deliver when the goods have been available to the buyer uncleared for import at the point or place of the named destination. The seller bears all costs and risks involved in bringing the goods to the point or place of named destination. There is no obligation for import clearance.

(Source: http://learning.unl.ac.uk/int_purchasing/Incoterms/Incoexp_c.htm)

Delivered Duty Paid (DDP)

An Incoterm. Represents the seller's maximum obligation. The term "DDP." is generally followed by words indicating the buyer's premises. It notes that the seller bears all risks and all costs until the goods are delivered. This term can be used irrespective of the mode of transport. If the parties wish to make clear that the seller is not responsible for certain costs, additional word should be added (for example, "delivered duty paid exclusive of VAT and/or taxes").

(Source: http://learning.unl.ac.uk/int_purchasing/Incoterms/Incoexp_c.htm)

Demurrage

The detention of a shipment beyond its specified time resulting in the payment for that detention. The basis for this charge is to recoup a rental fee for holding the equipment beyond its intended period.

Determination

Legal expression meaning to bring a contract to an end

Distribution Requirements Planning (DRP)

A system of determining demands for inventory at distribution centres, consolidating the demand information backwards, and acting as input to the production and materials system.

Dutch Auction

An unprofessional practice, playing one seller off against another to obtain the lowest price.

E

E-commerce

Can be simply described as doing business electronically. More precisely it is conducting the exchange of information using a combination of structured messages (EDI), unstructured messages (Email), Internet, data, databases and database access across the entire range.

Efficient Consumer Response – ECR

The link to make category management an operational reality. Supplier and buyers working together to ensure total consumer satisfaction.

Electronic Data interchange (EDI)

The exchange of documents/information between computers using telephone lines

Electronic Funds Transfer

Financial or value transactions carried out between parties by means of computer systems. It can also refer to financial information about transactions being passed

Electronic Funds Transfer at Point Of Sale

Payment at an electronic terminal that enables the movement of funds electronically over computer networks

Economic Order Quantity - EOQ

Also known as the **Wilson EOQ Model** or simply the **EOQ Model**) is a model that defines the optimal quantity to order that minimizes total variable costs required to order and hold inventory.

eMarketplace

Virtual area that enables companies/individuals to offer their goods or services for sale also enables people to purchase goods or services electronically

Electronic Point Of Sale - EPOS

A system that allows the flow of inventory/products from warehouse to point of sale in the shortest time.

Enterprise Resource Planning (ERP)

Co-ordination of planning and business on a wide basis between supply chain links.

eProcurement

Ability to purchase/sell through electronic trading via the Internet

Escrow

A contract or deed that becomes effective on the operation of a future event.

Escalation clause

A clause in a contract that permits a seller to adjust its price in the event of market changes. Usually the reference is to materials and/or labour costs. Purchasers, however, often have a sneaking suspicion that it is a device used by suppliers to increase their margins, using real or imagined increases in costs as their justification.

Ethics

An increasingly important aspect of business nowadays, as people become more aware of such issues as child labour in the third world, despoliation of the environment, and so on. A framework of ethical theory and practice is developing and is clearly set out in the CIPS Knowledge Summary paper on Ethical Business Practices in Purchasing and Supply.

Extranet

Community of trading partners running over an Internet Access Provider's controlled business network again using Internet communication protocols and Web browser technology. Extranets are run on a 'community controlled' basis.

Ex-Works (EXWO)

An Incoterm. Means the seller's only responsibility is to make the goods available at the seller's premises, i.e., the works or factory. The seller is not responsible for loading the goods on the vehicle provided by the buyer unless otherwise agreed. The buyer bears the full costs and risk involved in bringing the goods from there to the desired destination. Ex - Works represents the minimum obligation of the seller.

F

Failure Modes Effect Analysis – FMEA

Is an easy to use and yet powerful pro-active engineering quality method that helps you to identify and counter weak points in the early conception phase of products and processes. The structured approach makes it easy to use and even for non-specialist a valuable tool. The benefits obtained encompass by large the investments in time and resources to execute the analysis.

Fast Moving Consumer Goods

Products that have a quick shelf turnover, at relatively low cost and generally little financial investment to purchase.

Firm Price

A contractually agreed price that remains unchanged throughout the contract

Fixed Price

Price fixed at time of placing the contract but which could have been liable to change during the contract period.

Force Majeure

A contractual expression of legitimate reasons for non-delivery or delay includes things such as strikes, acts of God and fire etc.

