



JARGON BUSTER

THE PROCUREMENT *GLOSSARY*... 2009 UPDATE



PSL Consulting Solutions Limited
Your Partner in Procurement

Glossary

Over 400 essential and esoteric facts, phrases and FAQs about purchasing and supply that you always wanted to know, but were afraid to ask!

ABC Activity Based Costing.

Above-the-line Advertising and promotional activity - and expense - that is generally managed - and delivered - via mass media such as TV. As opposed to **below-the-line**.

Absorption costing A method of costing where all costs, including a portion of overheads, are identified with - absorbed by - units of output. A technique and device monitored in **open-book** supply arrangements.

Acid test An index of liquidity or creditworthiness, it is a financial ratio applied to a company's **balance-sheet** that measures current assets less stocks against current liabilities. In many manufacturing companies a 'healthy' ratio will be at least 2:1.

Acknowledgement The response by the seller accepting a buyer's **purchase order**. The timing and content of the acknowledgement can affect the '**battle of the forms**'.

Acquisition cost The total of all costs related to the process of bringing a **supplier's** product or services to the point of consumption. Otherwise known as **lifetime cost** or cost-of-ownership.

ADR Alternative Dispute Resolution. It is a simpler form of contractual dispute resolution often referred to as **mediation**, in which the parties can choose the rules, procedures and *mediator*. Often faster and cheaper than formal **arbitration**.

Agency *Charlesworth* describes an agent as a person employed to bring a principal into contractual **negotiations** with third parties. Whilst the agent does not make **contracts**, *agency* can nonetheless arise in three ways...

- express agreement;
- implication or by conduct;
- necessity.

Agenda 21 Originally promulgated at the Rio summit in 1992 Agenda 21 is the programme for **sustainable** development that underpins much organisational (in government, public and the private-**sectors**) policy on corporate social and environmental responsibility.

- Agreement FOR Services** An Agreement FOR Services is established between two independent parties to execute a particular task. Not to be confused with an **Agreement OF Service**. A classic illustration between the two types might be that of a taxi driver (a contractor hired using the former) and a chauffeur (an employee hired using the latter).
- Agreement OF Service** An Agreement OF Service is a **contract** of employment in which a person will place his labour at the disposal of another in what was previously called a master/servant relationship. Not to be confused with an **Agreement FOR Services**. See above for examples. Inland Revenue considerations - particularly directive IR35 - have helped establish the essential differences which usually hinge on control and supervision.
- Algorithm** A defined set of steps or rules to solve a problem or calculate a result in a software **program**.
- Alpha-test** Testing performed by the customer/buyer in an environment controlled by the software or product developer. It often precedes the **beta-test**.
- Amortisation** The allocation of - usually (fixed) tooling - **costs** over an agreed period of time. **Title** will often remain with the **supplier** under such a model.
- A/P** Accounts Payable.
- Application software** A **program** designed to meet the needs of a business process; which may be tailored to meet specific user needs.
- Arbitration** A method of contractual dispute resolution that falls short of full litigation in the courts, although it is often as costly and time consuming. Much best practice now eschews the inclusion of such formal arbitration arrangements - preferring instead to rely on **mediation**.
- ASC** Adult Social Care.
- Assignment** The liabilities of a **contract** cannot be assigned without the consent of the other party. Most agreements will now specify the rules agreed to on this aspect. **Novation** is one way of executing assignment.
- Availability charge** The element of an electricity bill levied usually on a monthly basis per KVa of required capacity.
- B2B** A business-to-business supply relationship in which the customer is industrial/commercial organisation. As opposed to **B2C**.

B2C Business-to-consumer.

Balance-sheet The set of accounts that records the net worth or value, i.e., a *balance* of assets and liabilities, of a business at a point in time. As opposed to the **P&L**.

Balanced scorecard A management tool originally developed by Harvard's Robert Kaplan, it seeks to focus and *balance* performance measures as much on (historical) financial outcomes as on wider (visionary) objectives such as customer satisfaction, stakeholder engagement and being a 'great-place-to-work'.

Bank guarantee In its simplest form a **bond** or guarantee underwritten by a bank (or insurance company) enabling a buyer to recover sufficient funds from a **supplier** in the event of its failure to perform to secure alternative goods/services. However, these **bonds** can take time to process, encouraging use of on-demand **bonds** which allow buyers to call in funds without having to prove **supplier** failure. Bank guarantees are also used in *irrevocable letters of credit*.

Bargaining model The **negotiation** tool that establishes three key variables as part of your preparations:

- IS.....Ideal Settlement.
- RS.....Realistic Settlement.
- FB.....Fall Back Position.

Similar to the **LIMits** model.

Barter The process by which goods and services are exchanged, rather than purchased with cash. There are a number of bartering facilitators that operate bartering *clearing houses* that match buyers and sellers and barter *credits*.

Baselining A form of benchmarking that involves post-measurement **gap analysis**.

BATNA Best Alternative To a Negotiated Agreement. Developed by Fisher & Ury in their book 'Getting To Yes' in which they say that BATNAs are critical to **negotiation** because you cannot make a wise decision about whether to accept a negotiated agreement unless you know what your alternatives are. In the simplest terms, if the proposed agreement is better than your BATNA, then you should accept it. If the agreement is not better than your BATNA, then you should reopen negotiations.

'Battle of the Forms' A colloquial term for the potential dispute that can arise over whose **T's & C's** apply to a **purchase order** or **contract**. The last set of terms and conditions communicated usually apply to the contract. Some **suppliers** will incorporate their **T's & C's** into **acknowledgements** or the **GRN** - thereby overriding the buyer's **purchase order**.

- BAU** Business As Usual.
- BCM** Business Continuity Management is the process of preparing contingency and other risk assessment and disaster recovery plans.
- BEAMA** British Electrical and Allied Manufacturers' Association. It has evolved a **contract price adjustment** formula which is widely recognised by buyers and sellers who use it where it is not possible or appropriate to agree a fixed **price**. The formula utilises various inflation and material cost indices drawn from the government's Monthly Digest of Statistics. It has also developed a set of standard **contract T's & C's**.
- Below-the-line** Promotional activity - and expense - that is generally managed - and delivered - via **merchandising**, mail-shots and other non-mass media channels. As opposed to **above-the-line**.
- Benchmarking** Benchmarking is about measuring the attributes and performance of your organisation against others. Allan Robertson says that benchmarking is essentially about adding value by signposting improvement opportunities and fostering continuous improvement. In this sense it is a process of organisational learning. Others apply a more prosaic interpretation, for example using more fundamental **price/cost** and **competitive evaluation** comparisons to ensure on-going competitiveness in long-term outsourcing **contracts**. It can also encompass **reverse engineering** and is a core element in **best value** processes. **Baselining** is a form of benchmarking.
- Bespoke** Made-to-measure; often used to define software **programs** that are created from scratch to suit a particular client requirement.
- Best value** Similar to **benchmarking**, a concept that is applied most often in a public-sector context and describes - like **benchmarking** - both the quest for continuous organisational improvements, and the delivery of **value-for-money** sourcing decisions. The challenge for procurement people is to ensure they are involved in both endeavours!
- Beta-test** Acceptance testing performed by the customer/buyer in a quasi 'live' environment (and not controlled by the software or product developer) to ensure that interpretation of all the key customer requirements have been met by the designer/developer. It succeeds the **alpha-test**.
- Bid bond** An undertaking - usually made via a bank or insurance company - required of a **supplier** making the lowest bid, which is forfeited if that supplier withdraws the bid or does not accept the subsequent contract. The bond will contribute towards the buyer's (higher) costs of accepting the next lowest bid.

- Bill of lading** A document that records the content of shipments. They are typically issued by the transport company at the time of loading/unloading.
- Bill of material** The recipe which defines the amount of each part required for each stage in a manufacturing process.
- Block contract** Often used in the acquisition of social care it refers to a contract that commits the council or **PCT** to take a fixed amount of services, say places in a residential care home. It is similar to a lump-sum contract, but differs from a **spot contract**.
- Bond** Issued by both governments and companies, a bond is essentially a loan or debt security - usually applied to secure long-term finance - where the issuer is the borrower and the bond-holder the lender.
- 'Boston Box'** A **supplier positioning** and profiling tool that plots the position of a **supplier** in a grid with an *x* axis that measures risk or complexity and a *y* axis that measures spend/value. See also **'four-box'** grid.
- BPR** Business Process Re-engineering.
- Brand** Not just about the image, logo, **trademarks** and other outward symbols that make up the distinctive 'statement' of an organisation, brand is increasingly about the 'experience' of consuming the goods and services of that organisation. From a procurement point of view it is also about the 'buying brand' image that the organisation displays externally. 'Buying brand' is to do with how our **suppliers** see us. Do they see us as an old-fashioned, aggressive, nuisance client; or as a core, preferred client?
- Breach of contract** A contract is normally discharged through performance, including the payment of the agreed fee or **price**. However, the **supplier** (or buyer) could be in breach of contract by:
- repudiating the terms of the contract,
 - disabling himself from fulfilment, or
 - failing to fulfil his obligations under the contract.
- In all cases the buyer (or seller) is entitled to sue for damages.
- 'Bricks-and-clicks'** An **eCommerce** term that describes a traditional **vendor** with an electronic, e-connected warehouse, e.g., *rswww.com* (RS Components).
- Brokerage** 1. A term applied to the downstream **call-off** - some would describe it as *micro-commissioning* - of individual (usually social care) services.

2. A term used in the public-sector to describe a loan from the 'sponsoring body' that is used to fund a specific contract. (Source: Derek Nash)

Brown goods Furniture and associated items. As opposed to **white goods**.

BSA The Business Software Alliance is a non-profit trade association created to advance the goals of the software industry and its hardware partners, particularly on issues of software usage compliance and piracy. See also **FAST** and **IiS**. (See www.bsa.org)

Buyer-centric An **eCommerce** term that describes an internet site that is owned, managed and operated to suit a buyer's needs, with controlled access for (selected) **suppliers**. An example of such a site would be covisint.com, though like many similar sites, it has evolved into a wider **portal**. They differ from **supplier-centric** sites.

C&YP Children and Young People.

CAD Computer Aided Design.

Call-off contract A form of contract for a fixed quantity of goods/services, which are to be scheduled for intermittent (and variable) delivery over the period of the contract - at a fixed **price**.

CAM Computer Aided Manufacture.

Carbon footprint A measure of the impact our activities have on the environment, especially climate change. Green energy sources, consumption profiling and 'degree-days' are all techniques to reduce the carbon footprint.

Cartel An association of companies producing similar goods or services that formulates plans and policies to control or stabilise prices and volumes to their interest. Cartels are most often attributed to 'selling' organisations, but can apply to buying activities as well. Such action - in either case - that tends to prevent, restrict or distort competition is illegal under the terms of the **Treaty of Rome** and the **Competition Act 1998**.

CASE Computer Aided Software Engineering.

Cash flow The rate at which a business uses cash to support its operations. Inventory and work-in-progress can both affect the consumption of cash. Buyers will contribute to positive cash flows in their own business through appropriate use of payment terms and will assess cash flow in their **suppliers** by reference to the **balance-sheet** - balancing creditors with debtors and use of the current and **acid test** ratios.

