

**Module 1**  
*Section A: Recognize Logistics Fundamentals*

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**Term**  
Assemble-to-order (ATO)

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A production environment where a good or service can be assembled after receipt of a customer's order. The key components used in the assembly or finishing process are planned and usually stocked in anticipation of a customer order. Receipt of an order initiates assembly of the customized product from common components into a pre-determined product. This strategy is useful when a large number of end products (based on the selection of options and accessories) can be assembled from common components. ATO is distinct from configure-to-order in that the assembly is standard and is not customized to order. Syn.: finish-to-order (FTO). See: make-to-order (MTO), make-to-stock (MTS), configure-to-order (CTO).

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**Term**  
Distribution

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The activities associated with the movement of material, usually finished goods or service parts, from the manufacturer to the customer. These activities encompass the functions of transportation, warehousing, inventory control, materials handling, order administration, site and location analysis, industrial packaging, data processing, and the communications network necessary for effective management. It includes all activities related to physical distribution as well as the return of goods to the manufacturer. In many cases, this movement is made through one or more levels of field warehouses. Syn.: physical distribution.

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**Term**  
Echelon

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A level of supply chain nodes, such as factories, warehouses, and retail stores. Each echelon adds operating expense, holds inventory, adds to the cycle time, and expects to make a profit. See: disintermediation.

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**Term**  
Engineer-to-order (ETO)

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Products whose customer specifications require unique engineering design, significant customization, or new purchased materials. Each customer order results in a unique set of part numbers, bills of material, and routings. Syn.: design-to-order (DTO).

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**Term**  
Export

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A product produced in one country and used in another.

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**Term**  
Form utility

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The value created by changing a good's form through a production process to meet customer needs. See: form-fit-function.

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**Term**  
Four Ps

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A set of marketing tools to direct the business offering to the customer. The four Ps are product, price, place, and promotion.

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**Term**  
Imports

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Products brought into a country for consumption that were produced in another country.

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**Term**

Inventory management

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The area of business management concerned with planning and controlling inventories, such as warehouse and material handling processes.

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**Term**

Line haul

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The portion of a transportation journey that moves between two transportation terminals. It is distinguished from and excludes the pickup and delivery portions of a journey used to acquire or distribute less-than-truckload (LTL) freight. For motor carrier transportation, the shipment is loaded in a semi-permanent trailer configuration that maximizes the amount of freight that each driver can legally haul over that portion of the journey. This may involve hauling multiple trailers.

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**Term**

Logistics

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The subset of supply chain management that controls the planning, coordinating and movement of resources, such as people, materials, inventory, and equipment, from one location to another. It includes the forward and reverse movement, handling, and storage of resources between two points.

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**Term**

Make-to-order (MTO)

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A production environment where a good or service is made after receipt of a customer's order. The final product is usually a combination of standard items and items custom-designed to meet the special needs of the customer. Where options or accessories are stocked before customer orders arrive, the term assemble-to-order (ATO) is frequently used. Syn.: build-to-order (BTO). See: assemble-to-order (ATO), make-to-stock (MTS).

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**Term**

Make-to-stock (MTS)

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A production environment where products can be and usually are finished before receipt of a customer order. Customer orders are typically filled from existing stocks, and production orders are used to replenish those stocks. Syn.: produce-to-stock. See: assemble-to-order (ATO), make-to-order (MTO).

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**Term**

Materials handling

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The movement and storage of goods inside a production or distribution facility. This represents a capital cost and is balanced against the operating costs of the facility.

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**Term**

Materials management

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The grouping of management functions supporting the complete cycle of material flow, from the purchase and internal control of production materials to the planning and control of work in process (WIP) to the warehousing, shipping, and distribution of the finished product.

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**Term**

Order management

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The planning, directing, monitoring, and controlling of the processes related to customer orders, manufacturing orders, and purchase orders. Regarding customer orders, order management includes order promising; order entry; order pick, pack, and ship; billing; and reconciliation of the customer account. Regarding manufacturing orders, order management includes order release, routing, manufacture, monitoring, and receipt into stores or finished goods inventories. Regarding purchasing orders, order management includes order placement, monitoring, receiving, acceptance, and payment of supplier.

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**Term**

Order-to-delivery cycle

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The period of time that starts when the customer places an order and ends when the customer receives the order.

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**Term**

Packaging

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Materials surrounding an item to protect it from damage during storage, handling, and transportation. See: packing and marking.

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**Term**

Physical supply

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The movement and storage of goods from suppliers to manufacturing. The cost of physical supply is ultimately passed on to the customer.

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**Term**

Place utility

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Usefulness to the customer created by having the product delivered to a desired location.

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**Term**

Possession utility

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Product desirability created by marketing efforts.

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**Term**

Stock keeping unit (SKU)

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A unique code that is used by warehouses, distribution centers (DCs), and retailers to identify and track inventory at a particular location. One product stocked at various locations may be represented by unique SKUs at each location.