Free Alongside Ship (FAS)

An Incoterm. Using FAS requires the seller to deliver the goods alongside the ship on the quay. From that point on, the buyer bears all costs and risks of loss and damage to the goods. F.A.S. requires the buyer to clear the goods for export and pay the cost of loading the goods.

(Source: http://learning.unl.ac.uk/int_purchasing/Incoterms/Incoexp_f.htm)

Free Carrier (FAC)

An Incoterm. This term has been designed to meet the requirements of multi-modal transport, such as container or roll-on, roll-off traffic by trailers and ferries. The seller fulfils his/her obligations when the goods are delivered to the custody of the carrier at a named point. If no precise point can be named at the time of the contract of sale, the parties should refer to the place where the carrier should take the goods into its charge. The risk of loss or damage to the goods is transferred from seller to buyer at that time.

(Source: http://learning.unl.ac.uk/int_purchasing/Incoterms/Incoexp_f.htm)

Free On Board (FOB)

An Incoterm. Using FOB the goods are placed on board the ship by the seller at a port of shipment named in the sales agreement. The risk of loss of or damage to the goods is transferred to the buyer when the goods pass the ship's rail (i.e., off the dock and placed on the ship). The seller pays the cost of loading the goods.

(Source: http://learning.unl.ac.uk/int_purchasing/Incoterms/Incoexp_f.htm)

Futures

Usually applies to “soft” commodities, typically foodstuffs, whereby you enter into a contract to buy or sell next year's crop of maize, wheat, coffee or whatever. The aim is to insure against price fluctuations or commodity shortages.

G

Gap Analysis

Examining where you are now with a project and where you ought to be – or where you will be if you carry on as you are now compared with the project's objectives. Thus the idea of the "gap" between the reality and the theory.

GATT

General Agreement on Tariffs and Trade. A global trade treaty aimed at expanding and liberalising world trade, replaced by the World Trade Organisation in 1995.

Globalisation

The idea that much of business, culture, politics and so on now spans the whole world and is less confined by national or geographical boundaries thanks to faster travel and communications.

Goodwill

The intangible assets of a business involving its reputation, sometimes evaluated to be worth a specific amount of money. Important for purchasers because the firm's goodwill is likely to involve relationships with suppliers and/or buyers.

Goodwill trust

Involves 'open' commitment – a willingness to do more than is formally required and being prepared to accede to a request from the partner or to any observed opportunity that would improve performance. It is implicit that partners refrain from opportunistic behaviour.

(Source: Presentation on Key Supplier Account Management, by Michael Winslow)

H

Hard Sell

Applying pressure on the buyer. Not considered polite behaviour nowadays, especially since the advent of “win-win” thinking, which says both sides in negotiations should leave the table feeling happy. A hard sell should probably be countered with a hard stare.

Hub Based Exchanges

Companies that tend to supply specific market places such as the motor or aerospace industries A consortium of companies will set up and run their own market place, customising existing technology to meet their own needs and requirements in ecommerce.

Hypertext

A way of writing text documents that allows them, and the words within them to be linked in various ways and searched by use of a web browser

ICAM DEFinition language – iDEF

Were initiated in the 1970's and finished being developed in the 1980's. These "definition languages" have become standard modelling techniques. They cover a range of uses from function modelling to information, simulation, object-oriented analysis and design and knowledge acquisition

Information, Communication, Technology – ICT

Is a broad subject concerned with technology and other aspects of managing and processing information, especially in large organisations.

Incoterms

Are international consignment delivery terms. Incoterms embrace many factors including, in particular, insurance, type of transport mode and associated costs, product costs, package costs etc

Intellectual Property

Is the general term for different types of ideas protected by different legal rights. The six intellectual property rights consist of confidential information, trade mark, copyright, registered design, design right and patent.

(Source; Intellectual Property, A managers guide, Publisher McGraw-Hill book Company, Editor, Vivien Irish)

Internal Rate of Return - IRR

Is defined as the discount rate that gives a net present value (NPV) of zero.

Inventory

Technically, a list of items held in stock or on the asset register of an organisation. But often used to mean the stock itself.

Invitation To Tender (ITT)

A request made to potential suppliers to submit bids on goods, works and services to be purchased. Can also be commonly known as Request For Proposal (RFP) and Request For Quotation (RFQ)

J

Job

That work, which is undertaken to meet a customer or production order and which, for production control and purchasing purposes, has a unique identification.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Job Lot - Production

A relatively small number of specific types of products produced at the same time.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Job Lot – Purchasing

Goods arranged in separate portions for sale by auction.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Jobbing

The manufacture of customer's orders by the job usually carried out in small lots or batches and of different product types.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Joint Liability

In contract terms this means that the responsibility for a liability is to be taken by all parties jointly involved in the contract.