- Catalogue** In **eCommerce** terms, a tool for **suppliers** to 'shop-window' their product, often as part of a larger **ERP** system.
- Category** The broad collection of (similar) goods and services that can not only be effectively managed within the organisation, but also purchased in a **sustainable** and **leveraged** way from the market. Sometimes referred to as a 'commodity'.
- Category management** Originating in the retail sales **sector**, category management at its simplest is a process that involves managing product/service categories as business units and customising them on a focussed basis in order to satisfy customer needs. From a **supply-chain** point of view **CIPS** describes it as the process or methodology - sometimes referred to as **portfolio buying** - of taking an holistic, entrepreneurial view of the organisation's externally sourced requirements. **CIPS** describes five key phases/activities:
- Developing a thorough understanding of externally-sourced spend and future demand.
 - Segmenting spend into market **sectors**.
 - Developing market **sector** sourcing strategies, often based on **benchmarking** data.
 - **Supplier** selection and segmentation.
 - **Supplier** performance management.
- The entire process is often inter-changeable with the term **contract management**.
- Caveat emptor** Literally translated as *buyer beware*. English case law puts the onus on the buyer to ensure that the **contract/buying** arrangements meets his/her needs, though the buyer can rely on certain Acts of Parliament such as the Unfair Contract Terms Act 1977, the Supply of Goods and Services Act 1982 and the **Sale of Goods (Amendment) Act 1994** which describe in law the concepts of merchantable quality and fitness for purpose.
- CBI** Confederation of British Industry.
- Centrex** Generic name for a feature offered by some telecommunications **providers** where users have individual direct exchange lines, but calls between them are free.
- Certificate of conformity** Pre-inspection form generated by a **supplier** authenticating conformance to an agreed **specification/drawing/engineering** change level. Used extensively in the defence and aerospace industry.
- CFM** Continuous Flow Manufacturing. A manufacturing discipline that *pulls* rather than *pushes* material through the process. In other words material is only used as capacity exists within the manufacturing facility. It requires good quality and shorter **lead-times** from more responsive **suppliers**. It delivers

greater capacity and higher **inventory-turn** rates.

- CHP** 1. Combined Heat and Power. A hybrid energy system that simultaneously generates usable heat and power (usually electricity) in a single process.
2. Community Health Partnership. The broadly equivalent organisation in Scotland to that of **PCTs** in England and **LHBs** in Wales. CHPs provide a focus for the integration of primary and specialist health services with social care to ensure that local services and public-health outcomes are fully 'joined-up'.
3. Community Health Partnerships Limited. Known until autumn 2007 as Partnerships for Health Limited it is an independent but wholly-owned subsidiary of the Department of Health, charged with investing in and developing the **LIFT** procurement model and other **PPP** mechanisms, such as 'community ventures' and **social enterprises**, to improve health and social care throughout England.
- C.i.f.** Cost, insurance, freight. A **contract** for the sale of goods to be performed by the delivery of documents giving the right to have the goods delivered or the possible right (if they are lost or damaged) of recovering their value from the ship owner or insurers. The duties of the seller under this arrangement are to:
- Ship at the port described.
 - Procure carriage by sea, under which the goods will be delivered to the destination described.
 - Arrange for insurance - on the terms current in the trade - which will benefit the buyer.
 - Deliver to the buyer within a reasonable time after shipment, the **bill of lading**, certificate of insurance and the **invoice**.
 - The duties of the buyer under such a **contract** are to pay:
 - ✓ The **price**, less freight;
 - ✓ The cost of unloading, **lighterage** and landing at port;
 - ✓ All import duties and **wharfage** charges - if any.
- CIPS** The Chartered Institute of Purchasing & Supply; the professional body for buyers and **supply-chain** practitioners.
(See www.cips.org)
- City-pair** A **T&E** term meaning a city-to-city journey, used extensively in expenditure analysis and fare **negotiation**. As opposed to **sector**.
- CLAN** Centre Led Action Network.
- CLI** A telecommunications term meaning Call Line Identity.

- Climate Change Levy** A tax on the use of energy in industry, commerce and the public-sector. Its application can be offset or eliminated via the use of 'green' energy supplies; or by entering into Climate Change Agreements in which organisations agree to meet specific energy efficiency or **carbon footprint** savings targets.
- Collateral contracts of warranty** Collateral contracts of **warranty** are used to circumvent the limitations of **privity of contract**. The most common example is a hire-purchase agreement that effectively involves three parties: the buyer, the seller and the finance-house. Although the prime **contract** for the purchase of, for instance, a car on a hire-purchase will be between the buyer and the finance-house, a collateral **contract of warranty** exists between the buyer and the seller (the garage).
- Collusion** The Oxford English Dictionary (OED) describes *collusion* as secret co-operation in order to deceive others. From a procurement point of view it can apply to the activities of two or more bidders operating as a **cartel** and attempting to fix prices between them; or it could apply to the buyer and one particular seller attempting to fix the outcome, of a competitive bid. In any event, **CIPS** is very clear on business ethics, particularly in relation to transparency, confidentiality and fairness.
- Commissioning**
1. Applied most often to health and social care services it is defined in a number of ways, though generally seen as the strategic activity involved in preparing, writing and orchestrating the resources plan to enable agreed end-customer service outcomes that represent **best-value**. Sometimes sub-defined as *macro*-commissioning, being the broad strategic needs-setting exercise and *micro*-commissioning - or **brokerage** - being the **call-off** of individual/discrete services.
 2. Term applied to the activities involved in bringing a new building, plant or piece of equipment into service.
- Commitment accounting** A process to manage budgetary commitments that integrates sales and **purchase order** records to update, track and control the committed costs within the **GL** and provide **MI** reports on *inter alia* over-budget situations.
- Competition Act 1998** The fundamental laws on competition and market power are enshrined in the **Treaty of Rome**. The Competition Act 1998 replicates EU legislation on two fronts. Based on Article 81 of the **Treaty of Rome** it prohibits anti-competitive agreements that may affect or distort free trade. And it prohibits the abuse of a dominant position in a market, as laid down in Article 82.
- Competitive evaluation** A selection/sourcing process that evaluates the overall competitiveness of a **supplier** based on factors such as quality, **price**, technical and management capabilities. It may entail the

use of open-bidding techniques such as **RFQs**, or it may be a closed process utilising internal costing and **benchmarking** data from independent, external industry sources.

Completed-staff-work CSW is the concept of getting it right-first-time; about adding value not **cost**. It enables/encourages staff to take risks, but understanding the 'boundaries' of those risks and - above all - taking the consequences of the risks and their outcomes. It is about presenting answers not questions; solutions not problems, in other words fully thought-through outputs, whether it is a strategy paper, a sourcing business cases or just a simple presentation.

Consideration The fundamental conditions for a **contract** are *offer* and *acceptance*. However, a contract does not exist because the parties agree. It must also incorporate an *executed* or *executory* promise. Most commercial **contracts** contain the latter, in the form of a price. *A* promises to pay *B* the agreed price for executing the supply of agreed goods or services. It is this promise that constitutes *consideration*.

Consignment stock Parts, components and material allocated to the **supplier** for the completion of subassemblies on a **free issue** basis.

Consortium buying Consortium buying envisages extending the scope and extent of trading beyond the boundaries of the organisation. It entails the creation of a group of like-minded buying organisations in order to **leverage** the sourcing of bought-in goods and services, common to members, in a reduced **supplier** base.

Consumer Focus The statutory organisation campaigning for a fair deal for consumers in England, Scotland and Wales and for postal services in Northern Ireland. Going live on 1st October 2008 Consumer Focus is the merger of Energywatch, Postwatch and the National Consumer Council.

Contestability Originally developed in the early 1980s by the American economist Will Baumol *contestability* is neither a synonym for competition nor 'market-testing' by another name. Instead it refers to a situation where a provider faces a credible threat of competition.

Contract An agreement to perform services or provide goods. It can be oral, but is usually a written document; that will have seven key features:

- Intention - on both sides to agree something;
- Offer and acceptance - an offer from one accepted by the other;
- **Consideration** - a sum of money for a promise;
- **Contractual capacity** - the ability to enter into a contract, i.e., not a minor etc.;

- Genuineness of consent - not entered into under duress or fraudulently;
- Legality - the action promised is not illegal or immoral.

Contract Hire A form of contract used in the fleet-car industry; in which the renting company pays a monthly fee to use the vehicle. The vehicle remains the property of the finance company and so is therefore OFF the renting company's **balance-sheet**. It differs from **contract purchase**, **finance lease** and **hire purchase**.

Contract management **CIPS** describes contract life cycle management as "the process of systematically and efficiently managing contract creation, execution and analysis for maximising operational and financial performance and minimising risk". It is often inter-changeable with the term **category management**.

Contract master file A comprehensive file, or ideally a database, that contains all documentation and correspondence concerned with a particular project, product, item or service.

Contract Purchase A form of contract found generally in the fleet-car industry; in which the renter pays an initial deposit followed by monthly payments, over say a 12 or 36-month period. At the end of the period the renting company can either make a final payment (usually expressed as a 'guaranteed-future-value') to own the vehicle or use the residual value (which may exceed the 'guaranteed-future-value') as collateral against a replacement. The vehicle is shown as an asset ON the **balance-sheet**. It differs from **contract hire**, **finance lease** and **hire purchase**.

Contractual capacity Any person 'holding himself out' can legally commit his organisation into a binding **contract**, which is why it is important for organisations to ensure that its employees (and others) recognise the extent of their commitments to outside parties, particularly **suppliers**. The concept of **ultra vires** affects the contractual capacity of organisations.

Contractual risk The degree to which a buyer is exposed in any particular relationship through use of non-standard terms and conditions. Use of **supplier T's & C's** increases potential contractual risk for the buyer.

Copyright Copyright is a legal concept - originally codified internationally in the Berne Convention of 1886 - that protects the usage and ownership of as much works of literature or art as business output and **brand**, such as product packaging and other **intellectual property**. Similar legal protections exist via **designs**, **patents** and **trademarks**. (See www.ipo.gov.uk)

Cost The cost of the product or service is the amount the **supplier** spends producing it. Not to be confused with **price**, which is

the reward the **supplier** derives from providing it; and (for good measure) *value*, which is what the customer believes it is worth. (Source: SCP)

- Cost avoidance** The elimination of **price** increases from **suppliers**, usually through analysis and **negotiation** that might otherwise have been incurred. Not to be confused with **cost reduction**.
- Cost breakdown analysis** The detailed analysis of a **supplier's price** into detailed costs, including labour, material, tooling and the allocation of overhead costs to a particular part/product/service/project.
- Cost-plus** The **supplier** is reimbursed the actual **cost** of work done, plus a pre-agreed profit margin.
- Cost reduction** The outcome of a programme of action that may entail re-bidding, **negotiation**, changes in **specification**, frequency of delivery or other **supplier** discussions that result in real savings in unit **costs**. As opposed to **cost avoidance**.
- CPA** 1. Contract Price Adjustment. A pre-agreed **price variation formula**, e.g., **BEAMA**, used to manage changes in price(s) throughout the life of an agreement.
2. Comprehensive Performance Assessment is an audit process for local authorities executed by the Audit Commission and designed to test the councils' effectiveness in meeting government targets, **best-value** outcomes and, in relation to procurement, compliance to the **NPS**.
- CPI** The Consumer Prices Index is an average measure of the change in the prices of goods and services and is based on criteria applied in all other EU member states. See also **RPI**.
- CPV** Common Procurement Vocabulary. Used in the **OJEU** to describe standardised categories of goods or services.
- Critical path analysis** A system of planning the activities within a complex project that is designed to ensure that sub activities/processes are activated - and completed - at the appropriate time. The *critical path* optimises the project process.
- CRM** Customer Relations Management. Definitions vary, but the goal of CRM is to establish and maintain individualised relationships with customers to enhance loyalty and retention.
- CSF** Critical Success Factor.
- CSR** 1. Corporate Social Responsibility is defined by the **CBI** as "the acknowledgement by companies that they should be accountable not only for their financial performance, but for the

impact of their activities on society and/or the environment.” Whilst not exclusively about the **supply-chain**, it is essentially about an organisation's relationship with its clients, **suppliers**, employees and other **stakeholders**. **CIPS** describes **CSR** as a collection of disciplines which combine to represent an organisation's ethos, personality, philosophy and character.

