

A-Z of Purchasing Jargon

This Knowledge Byte is an introduction to some of the jargon commonly used by Purchasing and Supply Management Professionals.

Jargon is used within most professions and businesses; procurement is no exception. 'The Official Dictionary of Purchasing & Supply (Terminology for Buyers and Suppliers) by Professor Jessop and H.K Compton is a great text and along with the CIPS Jargon Buster (www.cips.org) they should be part of every new procurement professional's toolkit.

This document looks at one phrase from A - W in a little more detail, we are yet to discover an XYZ!

A is for Approved List

Most procurement teams have an approved supplier list. These suppliers have undergone some pre-approval metrics to test their suitability. Criteria could include financial stability, quality assurance, cultural fit, and/or site audits. Business units can then confidently trade with these suppliers in the knowledge that they are commercially sound.

B is for Blanket Order

Blanket orders are placed with suppliers so that multiple delivery dates can be scheduled over a period of time. They are generally limited to a value or volume of goods and often the prices are predetermined throughout the period. The benefits include reduced stock holding and administration costs as one purchase order is used rather than processing a new order every time supplies are required. This works well for components, stationery and office supplies where prices are very static.

C is for 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. CSR is simply good practice and embraces how organisations are run and their commitment to all stakeholders.

D is for Decentralisation

The process of devolving responsibilities and accountabilities for undertaking functional activities across a diverse number of locations. Procurement activities are often decentralised where individual business units still retain ownership for procurement activities; this is common in service industries where procurement has a relatively low focus.

E is for 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 or XML), unstructured messages (Email), Internet, data, databases and database access across the entire range. This can include eAuctions, eProcurement systems, eMarketplaces, intranets, portals and extranets to automate the transactional steps in the procurement cycle. It is worth mentioning that these systems are merely tools to enable us to transact electronically; they should be implemented within a robust procurement strategy and policy.

F is for Force Majeure

Force Majeure is a legal term and generally found as a standard clause in most contracts. Law is one profession that is renowned for jargon, it is therefore vital to understand to ensure that arrangements between buyer and supplier are safeguarded. Force Majeure relates to unforeseen circumstances that may result in non-delivery or delays and includes things such as strikes, acts of God and fire etc or more recent examples include terrorism and war.

G is for Globalisation

The internet, media and advances in travel have made the world a smaller place. Globalisation is a concept in which business, culture, politics etc across the world is less confined. Consumers and business now buy and sell more products across more countries throughout the world mainly due to increased awareness through communication channels such as the media and internet; but also through advances in travel. The International Monetary Fund define Globalisation as "Economic "globalization" is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labour) and knowledge (technology) across international borders. There are also broader cultural, political and environmental dimensions of globalization." Source - www.imf.org

H is for Hard Sell

Applying pressure on the buyer is 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 is however appropriate for certain types of suppliers, procurement professionals need to fully assess the risks such as numbers of suppliers, security of supply etc before taking this heavy handed approach to negotiation.

I is for Invitation To Tender (ITT)

An ITT is 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). Tender procedures add some formality to the process, it safe guards buyer and supplier against any

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unfair treatment. Tenders can be open, available to everyone or restricted, only available to a pre-selected list.

J is for Just In Time (JIT)

Originally a concept imported from Japan, JIT is based on the idea that only sufficient quantities should be manufactured or be made available to satisfy customers' immediate needs. This inventory strategy relies on an efficient supply chain for its success; goods and services must be available for delivery as and when required with no delay as stock levels are either zero or kept to an absolute minimum.

K is for Kanban

Kanban is another Japanese term, translates literally as kan, "visual" and ban, "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. Examples of Kanbans are warning lights when batteries are low, or when a box of screws is almost empty, an automatic signal goes to the supplier to deliver some more and refill the box.

L is for Lean

Lean is a management philosophy focusing on reduction of the seven wastes to improve overall customer value.

- Transportation
- Inventory
- Motion
- Waiting time
- Over-production
- Processing Itself
- Defects

By eliminating waste quality is improved, production time and costs are reduced. Kanban is one technique used to reduce time, motion and inventory. A vital ingredient is that all partners in the supply chain need to be responsive and highly reliable. Lean production is probably most developed in the car industry.

M is for MRO

MRO (Maintenance Repair and Operating) products refer to goods that repair any sort of mechanical or electrical device or products purchased that form part of a routine preventative maintenance plan.

N is for 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.

O is for Outsourcing

Placing core and non-core business activities with external specialists. Although the day to day running activities are delegated to a third party, responsibility still lies with the organisation. A strong relationship is essential for this to work, both parties have to be clear on their roles and responsibilities throughout the duration of the contract. Organisations outsource for various reasons, it allows internal resources to concentrate on core business activities, it is often cheaper; the specialists have a better understanding of the industry and greater economies of scale in order to make the business more viable.

P is for 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. The M6 Toll road is an example of private investment for a public service.

Q is for Quotation

Quotations are not to be confused with an 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 is for Radio Frequency Identification (RFID)

Is an emerging technology enabler for tracking goods and assets around the world. It enables new efficiencies within the supply chain by tracking goods and services from point of manufacture through to retail point of sale (RPOS). This enables an organisation to identify stock levels at any one whether it is in stores across the country, in transit and/or in a central warehouse.

S is for 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 document 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

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- Encourage dialog in the event of disputes
- Eliminate unrealistic expectations.

T is for Transfer of Undertakings (Protection of Employment) TUPE

TUPE is 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 and pension entitlement etc.

U is for Upstream

This term is used to describe 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 is for Value engineering

Value Engineering is 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.

W is for 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.

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