Just In Time - JIT

Originally a concept imported from Japan, based on the idea that only sufficient quantities should be manufactured or be made available to satisfy customers' immediate needs. Relies for its success on an efficient supply chain

K

Kaizen

A Japanese term, much favoured when Japan was the world leader in cutting-edge industrial practices. Translates into English as “continuous improvement”.

Kanban

Another Japanese term, translates literally as “card”. It is the system of record cards that accompany components through the production process. In other words, a signal that triggers deliveries of specific quantities of supplies in a just-in-time system. So when the box of screws is almost empty, an automatic signal goes to the supplier to deliver some more and refill the box.

Keiretsu

A Japanese phenomenon describing a group of companies linked by cross-shareholdings

Key Performance Indicators – KPI

Also known as Key Success Indicators and are financial and non financial metrics used to reflect the critical success factors of an organisation or contract. They are used in *Business Intelligence* to assess the present state of business or a contract and to prescribe the next course of action.

Knock Down

A product supplied unassembled, usually to facilitate cost effective transportation, often for the customer or third party to assemble.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Knocked Down

Term used when an auctioneer or salesman accepts a bid and assigns the lot to the person bidding; the lot is said to be knocked down.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Knowledge Management

Is the explicit and systematic management of vital knowledge and its associated processes of creation, organisation, diffusion and exploitation.

L

Lead Time

Used in many ways. Can mean, for example, the time between the decision to purchase an item and its arrival in stock. But it can also mean the time between the decision to purchase an item and its availability for despatch from the supplier concerned.

Lean

Usually used to describe an approach in which production only takes place in response to immediate demand. The most obvious observable effect is on waste reduction and . Other consequences could be fewer suppliers for example. The Lean concept is applicable to all sectors and all purchasing organisations irrelevant of size In a lean system, non value added activities are kept to a minimum.. A clear implication is that relationships along the supply chain need to be close, with effective communications between all parties, in line with the philosophy of “partnership”.

Another vital ingredient is that all partners in the chain need to be responsive and highly reliable. Lean production is probably most developed in the car industry.

Letter Of Intent (LOI)

A written communication to a supplier leading to a contract and expecting the supplier to take some action to that end.

Life-Cycle Costing

Total costs of an item throughout its life, including acquisition, maintenance and support costs. (P&S Dictionary.)

Lien

The right to retain possession of another’s property until the owner pays a debt.

(Source: Chambers Dictionary)

Liquidation

The winding up of the affairs of a business when it ceases trading and appoints a liquidator to set its affairs in order, realise its assets and pay its shareholders.

Logistics

The process of managing both the movement and storage of goods, materials and people from their source to the point of ultimate consumption, and the associated information flows.

(P&S Dictionary.)

Low Value Ordering System (LVOS)

A procurement system that deals with the issue of orders and matching of invoices for high transaction cost to spend items

M

Management

The business of planning and organising operations to achieve defined objectives.

Management Information Systems - MIS

Are information systems typically computer-based, that are used within an organisation

Material Requirement Planning (MRP)

A planning process to ensure available stock to satisfy demand within a given period

Material Resource Planning (MRPII)

A process to plan production and establish lead times based on availability of resources.

Merger & Acquisition – M&A

Refers to the aspect of corporate finance strategy and management dealing with the merging and acquiring of different companies as well as other assets

Misrepresentation

Misrepresentation may be defined as “a statement of fact made by one party to another before contract and which induces the other party to enter into that contract”.

Monopoly

Market situation in which one or a small number of sellers dominate.

Monopsony

The reverse of a monopoly: many suppliers but only one purchaser.

Maintenance Repair and Operating - MRO

Products that repair any sort of mechanical or electrical device or products purchased that form part of a routine preventative maintenance plan

N

Nemo dat quod non habet

A Latin phrase which means “no one can give what he does not have”. So, if you have bought a car that was stolen, albeit unwittingly and in good faith, it is not yours to keep. This principle is enshrined in current legislation, notably the Sale of Goods Act.

Net Market

A facility that enables online buying from multiple vendors but through a single site. Prospective buyers can easily search the databases and compare products

Net Present Value - NPV

Is a valuation method based on discounted cashflows. NPV is calculated by discounting of a series of future cash flows, and summing the discounted amounts and the initial investment (a negative amount).