2. Comprehensive Spending Review. Usually spanning three years and starting from a zero base, the **CSR** sets government spending priorities not just for central government but for the health service and local government too.

Cycle time The time taken from the initial identification of the requirement to the **supplier**, to the delivery of the solution either to the point of use within the buying organisation or the end customer. Cycle time profiling and/or reduction is the technique that breaks the operations down into manageable elements that can then be analysed and optimised in conjunction with the **supplier**. The output is not only shortened **lead-times**, but often lower **costs** feeding through into a lower **price**.

CYP Acronym used by local authorities to describe services to Children and Young People, encompassing both education and social care.

DBFM / DBFO Design, Build, Finance & Manage *or* Operate are **contract-forms** used in **PFI** arrangements.

DCF Discounted Cash Flow. A method of evaluating investment decisions by discounting the present value of future cash returns (rather than compounding the future value of present **cash flows**). It effectively reduces the cash and time value for complex investment projects into a single earnings (interest) rate. As opposed to **NPV**.

DEFCON The set of standard terms and conditions used by the UK's Ministry of Defence and some other central government departments. There is a core set of common terms, and then special clauses that are added to meet specific situations and outcomes.

Demurrage A **cost** incurred when a vehicle delivering/collecting goods (usually from abroad) is detained beyond the original period determined in the charter.

Depreciation The rate at which the value of assets in the **balance-sheet** is decremented.

Derivative 1. In mathematical and statistical terms, the measurement of how a function changes when the values of its inputs change.

2. A financial instrument which derives its value from the characteristics or performance of other underlying assets that can take the form of options and futures, e.g., a **contract** to exchange one currency for another at a pre-agreed rate.

Designs The outward appearance of something, the ownership and protection of which can be exercised in several ways:

- Registered design.
- Design right, which is free and extends for 15 years.
- **Copyright**.

Other similar legal protections exist via **patents** and **trademarks**. (See www.ipo.gov.uk)

Determination A legal term meaning the end, or completion of a **contract**.

Development curve A measure of Procurement's strategic influence and professional penetration, charting the extent to which it is engaged in *transactional* or *strategic* buying. Aspects of the former include a focus on **purchase orders** and policy. Adoption of internal developments such as customer segmentation and **SLAs** or of external developments such as **consortium buying** and **outsourcing** will propel Procurement up the *development curve*.

DISC A psychometric/personality modelling 'system' that segments people into four main 'types':
DOMINANT.....egotistical loner
INFLUENCING.....participative socialiser
STEADY.....consistent, cautious plodder
COMPLIANT.....systematic bureaucrat.

Discount A percentage reduction in the purchase **price** arising from **leveraged** or aggregated volumes and applied at the outset of the purchase. As opposed to a **rebate**.

Distributive bargaining A **negotiation** style based on a win:lose scenario, in which the protagonists seek to beat their opponent and distribute the spoils to one side. As opposed to **integrative** bargaining.

DOU Document Of Understanding. An agreement between organisations that often falls short of a full legal **contract**, but nonetheless seeks to establish and codify certain aspects of cooperation or collaboration. They are often used in **consortium buying** arrangements.

Due diligence The process whereby a buying company satisfies itself that a proposed transaction is only executed after appropriate and careful enquiry. Such enquiries include both financial and legal considerations and are designed to check that information disclosed by the seller (or take-over target) is accurate and that they are aware of other future liabilities, e.g., buying

commitments, client **warranty** claims or **intellectual property** exposures.

'Dutch' auction Competing **suppliers** are played off against each other. The buyer reveals **price** or other bid details from one **supplier** to another, in order improve the terms. It is considered unethical by most buying organisations.

EATNA Estimated Alternative To a Negotiated Agreement. Developed by Fisher & Ury in their book 'Getting To Yes' in which they contrast **BATNAs** and EATNAs. Even when negotiators do not have good options, they often think they do. So beware EATNAs. However, as **BATNAs** and EATNAs converge so the **negotiation** 'ripens'.

eAuctions Electronic, on-line venue for buying/selling unique items via a form of virtual **tender**, though unlike a classic tender bidders can often see prices being offered, and so amend their bid accordingly. It is one of a number of **eProcurement** tools.

eCommerce A catch-all phrase to describe electronic trading.

eCoop An **eCommerce** term that describes an on-line mall with many suppliers, e.g., Ariba.

EDI Electronic Data Interchange is an international standard, e.g., EDIFACT, by which various types of business transactions, such as order placement, shipment, receiving, invoicing or payment, are exchanged between companies. An early form of **eCommerce**, it accelerates the information flows between buying and selling companies and usually accompanies a pull/**JIT** regime of reducing inventories.

EFQM European Foundation for Quality Management. In partnership with HM Treasury it developed the *Procurement Excellence* quality management system, used more in the public **sector** than private industry, that measures a set of five enablers (leadership, people, policy & strategy, partnership & resources and processes) and four measurements - or results - (people, customer, society and key performance) that are not only calibrated against a norm for **benchmarking** purposes, but also fed back into the organisation's innovation and learning.

EFTPOS Electronic Funds Transfer at Point Of Sale.

Embedded software Software that is part of a larger or inter-related system.

EMI An abbreviation used often in social care **contracts** meaning Elderly Mental Impairment.

- EOI** Expression Of Interest.
- EOQ** Economic Order Quantity is the formulae designed to assess lowest total/operating **cost** from variables including **price**, rate of usage or demand and internal **costs**.
- EPOS** Electronic Point Of Sale.
- eProcurement** CIPS describes *eProcurement* as "using the internet to operate transactional aspects [of purchasing]." See also **eSourcing**. **CIPS** thinks *eProcurement* has the propensity to fundamentally alter not only internal relationships including the way Purchasing is perceived and how it operates; but also how it handles information and trades externally. The **OGC** describes *eProcurement* as "applying internet technology and electronic solutions to business processes which result in tangible benefits and improved **value-for-money**". And as long ago as 2000, Tom Peters was saying quite unequivocally that "buyers failing to embrace **eCommerce** will be brushed aside."
- EPS** Earnings Per Share. A measure of the absolute earning power of each unit of ownership, in particular recording the dilution effects of increasing issued share capital. It is calculated as profit divided by the value of issued share capital.
- ERP** Enterprise Requirements Planning. **Oracle, SAP, JDEdwards, Walker** and others are all IT **providers** who have developed and evolved **MRP** systems into organisational systems that link financial, procurement, human relations and other requirements into a single structure, that are generally tailored to meet individual customer's needs.
- Escrow** A legal agreement to facilitate the safe custody and transfer of a **program** or **application software**. It is designed to ensure that, on the occurrence of certain events (typically payment on one side and release of the **source code** on the other) the buyer receives the code - should the **supplier** default or go into liquidation - and the seller's **intellectual property** is protected. A typical facilitator of such an arrangement would be **NCC**.
- eSourcing** **CIPS** describes it as "web-enabled collaborative technology to facilitate the full [sourcing] life cycle". In other words, whilst **eProcurement** describes an electronic **P2P** process, **eSourcing** covers the wider up-front requirements definition and supplier selection processes as well.
- EU Procurement Directives** The rules governing public procurement throughout the European Union. Organisations ordinarily subject to such **EU Procurement Directives** include all central and local government and (most) transportation companies and utilities - whether or not they are publicly or privately owned. Organisations so governed must publish their requirements in

OJEU. The directives also apply to external organisations purchasing on behalf of the public sector and to private sector purchases where a public sector organisation provides 50% or more of the funding for the goods or services being purchased.

EVA Economic Value Add. A measure used, extensively in US organisations, to assess how effectively an organisation adds value. Positive EVAs record added value, negative EVAs indicate value destroyed. EVA is calculated as net operating profit less a charge for capital employed.

Expediting A managed process to ensure that **suppliers** perform as agreed.

FAIM A **FIDI** Accredited International Mover has to meet certain quality standards in removals and international relocation services. (See www.fidi.com)

FAST Federation Against Software Theft has merged with **IIS** to protect the interests of British software developers, particularly in relation to compliance, intellectual property and piracy issues. See also **BSA**. (See www.fastiis.org)

FIDI Fédération Internationale des Déménageurs Internationaux is the trade association for removals and international relocation companies that has created the **FAIM** quality standard. (See www.fidi.com)

Finance Lease A form of contract used in the fleet-car industry; in which the renter enters into a straightforward rental agreement where the vehicle is **OFF balance-sheet**, but the renter carries the residual/disposal risk. It differs from **contract hire**, **contract purchase** and **hire purchase**.

Firm price A price that is agreed with a **supplier** at the outset of a **contract** that will not change throughout the life of the **contract**. Not to be confused with a **fixed price**.

Fixed price A price that is fixed at the commencement of the **contract**, but may change during the life of the **contract** according to predetermined price adjustment formulae. As opposed to a **firm price**.

FM Facilities Management is the term covering the provision of some or all of the services required to keep a building fully operational. It typically includes electrical maintenance and cleaning; and can often encompass guarding and office services.

FMCG Fast Moving Consumer Goods.

- FMEA** Failure Modes and Effects Analysis is used to improve system or product reliability by identifying potential failures and risks in the product, evaluating the effects of those failures and then rectifying them 'in production'.
- F.o.b.** Free on board. Under these **contract** pricing terms, the **supplier** has responsibility only for **costs** of goods until they are loaded on board ship, i.e., all **costs** up to the point of departure. The buyer assumes all risks and **costs** for subsequent carriage and insurance. However property in the goods does not pass to the buyer until after shipment.
- Force majeure** The term used in **contracts** to describe the occurrence of circumstances, beyond the reasonable control of the parties that render the performance of the **contract** impossible. Such occurrences include war, fire and civil disturbance. Effective **contracts** will include a clause describing what is included and what the remedies are, since without such definition they will usually be determined to relieve the party directly affected from some or all of its obligations.
- 'Formula sell'** A selling method based on a programmed presentation, it focuses on numerous features, impersonalised benefits and often solicits little participation from the 'buyer'. It minimises objections/questions and is usually associated with formal events or speciality selling, e.g., double-glazing. It differs from the '**needs satisfaction selling**' and '**stimulus response**' methods.
- 'Four-box' grid** The alternative term for '**Boston box**', being a **supplier positioning** and profiling tool that plots the position of a **supplier** in a grid with an *x* axis that measures risk or complexity and a *y* axis that measures spend/value.
- Framework agreement** An agreement to provide goods and services as and when required over a fixed **contract** period. There is usually no prior agreement to purchase a specific amount of goods and/or value of services, although sometimes an estimate is agreed between parties.
- Franchise** An agreement in which a firm (the *franchisor*) enters into a **contract** with other businesses (the *franchisees*), granting them the right to operate what is often a **proprietary** fulfilment model, or to use a **brand**, in the final distribution of goods and services to the end customer. The *franchisee* will pay a fee to the *franchisor* for the privilege of using this trade name and process.
- Free issue** Parts and sub-assemblies that are owned and paid for by the buyer and sent free of charge to the **vendor** for incorporation into finished goods.

- FTE** Full-Time Equivalent.
- Gain share** A risk-and-reward **contract** in which the **supplier** agrees to forgo some of its fixed or up-front fee on the basis that it will share the rewards of delivering lower **costs**. Often used in energy **negotiations** and other categories where it is relatively easy to establish the baseline. Otherwise known as contingent fee purchasing.
- Gap analysis** Associated with **benchmarking** and **TNA**, *gap analysis* seeks the answers to three key questions:
- Where are we?
 - Where do we want to get to?
 - How are we going to get there?
- GDS** Global Distribution System. A computer-based reservation system for managing the sale - originally - of airline tickets, but now also used for car-rental, hotel and other **T&E** related products. Mostly developed by airline alliances there have been several systems developed since the original system SABRE appeared in the early 1960s.
- Generic sourcing** The concept of designing evolving products with component parts and assemblies that maximise use of previous tools and suppliers. This creates a longer-term relationship with **suppliers** and often rewards them (through shared savings programmes) for innovative, **cost**-saving ideas contributed to the buyer's ongoing product development.
- GL** General Ledger.
- GRN** Goods Received Note.
- Half-hourly data** The frequency of collecting and measuring electricity consumption data. Used in energy metering and **contracts**.
- Handing-over certificate** A document used to control the transfer of responsibility for newly installed tools or capital equipment. It is not an official contractual document, but can carry important legal significance. (Source: Brian Farrington)
- Hedge**
1. A line of closely spaced shrubs planted as a barrier. Wikipedia
 2. A **contract** or arrangement entered into specifically to reduce the risk or exposure in an accompanying arrangement. For example, the volatility of the **price** of oil in the early '00s has precipitated extensive use of hedge **contracts** for kerosene by airlines.
- Hire Purchase** A form of contract used in the fleet-car industry and other **sectors**; in which the renter pays an agreed monthly fee

allowing ownership of the vehicle (or other item) at the end of the period. The item or vehicle is shown as an asset **ON the balance-sheet**. A form of hire purchase is used in **LIFT** schemes. It differs from **contract hire**, **contract purchase** and **finance lease**.

Horizontal site An **eCommerce** term that describes a website that serves a particular category **sector**, e.g., shop4steel.com. As opposed to a **vertical site**.

HV Can mean High Value, High Voltage or High Volume.

IiS Investors in Software has merged with **FAST** to create a single trade association focussed on protecting British software developers' **intellectual property**. See also **BSA**.
(See www.fastiis.org)

Incoterms A standard definition of supply terms published by the International Chamber of Commerce. Many buyers habitually use terms such as **f.o.b.** and **c.i.f.** This document constitutes an 'official' definition of such abbreviations and common trading terms that can be referred to in a **contract** to avoid misunderstanding and disputes. (Source: Brain Farrington)

Insolvency Insolvency describes the situation in which a company runs out of cash and cannot meet its current and future obligations. It is unlawful for the directors of a company in this situation to continue trading. In most agreements, the advent of insolvency will normally trigger termination.

In-sourcing The process of bringing the supply of goods or services back in-house. The action to do so may have been the end result of a **purchase-or-provide/make-or-buy** review. See also **outsourcing**.

Integrative bargaining A **negotiation** style that is about gaining mutual agreement - advantage even - based on a win:win outcome, in which the spoils are effectively shared. As opposed to **distributive bargaining**.

Intellectual property Information, designs, knowledge and **brands** that contribute to the competitive 'edge' of a company. IP is usually expressed as, or takes the form of, confidential information, **patents**, **copyrights**, **designs** and **trademarks**. Companies are entitled to protect their IP value through contractual terms - particularly in relation to employees and **suppliers** - despite the anti-competitive provisions of the **Treaty of Rome** and other legislation. Intellectual property is protected in a number of ways. For example, IT **suppliers** will seek to enforce software compliance; product designers and developers will seek to hold critical processes or ingredients secret and organisations will

pursue others for '**passing off**' their goods and services.
(See www.ipo.gov.uk)

Interruptible supply A specific arrangement for the supply of gas that can be *interrupted* by the **supplier**. It usually attracts a lower tariff and suits users with alternative energy sources, e.g., **CHP**.

Inventory turn The rate at which inventory is processed through a **supply-chain** - either a distribution channel or manufacturing process. **JIT/lean supply** forces processes to shorten lead-times and expose unnecessary stocking levels, so increasing turn rates.

Invitation to treat All **contracts** require offer and acceptance to exist. Many are formed when the buyer makes an offer (in the **Purchase Order**) and the seller accepts (in the **acknowledgement**). In some cases the roles are reversed. The buyer issues a **tender** document, which constitutes an invitation to do business (to treat). The seller in responding effectively makes the offer in a **tender** response, and the buyer accepts by issuing an order against the terms of the **tender** response.

Invoice The bill issued by a seller to a buyer - describing goods or services provided - indicating the need for payment. Most invoices are issued in retrospect, but in some cases **pro-forma invoices** are raised. And in other situations, invoices can be created in a **self-billing** process.

IPO Initial Public Offering. The first-time sale of some or all of the shares in a private company; that will have the effect of turning it into a public limited company.

ISDN Integrated Services Digital Network.

ISM Institute for Supply Management. Known formerly known as **NAPM** the ISM is the premier professional association for buyers and **supply-chain** practitioners in the USA.
(See www.ism.ws)

ISO International Organisation for Standardisation. There are two main standards that relate to procurement and **supply-chain** management:

- ISO9001 Quality Management Systems.
- ISO14001 Environmental Management Systems.

ITP The Instruction To Proceed is a formal document issued to the **vendor**, ahead of the formal **contract**, confirming commencement of the work. Although not formally part of the **contract**, it can take on potentially heavy legal significance.... later! Not to be confused with a **letter of intent**.

- JIT** Just-In-Time. **MRP** structures that were developed in the 1970s evolved, in the 80's, into JIT - an essential ingredient of **lean supply**. JIT is the concept of *pulling* material through a manufacturing process when it is required, rather than *pushing* it into the line according to pre-set limits. It is rooted in **TQM**, and requires a supplier-base that can provide shorter **lead-times** & good quality (at **six-sigma** levels) outputs and use **kanban** & **EDI** to communicate requirements. The benefits of JIT are lower inventory, bigger manufacturing capacity and faster end-customer response times.
- JV** Joint Venture.
- Kaizen** The Japanese term that means incremental improvements in quality or performance. It assumes that improvement will be made in many, small, continuing steps, rather than a few large ones.
- Kanban** The Japanese term that translates literally as card, and refers to the system whereby the need for parts and components are communicated as bins empty. Kanban controls requirements 'pulling' in a **JIT** environment.
- KPI** Key Performance Indicator.
- KWh** Kilowatt hour. A unit of energy amounting to a thousand watts of power flowing for one hour. See also **therm**.
- LAA** Local Area Agreement is a three-year *compact* between an **LSP** and central government that sets out local priorities, service imperatives and proposed service solutions and outcomes. Led by the local council it is one of the tools to deliver **place-shaping**. Several LAAs will come together to produce an **MAA**.
- Laissez faire** Literally meaning 'allow to do' it has become the shorthand for *free-for-all* economic liberalism. For buyers it is embodied in the concept of **caveat emptor**.
- LAN** Local Area Network. A communications network that serves users within a confined geographical area. It comprises servers, workstations, a network operating system and a communications link. As opposed to a **WAN**.
- LCR** Least Cost Routing, is a technique where the telephone system modifies the digits dialled by a user making an outside call in order to route the call via a low-cost carrier. Typically the routing decision is based on what number has been dialled and it is often possible to have several carriers configured on the same telephone system to take advantage of the cheapest route to any destination.

- LD** An abbreviation used often in social care **contracts** meaning Learning Disability.
- Lead-time** The elapsed period before fulfilment of a requirement for goods or services.
- Leakage** The sub-optimisation of usage of a corporate-wide **contract**, often caused by **maverick** buying.
- Lean supply** Pioneered by Japanese automotive companies such as Toyota lean supply is the evolution of **MRP** and **JIT**. It is essentially about the elimination of waste from the **supply-chain** - either within the buyer's manufacturing or downstream distribution/fulfilment processes; or upstream at **suppliers**. For many it constituted a **paradigm** shift in the approach to quality and manufacturing.
- Learning curve** In its basic form a line displaying the relationship between unit production time and the number of consecutive units of production. Learning curve theory assumes that the...
- amount of time required to complete a given task will be less each time that task is undertaken,
 - unit time will decrease at a decreasing rate,
 - reduction in time will follow a specific pattern.
- It is a tool in **supplier price negotiations**.
- Legacy system** A computer system or **application software** that forms an integral part of an organisation's existing process, but is often sub-optimised and too costly to replace.
- Letter of credit** A secure and widely used documentary credit used as a means of payment for international trade. They can take several forms:
- *revocable* - which may be amended or cancelled without prior notice to the beneficiary (seller);
 - *irrevocable* - essentially a **bank guarantee**;
 - *irrevocable & confirmed* - guaranteed whether or not it payment is received from the foreign bank;
 - *transferable & assignable* - which can be passed to a third party;
 - *'back-to-back'* - used where the goods are being sold on to another customer, who is also paying by letter of credit.
- Letter of intent** A commitment to enter into a formal **contract** at some later stage. If it contains the words "**subject to contract**" it is unlikely to commit the buyer to full **costs**; but may define a financial commitment - on the part of the buyer - to cover any **costs** incurred by the seller in the period between the issue of the LOI and the execution of a formal **contract**.