O

Oligopoly

A state of limited competition when the market, or a large part of it, is cornered by a small number of suppliers and manufacturers who are significant players in their particular sector and who do all they can to maintain their cosy lifestyle by excluding newcomers. Not a good situation for buyers to be in.

On-Line Procurement Systems

Systems that have been designed whereby procurement processes are electronically performed using Internet technologies

On-Line Auctions (Not reverse)

Electronically offering goods or services to the highest bidder. Similar to 'live' auctions and another means of offering tenders for quotation to a selected market place

Open Tender

Using open advertisement to invite suppliers to quote for a job (Closed Tender is inviting particular specialists to tender for the job)

Operations, Planning & Control – OPC

The activities undertaken that ensures that all required resources within an organisation are managed effectively to produce products/services right through to the delivery of the product/service to the customer.

Outsourcing

Placing core and non-core business activities with external specialists.

P

Pareto

A principle which states that 'in any series of elements to be controlled, a selected small factor in terms of the number of elements almost always accounts for a large factor in terms of effort' see also ABC analysis.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Partnerships

Partnering is a commitment between two or more parties in a collaborative relationship to create value by striving to achieve shared competitive goals and operational benefit through a spirit of mutual trust and openness.

Payback Period - PP

An appraisal tool that is the simplest tool for appraising different investment projects

Political, Economic, Social, Technological, Environmental, Legal – PESTEL

An analytical tool that aids organisations developing strategies by helping them understand the external environment in which they operate now and in the future

Private Finance Initiative – PFI

An agreement that promotes partnership between both private and public sectors which, enables utilisation of a wide variety of assets and services available in the private sector. The objective is to improve the quality and quantity of public sector capital products, and to also provide more efficient public services.

Private Public Partnership – PPP

A PPP refers to any alliance between public bodies, local authorities or central government, and private companies. PPP's typically involve the joint ownership of a special purpose vehicle established under company law.

Post Project Appraisal – PPA

An appraisal process that takes place after the project is complete. The aim is to identify key aspects that enable the transfer of learning. For example, budget planning

Post-Tender Negotiation (PTN)

Negotiation after receipt of formal tenders and before letting final contracts with a view to obtaining more favourable terms. A practice widely used in the public sector.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Procurement

Often used interchangeably with Purchasing. Procurement is the totality of acquisition starting from the identification of a requirement to the disposal of that requirement at the end of its life. It therefore includes pre-contract activities e.g. sourcing and post contract activities e.g. contract management, supplier relationship management activities. However, it does not include stores management and logistics that are aspects of the wider subject of Supply Chain Management. Procurement generally relates to goods, works and service(s) requirements.

Profit

The financial gain resulting from a transaction or combination of transactions, or a set period of business activity being the excess of sales revenue over related costs," according to the official dictionary.. Operating profit is profit arising from the normal activities of an enterprise, not including, for example, interest on bank loans. Net profit is what's left after all expenses and/or losses have been deducted. Can be "before" or "after" taxation.

Purchasing

Often used interchangeably with procurement is to acquire goods, works or services from a nominated supplier Purchasing is a component of the wider function of procurement and consists of activities such as ordering, expediting, receipt and payment.

Purchase Card

Used by businesses to give staff the ability to deal directly with suppliers by placing orders without having to raise a purchase order. Companies receive management information relating to spend by employee or supplier

Purchasing Power

An organisation's financial ability to enact a purchase

Purchase To Pay – P2P

A seamless process enabled by technology designed to speed up the process from point of order to payment.

Public Procurement Directives (The Directives)

The EU procurement Directives set out the legal framework for public procurement. They apply when public authorities and utilities seek to acquire goods, services, civil engineering or building works. They set out procedures which must be followed before awarding a contract when its value exceeds set thresholds.

(Source: www.ogc.gov.uk)

Q

Quality Assurance

All those planned and systematic activities necessary to provide confidence that a product or service will satisfy given requirements for quality.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Quality Control

Measures adopted to achieve and keep in place the required level of quality of a product or service.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Quality Circles

A participation technique where groups of persons from similar working backgrounds meet to identify quality problems, analyse causes, recommend solutions and in some cases effect implementation.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Quotation

Not to be confused with "estimate". Quotations are normally preferable because they should give an accurate price for the goods or services offered, whereas an estimate gives merely an approximate calculation of the cost of the goods or services concerned.