- Leverage** The consolidation, or aggregation, of volumes to secure lower prices from the market.
- LHB** Local Health Board. The broadly equivalent organisation in Wales to that of **PCTs** in England and **CHPs** in Scotland. LHBs are coterminous with their local **unitary council** and are charged with working with that local authority to plan long-term strategies for dealing with issues of health and well-being. They manage a substantial share of the NHS budget in Wales.
- Lifetime cost** The summation of all **costs** that will be incurred in the long-term use of a particular item or service, including freight and the 'cost of quality'. It will also often take account of overheads.
- LIFT** Local Improvement Finance Trust. LIFT is a **PPP** procurement model used in the health service in England in which a **PCT**, the Department of Health and a private-**sector** partner form a private limited company (the LIFTCo) in which (and this is where it differs markedly from the **PFI** approach) the public-**sector** retains a significant equity stake. LIFTCo then designs and constructs buildings and leases them back to the **PCT** over say twenty years on a sort of **hire purchase** basis. The buildings become the property of the **PCT** at the end of the lease.
- Lighterage** The transportation of goods – and the fee for doing so – in a lighter (a small ship designed to move cargo from ship to shore). Applies to **c.i.f. contracts**.
- LIMits** A **negotiation** 'model' devised by Lyndsay Swinton in which we determine three **negotiation** positions: the **Like to have** (best outcome); the **Intend to have** (realistic outcome) and the **Must have** (bottom-line position). (See www.mftrou.com).
- Liquidated damages** A contractual method allowing the buyer to recover actual losses from a **supplier** where it defaults through lateness or **specification** failure, without the need for the buyer to prove the actual loss. The extent of 'damages' is pre-agreed in the **contract**.
- LPA** Lease Plus Agreement.
- LSP** Local Strategic Partnership. The non-statutory body, generally hosted by the local council, that brings together all the **stakeholders** responsible for services in the **LAA**, including the council itself, **PCTs**, the Police, the **third-sector** and others.
- Lump sum contract** Often used in the public **sector**, these contracts are for a predetermined quantity of goods/services supplied at fixed **price(s)**. Sometimes referred to as **spot** contracts.

- LV** Can mean Low Value, Low Voltage or Low Volume.
- 'M' number** The unique identifier for the gas supply point.
- MAA** Multi Area Agreement. A regional or sub-regional local services plan that brings together several **LAAs** to address skills, economic development and other **leverage** opportunities.
- M&A** The acronym applied to activity and strategy related to business mergers and acquisitions.
- M&E** Mechanical & Electrical. This abbreviation refers to all the plumbing, electrical installation and maintenance needs within a building, and is often used in **FM** services.
- Make-or-buy** The **strategic sourcing** decision taken at the outset of product development that assesses the relative strengths, weaknesses and commercial viabilities of making a product in-house or **outsourcing** supply to an external **vendor**. The decision will take into account as much issues of spare/scarce capacity (which may result in a process of **in-sourcing**) within existing factory facilities, as to do with 'losing' control of key technologies. And will call out not only **leverage** tools and tactical **negotiation**, but also, increasingly, market analysis and sourcing strategies. Often referred to as **purchase-or-provide** in a public-**sector** context.
- Mandates OR Marketing?** Can Procurement best grow its influence by applying a central *mandate* on all purchasing or by *marketing* itself as though it were an independent internal **supplier**? Is it the gatekeeper for purchase-to-pay transactions, or is it winning friends and favour through demonstrable expertise in third-party relationships and (even) entrepreneurialism? In other words, is Procurement a marketing-led *business* or a mandate-fuelled *function*? Procurement *mandaters* have usually focussed narrowly on **cost** savings - with the optimistic, innovative ones looking for process as well as input savings. On the other hand, the *marketeers* have often favoured a wider target, trying to answer the question: how can Procurement integrate itself into the fabric of the business unit, in order to deliver not (just) **cost** savings but the key business objectives such as shareholder value, customer satisfaction, market share and **NPBT** improvement?
(See David Hewitt's foreword to Derek Roylance's book 'Purchasing Performance').
- Master Schedule** The balancing of supply and demand at individual sales item level. Used to produce to a feasible production plan.
- Maverick** The OED describes a *maverick* as an unconventional or independent-minded person. Seen from within Purchasing & Supply *maverick* has come to mean uncontrolled expenditure. From the buyer's point of view it can occur in a number of ways:

post factum buys (i.e., invoice before **purchase order**); buying via expenses, using non-approved **suppliers** and probably many more. From the maverick's point of view it is a speedy way of getting exactly what he wants.

- Maximum demand** A calculation used in energy tariffs applied to the high consumption months of November, December, January and February and levied on a monthly basis per KVA of required capacity.
- Measured term contract** Often used in the public **sector** this is a **contract** of a fixed period for anticipated types and volumes of work **called-off** from the **supplier** at specific times and (sub) locations. **Price** is usually calculated from a schedule of rates applied to actual quantities of work delivered.
- MEAT** Most Economically Advantageous Tender.
- Mediation** Sometimes referred to as **ADR** - alternative dispute resolution - it is a simple form of contractual dispute resolution, in which the parties can choose the rules, procedures and *mediator*. Often faster and cheaper than formal **arbitration**.
- Merchandising** Merchandising is a **below-the-line** form of promotion. It can take many forms, all with the same aim: to get a company and/or its **brand** products in pole position, often in **point-of-sale** positions, to catch the eye of a potential customer.
- MI** Management Information.
- Minority business** Used more widely in the US than in the UK, it is an organisation in which the majority of shares are owned - or the organisation effectively controlled - by women or ethnic-minorities.
- Misrepresentation** Misrepresentation occurs where the original inducement proves false, through fraudulent, negligent or innocent action. Remedies will depend on which form of misrepresentation occurred, but are usually rescission of the **contract** or damages.
- MPAN** Meter Point Administration Number is the unique identifier for a particular location used in electricity **contracts**.
- MRO** Maintenance Repair and Overhead. A general term used to describe an organisation's non-manufacturing requirements. It typically includes travel, fleet cars, stationery and other background goods and services that keep the organisation running.
- MRP** Material Requirements Planning. A process to plan the availability of stock to satisfy the demands of products in a given

period using product schedules and **bills of material** detail to compute parts ordering requirements.

MTBF Mean Time Between Failures helps focus on - and improve - system or product reliability by measuring the average rate of breakdown.

Multi-sourcing Choosing two or more **suppliers** for the same/similar **category** in order to spread the risk. Referred to as *dual-sourcing* where only two **suppliers** are used. As opposed to **single-sourcing**.

MVA Market Value Added. A measure of the value the 'market' places on an organisation. It is calculated as share capital plus debt less equity loans and retained earnings.

NAPM The National Association of Purchasing Managers was the former name of the **ISM**.

NCC The National Computing Centre is a UK-based membership organisation serving corporate and government users and **vendors**. Amongst a range of services they act as a facilitator for **escrow** agreements. (See www.ncc.co.uk)

NDA Non Disclosure Agreement. A specialised agreement, often used in pre-contract, bidding situations to establish confidentiality obligations to protect the **intellectual property** of either the buyer or seller, or both.

'Needs satisfaction selling' A selling method often applied in industrial, commercial, business-to-business situations. It is based on a highly interactive, personalised approach that is geared towards long-term **B2B** relationships and is rooted in understanding the customer's future needs and wants and - crucially - the level of dissatisfaction with the current **supplier**. The seller will seek to use this approach to identify the benefits and outcomes of his product/service, rather than its attributes or features. It differs significantly from the essentially **B2C 'formula sell'** and **'stimulus response'** methods.

Negotiation We meet to agree and all that remains are the terms. Negotiation is about getting the right deal, about securing the terms necessary to meet customer and profitability imperatives. The result can be win:win or win:lose and may be just about **price** or involve **specifications**, service delivery or **contract** terms. Indeed all discussions with a **supplier** (or client) are a negotiation!

Nett monthly payment terms Payment of an invoice is due by the 17th day of the month following receipt. In other words the buyer has secured up to 45 days credit from the **supplier**.

NLP Neuro-Linguistic Programming is a model of communications and behavioural analysis that is rooted in body language. It is a useful **negotiation** tool for buyers. Similar in some ways to **transactional analysis**.

Non-recurring cost One-off costs incurred at the outset of a **contract**, including jigs, fixtures, software. The buyer is not obliged to pay such costs unless agreed in the **contract**. (Source: Brian Farrington)

Non-touch An **eProcurement** term describing a 'touch-less' buying process that requires no physical intervention by the buyer in the ordering process, especially from **catalogues**.

Novation The process of **assignment**, in which the buyer agrees to transfer the **contract** to a replacement seller - or vice versa. It usually applies when companies have been taken over or merged and a new party needs to be formally recognised in the agreement.

NPBT Net Profit Before Tax.

NPS National Procurement Strategy for local government in England which sets out some key objectives for procurement in local councils, including...

- Delivering significantly better quality public services that meet the needs of citizens through **sustainable procurement** partnerships.
- Operating a mixed economy of service provision, with ready access to a diverse, competitive range of **suppliers**, including small firms, **social enterprises**, **minority businesses** and **third sector** groups.
- Achieving and demonstrating continuous improvement in **value for money** by collaborating with partners at local, regional, national and European levels.
- Obtaining greater value from each **category** of procurement expenditure through **strategic sourcing**.
- Realising community benefits.
- Stimulating markets and using their buying power creatively to drive innovation in the design, construction and delivery of services.

NPV Net Present Value. An alternative method (to **DCF**) of calculating and evaluating a project's returns. In this model a minimum earnings rate is agreed. This percentage is used to **discount** both cash inflows and outflows. If total present value of inflows exceeds outflows the difference - net present value - is a surplus yielded by the investment over minimum earnings rate. All other factors being equal, the investment decision would proceed.

- OCR** Optical Character Recognition.
- OEM** Other Equipment Manufacturer is a component or product (often proprietary) that is incorporated into - and often sold on under the **brand** and as part of - a larger or inter-related product.
- Ofgem** The statutory, regulatory body managing competition in the energy markets. (See www.ofgem.gov.uk)
- OFT** The Office of Fair Trading is the UK's consumer and competition authority, whose prime role is to ensure that markets work well for consumers.
- OGC** The Office of Government Commerce is an independent office of HM Treasury, whose prime role is to help central government and other public-**sector** organisations deliver **best value** from their spending.
- OJEU** Official Journal of the European Union. The publication in which organisations subject to **EU Procurement Directives** must advertise **tenders** and contract award notices to ensure free and fair participation by **suppliers**.
- OP** An abbreviation used often in social care **contracts** meaning Older People.
- Open-book** A system of detailed analysis of a **supplier's** accounts, in order to determine specific costs related to the buyer's project. The **supplier** makes detailed, often confidential, information available to the buyer. Open-book is used regularly in complex IT and **outsourcing contracts** and it is being increasingly used in social care supply **negotiations**.
- Open-source** Software **source code** that is not **proprietary** and is therefore freely available to be modified and re-used often in a collaborative environment, e.g., Open Office Suite.
- OTC** Over The Counter.
- Outsourcing** The term outsourcing has come to mean many things. For some it is (merely) a more sophisticated form of sub-contracting. For most though it is about having certain functions or processes performed by a specialist (external) company. It embraces the concept of shifting the responsibility for (significant - though not necessarily strategic) activities outside the boundaries of the organisation. Such externalising of substantial parts of the organisation's **supply-chain** may be the end result of a **purchase-or-provide/make-or-buy** analysis. See also **in-sourcing**.