R

Raw materials

Stock or items purchased from suppliers, to be input to a production process and which will subsequently be modified or transformed into finished goods.

Reorder costs

The total cost of placing a repeat order for an item. This could include the cost of preparing the order, administration, IT overheads, and correspondence and production overheads.

Reverse auctions

The opposite of the usual kind of auction in which potential buyers compete to bid the price up. In a reverse auction, which has come into its own with the Internet, suppliers bid the price down.

Reverse Auction System

Customer wanting particular goods or services enters specification/requirements to system and requests bids from market place. The bid that best meets requirements wins. Also possible for an electronic search of supplier product base

Reverse logistics

“The requirement to plan the flow of surplus or unwanted material or equipment back through the supply chain after meeting customer demand” as defined by the Supply Chain Yearbook 2001 edition.

Risk

The combined effect of the probability of occurrence of an undesirable event, and the magnitude or impact of the event.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Risk analysis

Working out what the risks are and what the costs would be if they materialise. It applies to any undertaking.

Risk Management

Involves three key activities, risk analysis, risk assessment, and risk mitigation, all of which facilitate the taking of decisions and actions to control risk appropriately by providing a disciplined and objective approach.

(Source: www.cips.org Knowledge Summary on risk management)

Radio Frequency Identification (RFID)

Is an emerging technology enabler for tracking goods and assets around the world. It promises to enable new efficiencies within the supply chain by tracking good and services from point of manufacture through to retail point of sale (RPOS)

S

Sale of Goods

It should go without saying that buyers and sellers drawing up their contracts would be well advised to take heed of such laws. The principal statute is the Sale of Goods Act 1979. In addition to specifying what is meant by terms such as "satisfactory quality", the act also includes a section on when ownership or title passes.

Seller's market

A situation where market forces work to the advantage of the seller, who can dictate price, delivery, quality and so on.

Service Level Agreement

service level agreement is a document which defines the relationship between two parties: the provider and the recipient.

This is clearly an extremely important item of documentation for both parties. If used properly it should:

- Identify and define the customer's needs
- Provide a framework for understanding
- Simplify complex issues
- Reduce areas of conflict
- Encourage dialog in the event of disputes
- Eliminate unrealistic expectations

Services

Usually coupled with goods, as in goods and services. Services are intangible items such as maintenance, marketing or consultancy.

Supplier, Input, Process, Output, Supplier – SIPOC

A six sigma technique that helps understanding the 'as is' state. SIPOC demonstrates process flows and layout gives the whole picture and makes interdependencies visible

Sourcing

Activities involving searching markets for sources of goods and services. At the opposite end of the supply chain from marketing. Strategic sourcing is the attempt to make sure everything is being sourced as efficiently as possible.

Specific, Measurable, Achievable, Realistic, Time framed – SMART

Is a mnemonic used in project management at the project objective setting stage. It is a way of evaluating if the objectives that are being set are appropriate for the individual project.

Standard

An agreed generic specification or a specification intended for recurrent use.
(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Strategic Sourcing

Satisfying business needs from markets via the proactive and planned analysis of supply markets and the selection of suppliers with the objective of delivering solutions to meet pre-determined and agreed business needs.

Supplier appraisal

Methodology used prior to contract to assess the suitability and capability of suppliers to undertake defined work.

Supplier rationalisation

Strategic approach to reduce large numbers of suppliers to manageable few and from which contractual benefits can be obtained.

Supplier Relationship Management (SRM)

The process for managing the interaction between two entities – one of which is supplying goods, works or services to the other entity. SRM is a two way process in that it should improve the performance of the buying organisation as well as the supplying organisation and hence be mutually beneficial

Supply

The main definition, courtesy of CIPS and the Official Dictionary is: “(verb) the provisioning, administration, service, stock control, storage, handling and distribution and all associated operations connected with supplies, services and materials management.” The definition for the noun is “all goods, materials and services that come into the possession of an enterprise as the result of contracts for purchase, hire or procurement by other processes and for which the enterprise has responsibility”.

Supply Management

Supply Management is the purchasing, expediting, inventory management, delivery and receipt of goods, and quality control.

Supply Chain & Networks

In essence the supply chain starts with the extraction of raw material (or origination of raw concepts for services) and each organisation within the supply chain adds value to the product or concept in some way as it passes from one organisation to the other. The supply chain extends through to the final sale and delivery to the final customer and through to disposal.