- Override commissions** Commissions earned by travel agents from airlines over and above the standard booking commission; though with the advent of transaction fees in the **T&E** industry, override commissions are diminishing. Override commissions were traditionally payable to travel agents as an incentive to drive volume business to the carrier generally, or to a range of routes, **sectors** or **city-pairs**.
- P&L** Profit-and-loss is the set of accounts that record the activities of a business over a trading year and illustrates the revenues, costs of sale, overheads and the ensuing surplus or deficit. As opposed to the **balance-sheet**.
- P2P** The purchase-to-pay cycle represents the entire process from initial **requisition** through **invoice** and on to the end **supplier** payment.
- Paradigm** Synonymous with 'received-wisdom', the paradigm is the framework or set of assumptions within which say business is transacted or procurement executed. Occasionally such paradigms are challenged and the ensuing 'shift' can cause fundamental change in the 'rules-of-engagement'. In the view of many, the advent of Japanese manufacturing methods constituted just such a shift; as has the **eCommerce** explosion. Some might say the late '00s credit-crunch will prove just as cataclysmic.
- Pareto** Vilfredo Pareto was the Italian economist from whose body of work the 80/20 rule has been derived. The 80/20 rule holds that in general, for example, 80% of revenue comes from 20% of customers; or that 80% of spend is on 20% of parts. Used properly the *Pareto* rule can be a powerful tool in focussing investigative and analytical effort and **strategic sourcing leverage**.
- Partnership sourcing** According to the **CBI** it is "A commitment by customers and **suppliers**, regardless of size to a long term relationship based on clear and mutual objectives to strive for competitive advantage in an increasingly global marketplace." Partnership sourcing succeeds when:
- risk and rewards are shared,
 - benefits are measurable and mutual,
 - the business demands it and it is line with strategy,
 - there are few/no surprises,
 - regular & effective communication exists - starting at the top.
- 'Passing off'** The presentation of goods or services by one company to make them resemble, or attract the *cachet*, of those of another. There are several landmark cases that have established English law; many of which arise over **brand** confusion. There are rules under the **Treaty of Rome** that prevent unfair

competition in this and other ways. Known as 'palming off' in the US.

Patent A patent protects the **intellectual property** in new inventions and the way items work. A patent will only be granted for an invention that is demonstrably new and can be made into a physical item. It cannot apply for instance to written work and other items of IP that are protected via **copyright, designs or trademarks**. (See www.ipo.gov.uk)

PBR Payment By Results.

PCT Primary Care Trust. PCTs are at the front-line of health service delivery in England managing around 80% of the NHS budget. It is the PCT that determines - often coterminously with their local authority - the level and scope of local services via a strategic **commissioning** plan. The equivalent organisations in Scotland and Wales are **CHPs** and **LHBs** respectively. There are four Health & Social Services Boards in Northern Ireland that provide integrated primary health care and local authority social care functions, largely replicating the work of PCTs and **unitary councils** elsewhere in the UK.

PD An abbreviation used often in social care **contracts** meaning Physical Disability.

Penalty clause A sum defined in a **contract**, as part of the **contract price**, intended to enforce completion or otherwise penalise the defaulting party. Clauses that have only this intent are unenforceable in English law. Only **liquidated or unliquidated damages** are allowed.

Performance bond An agreed retention from the **contract price** by the buyer to cover additional **costs** that might be incurred from another **supplier** to complete work where the first **supplier** fails or goes into liquidation. See **bank guarantee**.

PFI The Private Finance Initiative provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage, new projects, often using **DFBM** or **DFBO** agreement templates. **Contracts** may well last for thirty years, during which time the building is leased by the public authority.

PIN Prior Indicative Notice. Used in the **OJEU** to indicate a buyer's intention to go to **tender** at some future date, allowing him therefore a shorter bidding time-frame. (Source: Business Link)

Place-shaping Coined by Sir Michael Lyons in his 2007 Inquiry into Local Government. In the broadest sense it is about developing,

building, shaping the locality to improve economic, social, cultural and health opportunities and outcomes. In a stricter procurement view it is - in Lyons' words - about councils using their "purchasing power and long-term perspective to shape markets [allowing] them to take advantage of...co-production to deliver better outcomes and greater efficiency".

Portal A web gateway that offers access not only to general information and other search engines, but also - with various levels of authority - access to an organisation's processes and supporting applications.

Portfolio buying Another term to describe **category management**.

POS Point-Of-Sale.

Post factum Meaning 'after the event', it generally refers to the processing of a purchase order after the goods have arrived or services delivered, and - crucially - the invoice has arrived. It is an example of **maverick** buying.

PPP Public Private Partnership. A sourcing model that links public-**sector** ownership with private-**sector** funds. A prime example is the **LIFT**, in which LIFTCo designs and constructs buildings and leases them back to the **PCT** over say twenty years on a sort of hire-purchase basis. The buildings become the property of the **PCT** at the end of the lease - another crucial difference to **PFI**.

PQQ Pre Qualification Questionnaire.

Price The price is the reward the **supplier** derives from providing its goods or services. Not to be confused with **cost**, which is the amount the **supplier** spends producing it; and (for good measure) *value*, which is what the customer believes it is worth. (Source: SCP)

Price variation formulae A contractual mechanism which provides for the movement of price during the **contract** period. Such mechanisms will usually cover at least labour and material **costs** and sometimes fixed **costs**. The formulae are often linked to defined/published indices, such as **BEAMA**. Sometimes referred to as **CPA** clauses.

Prince2 Prince2 (Projects IN Controlled Environments) is a government owned and developed methodology for managing projects. A registered trademark of **OGC** it is a de-facto standard widely recognised and used in the private sector.

Privity of contract The doctrine of privity holds that only parties to a contract can sue upon it. Thus a third party cannot sue even if they are the

beneficiary of the contract.

- Proactive buying** An approach to buying described by Baily & Farmer (etal) that has some or all of the following attributes:
- Purchasing can add value.
 - Purchasing (& **suppliers**) contribute to **specifications**.
 - Purchasing prevents defective material.
 - Purchasing has main Board representation.
 - Purchasing contributes to making markets.
 - Problems are shared.
 - Total **cost** is the key variable.
 - Emphasis is on the strategic future.
- As opposed to **reactive** buying.
- Procurement cycle** The process to which buying decisions/actions are subjected, including the following activities:
- Identify what is required to meet (internal) customer needs.
 - Locate who in the marketplace can meet these demands.
 - Develop appropriate forms of **contract**.
 - Execute **tender** or bidding procedures.
 - Evaluate all options and then recommend and/or decide.
 - Conform to all accepted business ethics and standards.
 - Control the terms of the **contract**.
 - Ensure they are performed.
 - Measure ongoing **supplier**/Procurement performance.
- Product liability** In 1985 the European Union adopted Directive 85/374/EEC which requires manufacturers to accept responsibility for the safe performance of their products. It provides additional protection to consumers, without relying on **warranty** claims.
- Product support** Activities provided by the **supplier** after delivery of goods, which might include availability of spares, engineering support - often for a specified period of time.
- Pro-forma invoices** Invoices issued ahead of delivery/fulfilment, usually where prior payment is required; or the buyer needs to commit the **purchase order** to an internal cost-code.
- Program** A sequence of instructions suitable for processing in an IT system.
- Progress payments** Agreed sums of money paid by the buyer before full completion of the **contract**, yet linked to measurable parcels of work.
- Proprietary** Hardware or software that carries a restriction on use - perhaps associated with a **patent** or other **intellectual property** - that will generally necessitate **sole-sourcing**. As opposed to **open-source** software.

Provider	An external supplier of goods or services. Aka supplier & vendor .
PSL	1. Preferred Supplier Listing. 2. PSL Consulting Solutions Limited, a company that provides practical consulting advice and project management solutions for the purchasing & supply community.
PTN	Post Tender Negotiation, defined by the OGC as " Negotiation after receipt of formal bids or tenders and before the letting of contract(s) with those companies submitting tenders offering the best value with a view to obtaining an improvement in content in circumstances which do not put the other bidders at a disadvantage, distort competition or affect adversely trust in the competitive tendering process."
'Punch-out'	eProcurement system functionality which gives users internet access to shop for goods and services at an external supplier's web-based catalogue , but then processes these potential purchases for approval and final order placement from within the eProcurement system. (Source: Pete Edwards)
Purchase-or-provide	The strategic sourcing process, applied mostly in public-sector organisations, within the context of a commissioning -led regime in which all needs are identified and all providers (crucially both in-house <u>and</u> external) are considered 'in the round' before sourcing decisions are taken. It is similar to the make-or-buy process in a private-sector context. Like make-or-buy the decision will take into account as much issues of (spare) capacity within existing facilities, as with stimulating markets, particularly in the third sector .
Purchase Order	The document issued by the buyer that forms a contract for the supply of goods or services, on 'standard' terms.
Purchasing Cards PCards	Purchasing Cards are used as an alternative method of payment for low value orders. Similar to personal Credit/Debit Cards, the crucial difference is that the company settles the bill, not the individual.
<i>Quantum meruit</i>	Quantum meruit - or amount deserved - is a claim for payment based on the value of completed work within a contract up to the time of breach or cancellation, rather than a payment based on damages.
Quotation analysis	Sometimes referred to as tender or bid analysis, it is the process of evaluating supplier proposals that takes account of all technical and commercial factors, including 'below-the-line' costs that allow the buying organisation to reach an informed decision about total acquisition or lifetime costs .

RAS Resource Allocation System is a process, within the Common Assessment Framework for **ASC** services, that broadly describes the process of preparing a care plan **specification** that links (self) assessment and budget/funding availability with an individualised care outcome.

Reactive buying An approach to buying described by Baily & Farmer (etal) that has some or all of the following attributes:

- Purchasing is a cost-centre.
- Purchasing receives **specifications**.
- Purchasing rejects defective material.
- Purchasing responds to market conditions.
- Problems are the **suppliers'** responsibility.
- **Price** is the key variable.
- Emphasis is on today.

As opposed to **proactive** buying.

Rebate A percentage reduction in the purchase **price** - usually applied for aggregated volumes and generally levied retrospectively. As opposed to a **discount**.

Reciprocity The process whereby buying and selling decisions are 'linked'. In other words pressure is put on buyers and sellers to trade bilaterally. Most buying organisations eschew the practice because it sub-optimises the buying terms, but organisations will sometimes seek to pressure buyers to place business with leading customers to protect or enhance the revenue/profit from those customers. Or they will encourage buyers to pressurise **suppliers** to use their products/services.

Requisition The initiation of the requirement to obtain goods and services. A requisition can be a formal document or the outline of a requirement; but should describe - or refer to - a **specification**.

Return on assets A ratio that measures profit to total assets.

$$= \frac{\text{Net Income}}{\text{Total Assets}}$$

Reverse auction A type of auction in which the role of the buyer and seller are reversed, with the primary objective to drive purchase **prices** downward. In an ordinary auction, buyers compete to obtain a good or service. In a reverse auction, sellers compete to obtain business. A reverse auction **tender** is similar to a '**Dutch**' **auction** in which **price tenders** are communicated - via an **eProcurement** system - to many bidders who are encouraged to reduce **prices** for a given **contract**.

Reverse engineering A form of **benchmarking** whereby competitors' products - usually goods rather than services - are analysed for content. Reverse engineering will often seek to determine the source

(and **price** where possible) of components and subassemblies.

RFI Request For Information. Usually used as a precursor to full competitive bids, often to augment final **supplier** inclusion. **Suppliers** may well be asked to complete a **PQQ** and/or describe an outline scope of service and even **price**; but no commitments are given or expected - at this stage.