Supply Chain (Networks) Management (SC(N)M)

SCM is the management of all activities aimed at satisfying the end consumer; via the total management of the Supply Chain (Networks) as such it covers almost all activity within the organisation. It includes a number of key success factors that include a clear procurement strategy, effective control systems, and development of expertise. SCM therefore represents and reflects an holistic approach to the operation of the organisation. (In other words, SCM relates to the entire procurement cycle not just at the end. In particular it has a pivotal role to play in the development of an initial sourcing strategy).

Strengths, Weaknesses, Opportunities, Threats – SWOT

Is a strategic planning tool used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture or in any other situation requiring a decision

T

Tender

An offer to provide goods or services, in response to an invitation to tender, for a specified price.

Terms and Conditions

Usually abbreviated simply to "Ts and Cs". Predictably a supplier will tend to have its Ts and Cs slanted in its favour, whereas the buyer's Ts and Cs will reflect its interests.

Total Quality Management

A philosophy that has far wider implications than just products and services. TQM enables an organisation to manage its processes and people to ensure complete customer satisfaction

Trading Exchanges

Internet sites that allow direct trading between companies, negating the use of intermediaries.

Training Needs Analysis – TNA

An analytical tool that helps organisations establish its training requirements. This analysis is undertaken at all levels within the organisation

Transfer of Undertakings (Protection of Employment) TUPE

Legislation that aims to ensure that an employee whose company is taken over has his existing conditions respected by his new employer. They also apply in some cases for work transferred to contractors. This includes hours of work, pay, pension entitlement and so on.

U

Uberrimae fidei

Latin term. 'in the utmost good faith'. Used in contracts such as insurance, where one party relies upon the other to disclose all material facts.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Ullage

Customs term 'what a vessel want of being full', i.e. gap between the top level of the liquid or other contents and the top of the container or sometimes, the amount left in the vessel.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Unenforceable contract

A contract which though valid in itself may not be enforceable at law for a valid reason e.g. Act of God or force majeure or legislation.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop and CIPS Study Guides)

Upstream

Used in describing supply chains. Imagine an item being passed from one partner in the chain to another in its journey from raw material to finished product in the high-street store.

Upstream points in the direction of the source, downstream indicates the direction of the ultimate destination

V

Value Added

Commonly known as 'added value'. The increase in realisable value resulting from an alteration in form, location or availability of a product or service, excluding the cost of the purchased materials and services

(Source: The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Value Added Electronic Portal (V.A.E Portal)

The term is loosely defined to basically cover anything that can be classed as adding value, so for example an intranet portal with an Electronic Requisitioning capability can be classed as VAE portal, as the electronic requisition can be seamlessly transformed to a purchase order

Value Added Network (VAN)

Method of exchanging information electronically between subscribers and their trading partners. The users connect to the private network to transmit messages. The VAN acts as a mailbox and also provides a record for audit purposes

Value analysis

A systematic inter-disciplinary examination of design and other factors affecting the cost of a product or service in order to devise a means of achieving the specified purpose more economically at the required standard of quality and reliability. The activity is concerned with post-production activities with a current product or process. See also value engineering.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop and CIPS Study Guides)

Value engineering

An activity involving the design of value into a product at the design stage. Procurement personnel should be involved as supplies and materials management can contribute. The activity is carried out pre-production.

Value analysis

A systematic inter-disciplinary examination of design and other factors affecting the cost of a product or service in order to devise a means of achieving the specified purpose more economically at the required standard of quality and reliability. The activity is concerned with post-production activities with a current product or process. See also value engineering.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop and CIPS Study Guides)

Value For Money (VFM)

Is the optimum combination of whole life costs and quality (or fitness for purpose) to meet the user's requirements. This is rarely synonymous with lowest price.

(Source: <http://www.oqc.gov.uk>)

Variety Control

The selection of the optimum number of sizes or types of material to meet a prevailing need.

(Source: CIPS Study Guide: Legal & Procurement Processes)

Vendor Rating

Method of monitoring and measuring aspects of supplier's contractual performance

W

Without prejudice

A term used in correspondence or in making offers that renders such correspondence incapable of being used as evidence and thus devoid of all legal force.

Write Down

Authorised financial adjustment to reduce the value of stock or plant as a result of loss damage or deterioration.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)

Write Off

Authorised financial adjustment to support the removal of an item of stock or plant from the financial accounts as a result of loss, damage or deterioration.

(Source: adapted from The official dictionary of purchasing & supply by KH Compton and DA Jessop)