RFP Request for Proposal (or **Price**). Similar to **RFQ**.

RFQ Request For Quotation. A formal request for a **supplier** to submit a detailed scope of service and fee submission. It differs from a **tender** in that the buyer implicitly retains the right to enter into **post-tender negotiations**.

ROCE Return On Capital Employed. This is a measure of profitability that is calculated by expressing profit as a percentage of investment.

ROI Return On Investment.

'Role-&-Output' model A model developed by **PSL** to determine perceptions of internal clients. The model plots a view of procurement's *role* (that is the importance of procurement - as a discipline - in its contribution to your organisation's ultimate output) and *output* (that is the effectiveness of the Procurement department itself).

ROS Return On Sales. This measures the profitability of, and value assigned to, an organisation's sales revenue. It is calculated by expressing profit as a percentage of sales.

RPI The Retail Prices Index is an average measure of the change in the prices of goods and services and is the most familiar general purpose domestic measure of inflation in the UK. There a couple of variants. RPI-X excludes mortgage payments. And RPI-Y excludes mortgage payments and the effects of taxation. See also **CPI**.

Sale Of Goods (Amendment) Act 1994 Applying only to the sale of goods, the original Sale of Goods Act 1979 brought together and codified much previous case law to create some 'implied' terms in the **contracts** for the sale of goods, including the concepts of 'merchantable quality' and 'fitness for purpose'. In many ways it superseded the old *laissez faire* concept of *caveat emptor*. English case law previously put the onus on the buyer to ensure that the **contract**/buying arrangements met his needs. The buyer can now rely not only on the Sale of Goods Act, but other related legislation including the Supply of Goods (Implied Terms) Act 1973, Unfair Contract Terms Act 1977 and the Supply of Goods and Services Act 1982. This current Act, which became law in January 1995, updates the original sales of goods legislation.

The key changes are to do with goods being of 'satisfactory quality' (previously called 'merchantable quality'); and the greater right of inspection by the buyer before acceptance.

Sarbanes-Oxley The Sarbanes-Oxley Act of 2002 (SOX) was enacted by the US Congress to redress the corporate scandals exposed at Enron, WorldCom and others. SOX imposes much stricter accounting standards that carry compliance implications not just for buying organisations of American-owned companies, but those with substantial operating divisions in the US. The Act also covers issues such as **whistle-blowing**.

Sector 1. A sub-division of economic activity, e.g., retail or mining.
2. A **T&E** term meaning one leg of a journey, as opposed to a **city-pair**.

Self-billing A process in which the buyer creates the **invoice** (a copy of which is sent to the **supplier**), either from standard terms agreed with the seller, or from time-sheets, etc. For VAT purposes it must include the words: "the VAT shown is your output tax due to HM Customs & Excise".

Shop-out Process by which a purchaser is automatically routed to the **vendor's** website-hosted **catalogue** where they can shop, and then bring back the selected items into their **ERP**-system hosted shopping cart.

'Should Cost' A form of **cost** estimating which uses commercially available data, e.g., industry labour rates and commodity trends, to establish a cost estimate for services **contracts**.
(Source: John Howard)

SIC Standard Industrial Classification is a list of codes applied to industrial and economic activity. It was first introduced into the UK in 1948 for use in classifying economic activity. From the outset, the UK SIC followed the same broad principles as the relevant international systems. There are 21 sections, 88 divisions, 272 groups, 615 classes and 191 subclasses.
See www.statistics.gov.uk for more information.

Single-sourcing Choosing to **leverage**, or aggregate, all your requirements for the same/similar **category** into one **supplier** in order to improve the terms of acquisition. As opposed to **multi-sourcing**; and not to be confused with **sole-sourcing**.

Sinking fund A regular payment to redeem loan stock or preference shares. It can also be used to make provisions for fixed asset replacement or repair.

Six-sigma Developed by Motorola in the 1980's to improve quality it is an inherent element in **lean supply** and **TQM**, and assumes that a process is capable of delivering defects at a rate of less than 3.4 parts per million.

SLA Service Level Agreement. The key ingredients to successful SLAs include some or all of the following elements:

- Drafted by the buyer, not the seller.
- Minimum acceptable tasks, frequencies, schedules, etc.
- Improvement/quality issues required.
- **Contract-management** reporting and conflict resolution.
- Financial and **MI** content & frequency.
- Who reports to whom, when, where and how.
- **KPIs**.

SME Small to Medium-sized Enterprise is the catch-all description for small businesses. SMEs make up around 99% of all enterprises across the EU. In May 2003 the EU Commission adopted this definition of small businesses:

CATEGORY	STAFF	TURNOVER
• Medium	<250	<€50m
• Small	<50	<€10m
• Micro	<10	<€2m

Social enterprise Often rooted in the community it serves, a social enterprise is not necessarily non-profit making, but it rarely has shareholders. A prime example of his type of **third-sector** organisation is the Bromley-by-Bow centre in Tower Hamlets pioneered by Andrew Mawson.

Sole-sourcing Having to place all your requirements for the same/similar **category** with the only **supplier** in that marketplace. Not to be confused with **single-sourcing**.

SOR Statement Of Requirements. A document used both in pre-bidding as a **specification** and also as an integral part of the final **contract**. Sometimes referred to as **SOW**.

Source code The programming language level computer instructions and data definitions that drive the operation of a computer **program**. It is often the basic **intellectual property** asset for the software developer. (Source: Pete Edwards)

SOW Statement Of Work. A document used both in pre-bidding as a **specification** and also as an integral part of the final **contract**.

Specifications According to the British Standards Institute, a specification is a means of communicating in writing the requirements or intentions of one party to another in relation to a product or service, a material, a procedure or a test. Specifications can be

detailed (or INPUT), where the means to an end are described - or *functional* (or OUTPUT), where only the ends are described.

SPIN A communications/'selling' model that structures questions into four main types:

SITUATION.....background information

PROBLEM.....challenges, issues

IMPLICATION...consequences, effects

NEEDS.....probing; benefit versus need.

Spot contract Often used in the acquisition of social care it refers to a sourcing methodology that buys services - say residential care home places - on as-required basis. It differs from a **block contract**.

SQL Structured Query Language. An industry standard language for the manipulation of database information. (Source: Pete Edwards)

Stakeholder A term often cited in **CSR**, it describes all those with an *interest* in the activities of an organisation. So even though the term can encompass customers, suppliers and employees it will often refer to the local community and other groups and individuals not necessarily directly related to the organisation. It also figures strongly in **LAAs**, **LSPs** and **MAAs**.

'Stimulus response' Rarely used in a **B2B** situation it is essentially a **B2C** selling method based on packaging and emotional responses, and one we will often be subjected to (subliminally) in a supermarket! It differs from the **'formula sell'** and **'needs satisfaction selling'** methods.

Strategic sourcing The 'big' view of procurement that sets purchasing requirements within the entire organisational **supply-chain**. It will address some or all of the following supply/market questions:

- The position of the business (within its **supply-chain**).
- The number of effective sources, and propensity to integrate.
- The pace of technological change and **supplier** volatility.
- The degree of government involvement.
- The ability to manage the strategy.
- Financial constraints and competitive capabilities.
- Core vs. non-core, e.g., what are the crown jewels?

Adoption of internal developments such as **SLAs** or of external developments such as **consortium buying** and **outsourcing** constitute aspects of *strategic sourcing* will propel Procurement up the **development curve**.

"Subject to contract" The terms in a **letter of intent**, or other communication between buyer and seller, that will generally ensure that a **contract** is NOT established. Unless of course offer-and-acceptance has been executed, and **consideration** agreed.

- Supplier** An external provider of goods or services. Aka **provider & vendor**.
- Supplier appraisal** A methodology applied before any bidding processes to assess the suitability of a supplier. A high quality supplier will be able to demonstrate:
- Progressive management.
 - Efficient administration.
 - Commitment to quality.
 - Sound financial status.
 - Effective employment and training policies.
 - Best-of-breed services and products.
 - Flexible and innovative attitude.
 - Support to the strategic direction of the (buyer's) business.
- Supplier-centric** An **eCommerce** term that describes a **supplier**-led, web-only service, e.g., supplies-team.co.uk. As opposed to a **buyer-centric** site.
- Supplier dependency** A measure of the degree to which suppliers are dependent on the buyer's business. Such dependence may limit the buyer's future freedom of action; so many buying organisations will seek to limit proactively such dependence, taking into account continuity of supply and community impact imperatives. For instance, one large IT provider applied a rule that it should not be responsible at any one time for more than 25% of a supplier's sales revenue. On the other hand, high supplier dependency delivers commitment and focus. Some large retailers have applied an 'exclusive' supplier dependency rule; though many have found such arrangements a problem when subsequently pursuing alternative sources, especially low-cost country sourcing.
- Supplier diversity** Often forming an integral part of an organisation's **CSR** policy supplier diversity is essentially about working with suppliers that reflect the broad stakeholder community in which the organisation operates. It can refer either to the ethnic & gender profile of an individual supplier; or to the wider programme of developing a range of alternative **minority-owned suppliers**, or are **social enterprises**.
- Supplier positioning** One of the tools used to reduce or rationalise the supplier base. It establishes the importance or significance of each supplier to the organisation usually measured in a '**Boston Box**' or '**four-box**' **grid**, in terms of the relativity of expenditure and risk.
- Supplier rationalisation** The process by which buyers seek to reduce the range of suppliers in order not only to maximise **negotiation leverage**, but also to minimise administrative **costs**.

Supply-chain The network or system of converting raw materials, technology, added-value personal services and other **intellectual property** into a final product or service. It connects up-stream external **suppliers** via an internal process with an end-customer. Theoretical concepts, as well as professional and academic developments, of supply-chain management continue to evolve, with latest thinking integrating waste disposal and end-of-life management into the supply-chain.

Surcharge A **price** escalation, or additional fee, that is applied subsequently, i.e., after **contract** commencement, but not before completion or **determination**.

Sustainable procurement A core ingredient in **CSR**, there are many definitions of sustainability; but essentially it is about 'securing the future', about environmental responsibility; about **supply-chains** that minimise their **carbon-footprint** and/or eradicate their depletion of natural resources and about buying resource-efficient products.

SWOT An abbreviation for Strengths-Weaknesses-Opportunities-Threats, SWOT is a planning and analysis tool to assess the relative position of a product, a team or other variable.

T's & C's Shorthand for terms and conditions, i.e., the contractual terms that apply to an agreement between buyer and seller. Most 'standard' **contracts** or **purchase orders** will contain at least the following key clauses...

- a definition of the parties,
- their respective obligations,
- the term of the agreement and how notice of termination will be managed,
- the **price** or fee (**consideration**).

There are a wide variety of standard terms and conditions packages. The first stop is with the **CIPS** which publishes not only general terms and conditions of contract but also a wide selection of specific contracts, e.g., for IT and related purchases. The **CCTA** (Central Computing & Telecommunications Agency, now part of the Office of Government Commerce) provides a similar role for the public **sector** - though both CIPS and CCTA contracts are now largely interchangeable between **sectors**. Other professional organisations provide model terms include:

- ACA (Association of Consultant Architects)
- ACE (Association of Consulting Engineers)
- **BEAMA** (British Electrical Allied Manufacturers' Association)
- CIP (Construction Industry Publications)
- FIDIC (Fédération Internationale des Ingénieurs Conseils), who also provide model forms via ACE and **BEAMA**
- IChemE (Institution of Chemical Engineers) which provides four main model forms: the 'yellow' book for subcontract

process plant; the 'purple' book for overall conditions; the 'red' book for lump sum contracts and the 'green' book for reimbursable contracts

- ICE (Institution of Civil Engineers)
- IMechE (Institute of Mechanical Engineers)
- JCT (Joint Contracts Tribunal) available via RIBA covering building contracts, where they have a separate set of public and private-**sector** forms. Further advice on building contracts can be found via the NJCC, covering codes of practice, tendering questionnaires, and procedure notes (e.g., commissioning and testing).

T&E The catch-all phrase describing expenditure related to travel and entertainment.

Target bidding Target bidding is the practice of conveying in the **RFQ** the maximum **price** that the buyer will consider. Put another way, it describes the **price suppliers** should bid under or decline to bid. Use of target bidding usually requires use by the buyer of accurate (internal) **cost** estimates.

Tenders Formal requests by the buyer for the seller to make an offer against strict conditions on **specification**, timing and other factors. Unqualified acceptance by the buyer will automatically create a **contract**, from which the seller can not subsequently withdraw. (Source: Brian Farrington)

Therm A unit of energy equivalent to 29.3071 **KWhs**.

Third sector That part of the supply market that is neither publicly nor privately owned. Traditionally comprising charities and other voluntary agencies, it is increasingly populated by **social enterprises**.

Tier Refers to the level - or 'status' - of the direct relationship the buyer might have with a particular **supplier**. In other words, the buyer has a direct relationship with a tier-one **supplier** but only an indirect relationship with tier-two or tier-three **suppliers** who will act as sub-contractors to the higher tier **supplier**.

Time & materials contract Used where the buyer cannot adequately define the item or service to be bought, and allow the **supplier** to invoice for actual work done/materials consumed.

'Time-is-of-the-essence' Time of performance - a delivery schedule in most cases - only forms part of the **contract** if the buyer and seller expressly agree it and it is documented in the **contract**.

Title Title is the ownership of the property - or the value - in the goods supplied. The *Romalpa* case in 1976 held that the seller not only retained title in the raw material supplied, but also in

the finished items that contained the raw material. The retention-of-ownership or 'title in the goods' is thus an important element in modern **contracts** to prevent later misunderstanding. *Romalpa* also established case law on the fiduciary responsibility of buyers to hold such material in trust whether or not the responsibility for 'risk' is specifically called out in the **contract**.

TNA Training Needs Analysis.

Total shareholder return A measure of the theoretical capital growth assuming all dividends are reinvested. It is calculated as share-price appreciation plus dividends; and is used to compare the performance of a company's stocks and shares over time.

TQM Total Quality Management. The concept of 'right first time'; of only passing on goods or services, to the next link in the chain that are defect-free. It is about adding value, not **cost**. And it is fundamentally about always seeing that next link as a customer; whether it's a person in a production line inside your organisation or an external customer. Motorola developed the **six-sigma** approach to deliver TQM in their organisation; and the **EFQM** and HM Treasury developed the *Procurement Excellence* model to measure the quality attributes and performance of, largely, public-**sector** organisations.

Traceability The degree to which components or elements can be tracked through the **supply-chain**. Traceability is often applicable to software **contracts** and essential in **sustainable procurement** processes.

Trademark A registered *trademark* protects a sign or symbol or other logo inherent in a **brand** image. An un-registered trademark is still protected in a similar way to **copyright** and **designs**, but is susceptible to '**passing off**'. (See www.ipo.gov.uk)

Transactional analysis Developed by Eric Berne and others, it is a model of communications and behavioural analysis that is rooted in the notion of 'parent', 'child' and 'adult'. It can be applied by buyers in **negotiation** situations. Similar in some ways to **NLP**.

Treaty of Rome The Treaty of Rome established the single market in the European Union. For buyers, the two most important articles are 81 and 82. Article 81 provides for actions that would seek to prevent, distort or limit competition between member countries. Article 82 describes the rules on market power. The rules are primarily aimed at eliminating **cartels** that have a detrimental effect on upstream **suppliers** or downstream buyers. However, actions by purchasing groups are now actively investigated by the EU Commission to ensure no breach, which can result in fines of up 10% of world-wide turnover. The

UK's **Competition Act 1998** enshrines these provisions for the domestic economy.

- TUPE** The Transfer of Undertakings (Protection of Employment) Regulations 1981. This Act of Parliament, recognising the economic shift to services, is designed to protect staff transferring from the host organisation to a new **outsourcing provider**. Essentially, such staff should continue to enjoy the same terms and conditions of employment. Buyers may want to stipulate the period of TUPE applicability in their **contracts**, avoiding any disputes - particularly with ex-staff - over changes once the first **contract** period has expired. TUPE will also apply where an externalised service is re-bid, particularly with a view to **in-source** the service. The current **supplier** would need to define those staff deployed to the scoped service.
- Turnkey** A project, service or product that is 'ready-to-use'. In the IT and construction sectors it can also refer to projects that comprise several discrete components or elements, each of which are brought together in a 'bundle' and managed by a single **supplier** which takes responsibility for all sub-contracts.
- Ultra vires** The concept of *ultra vires* (acting outside authority) affects the **contractual capacity** of organisations. In the past some companies have been able to 'hide' behind declared objects (for example contained in memoranda of association). Subsequent amendments to the Companies Act have limited such occurrences.
- Unitary council** A unitary council has responsibility for all local authority functions in their area and differ from those areas with two-tiers, i.e., with first tier (either borough or district) councils responsible *inter alia* for housing and planning and second-tier (county) councils responsible *inter alia* for education and social-care. The standard format for local authority organisation in Scotland and Wales, unitaries are becoming more widespread in England. Already established in English metropolitan areas, unitary councils are now appearing in what were previously 'shire' counties. London boroughs are effectively unitary councils, although the Mayor of London and the London Assembly reserve some 'regional' functions. Northern Ireland is organised differently still, where presently 26 councils deliver mostly first-tier responsibilities and four Health & Social Services Boards provide integrated primary health care and local authority social care functions, largely replicating the work of **CHPs, LHBS, PCTs** and unitary councils elsewhere in the UK.
- Unliquidated damages** Otherwise called consequential loss. They are paid by the **supplier** in the event of failure and should amount to the buyer's actual losses.

- USP** Unique Selling Point.
- Validity period** The period of time during which a **supplier's** bid will be deemed open for acceptance. Any offer or proposal will lapse, unless extended by the **supplier**.
- Value analysis** A systematic approach to investigating all aspects of **cost**, in order to eliminate unnecessary **cost** in the finished product - usually applied after production/delivery has commenced.
- Value engineering** A systematic review of all projected **costs** within a product - usually applied before production/delivery has commenced.
- Value-for-money** Similar to the concept of **best value**, it is the quest for, or achievement of, optimum **cost** for the acquisition of individual goods and services or for **category** groups.
- Vanilla** A system or product in standard mode. In some cases the vanilla product will be modified or amended to meet **bespoke** needs.
- VAR** A Value Added Reseller is a **vendor** (generally) in the IT **sector**.
- Variation order** An amendment to a **contract** instructing the **supplier** to undertake additional work, less work or alternative work; and may be accompanied by a **price** variation. (Source: Brian Farrington)
- Vendor** An external **supplier** of goods or services. Aka **provider & supplier**.
- Vendor rating** Formalised measuring and monitoring of the performance (*inter alia* delivery, quality, responsiveness, **price** and other metrics) of a buying organisation's **suppliers**. Established rating schemes will also seek to categorise **suppliers**, often utilising league tables.
- Vertical site** An **eCommerce** term that describes a website that serves a particular industry **sector**, e.g., chemdex.com. As opposed to a **horizontal site**.
- VoIP** Voice over Internet Protocol is a method of transferring speech across the web.
- Waiver** A legal term describing the future right to recourse or protection.
- WAN** Wide Area Network. A communications network that covers wide geographic areas, often cross-border. As opposed to a **LAN**.

- Warranty** A term of **contract** that is subsidiary to the main purpose, a breach of which will generally give rise only to a claim for damages, and not the right to repudiate the **contract**.
- Wharfage** The use of wharves, or a wharf, and the fee for doing so. Applies in **c.i.f. contracts**.
- Whistle-blowing** The allegation of misconduct, usually identified by employees from within the organisation itself. In the past such employees would have been subject to disciplinary procedures. Now they have legal protection via the Public Interest Disclosure Act (PIDA), which came into force in 1999. **Sarbanes-Oxley** provides similar protection for employees in the US.
- White goods** Electrical and related items. As opposed to **brown goods**.
- WIP** Work-In-Progress. A partially completed piece of work that has incurred a cost and is recorded as an asset in the **balance-sheet**.
- Without prejudice** A legal term meaning without dismissing or detracting from an existing right or claim. It is often used during (informal) discussions which are seeking to resolve a dispute.
(Source: Brian Farrington)
- World-class commissioning** The set of skills and competencies developed by the Department of Health. Purchasing people will be particularly interested in the '**provider** innovation & efficiency' modules that describe the need for **PCTs** to ensure that commissioning is not (just) focussed on cost and volume but increasingly on specifications that support and deliver quality and outcomes.
- WRAP** Established by HM Government the Waste and Resources Action Programme is responsible for creating a market for recycled material and products. (See www.wrap.org.uk)
- WTO** World Trade Organisation.
- Zero-based costing** A 'bottoms-up' approach to **target bidding** or pricing.
- Zero defects** A fundamental criterion for the application of **TQM** and **lean-supply**. It assumes no faulty items. The onus is on the **supplier** to apply appropriate practices and controls to ensure the delivery of material/services that are right-first-time.

If you have any terms you would like included or defined - or if you have any observations about our definitions - please write to info@pslconsulting.co.uk

Acknowledgements and further reading:

'An Insight into Management Accounting'	John Sizer	Penguin
'Benchmarking Procurement'	Allan Robertson	Chandos
'Buying Goods and Services'	AD Allwright/RW Oliver	CIPS
'Charlesworth's Mercantile Law'	Clive Schmithoff/David Sarre	Stevens
'Finance for the Purchasing Executive'	LE Rockley	BB
'Games People Play'	Eric Berne	Penguin
'Getting To Yes'	Roger Fisher/William Ury	Random House
'Growing Business Handbook'	Richard Willsher (Ed) etal	CBI/KPMG
'Law for Purchasing & Supply'	Margaret Griffiths	Pitman
'Managing Purchasing'	Brian Farrington etal	Chapman & Hall
'Purchasing Performance'	Derek Roylance	Gower
'Principles & Management'	Baily & Farmer etal	FT/Pitman
'The Goal'	Eli Goldratt	North River Press
'The Social Entrepreneur'	Andrew Mawson	Atlantic
'Transform Your Supply Chain'	Jon Hughes etal	Thomson
www.mftrou.com	Lyndsay Swinton	

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