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**Term**

Suboptimization

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A solution to a problem that is best from a narrow point of view but not from a higher or overall company point of view. For example, a department manager who refuses to allow employees to work overtime in order to minimize the department's operating expense may cause lost sales and a reduction in overall company profitability.

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**Term**

Systems concept

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An attempt to create the most effective complete system as opposed to the most efficient individual parts. A whole process or whole company operating system that is driven by cause and effect.

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**Term**  
Time utility

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When a delivery gets to a customer at exactly the right time (not early or late).

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**Term**  
Total cost concept

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In logistics, the idea that all logistical decisions that provide equal service levels should favor the option that minimizes the total of all logistical costs and should not be used on cost reductions in one area (such as lower transportation charges) alone.

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**Term**  
Transportation

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The function of planning, scheduling, and controlling activities related to mode, vendor, and movement of inventories into and out of an organization.

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**Term**  
Value added

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1) In accounting, the addition of direct labor, direct material, and allocated overhead assigned at an operation. It is the cost roll-up as a part goes through a manufacturing process to finished inventory. 2) In manufacturing, the actual increase of utility from the viewpoint of the customer as a part is transformed from raw material to finished inventory. It also refers to the contribution made by an operation or a plant to the final usefulness and value of a product, as seen by the customer. The objective is to eliminate all non-value-added activities in producing and providing a good or service.

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*Section A: Recognize Logistics Fundamentals*

**Term**

Warehouse management and transportation execution systems

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Logistics information systems that initiate and control the movement of materials between supply chain partners.

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*Section A: Recognize Logistics Fundamentals*

**Term**

Warehousing

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The activities related to receiving, storing, and shipping materials to and from production or distribution locations.

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*Section B: Discern the Role, Value, and Cost of Logistics*

**Term**

Contribution margin

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An amount equal to the difference between sales revenue and variable costs, which is used to estimate profitability.

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**Term**

Direct costs

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1) In traditional cost accounting, variable costs that can be directly attributed to a particular job or operation. Direct material and direct labor are traditionally considered direct costs. 2) In activity-based cost (ABC) accounting, a cost that can specifically be traced and is economically feasible to track to a particular cost object (e.g., the units produced, a production line, a department, a manufacturing plant).

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**Term**  
Direct labor

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Labor that is specifically applied to the good being manufactured or used in the performance of the service. Syn.: touch labor.

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**Term**  
Direct material

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Material that becomes a part of the final product in measurable quantities.

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**Term**  
Electronic commerce (e-commerce)

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The use of computer and telecommunication technologies to conduct business via electronic transfer of data, documents, and funds. See: electronic market.

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**Term**  
Ethical standards

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A set of guidelines for proper conduct by business professionals and organizations.

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**Term**  
Fixed cost

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An expenditure that does not vary with the production volume, such as rent, property tax, and salaries of certain personnel.

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**Term**  
Globalization

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The interdependence of economies globally that results from the growing volume and variety of international transactions in goods, services, and capital and also from the spread of new technology.

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**Term**  
Indirect cost

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A cost that is not directly incurred by a particular product unit, job, or operation. Indirect costs typically are allocated to products through the application of overhead rates. Examples of indirect costs include plant utilities, rent, and administrative salaries.

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**Term**  
Landed cost

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This cost includes the product cost plus the costs of logistics, such as warehousing, transportation, and handling fees, as well as customs and duty fees. See: laid-down cost.

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**Term**  
Opportunity cost

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1) The return on capital that could have resulted had the capital been used for some purpose other than its present use. 2) The rate of return investors must earn to continue to supply capital to a firm.

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**Term**  
Social responsibility

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Commitment by top management to behave ethically and to contribute to community development. This may also entail improving the workforce's quality of life.

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**Term**  
Supplies

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Materials used generally in manufacturing that are not normally charged to any one finished production. Examples include cutting and lubricating oils, machine repair parts, glue, or tape. Syn.: indirect materials.

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**Term**  
Supply chain management

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The design, planning, execution, control, and monitoring of supply chain activities with the objective of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand, and measuring performance globally.

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**Term**  
Variable cost

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An operating cost that varies directly with a change of one unit in the production volume (e.g., direct materials consumed or sales commissions).

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*Section C: Develop Logistics Strategy within the Supply Chain*

**Term**  
Break-even analysis

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A study of the number of units or amount of time required to recoup an investment. See: break-even time.

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*Section C: Develop Logistics Strategy within the Supply Chain*

**Term**  
Core competencies

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Skills or knowledge that enable a firm to provide the greatest level of value to its customers in a way that is difficult for competitors to emulate and that provides for future growth. Core competencies may be in the form of technology, skills of personnel, or knowledge and expertise solely owned by the organization.

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*Section C: Develop Logistics Strategy within the Supply Chain*

**Term**  
Dwell

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The duration of time between when cargo arrives in a terminal's in-transit storage area and when it is shipped out by clearance transportation.

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**Term**  
Insourcing

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Using the firm's internal resources to provide goods and services. See: make-or-buy decision. Ant.: outsourcing.

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*Section C: Develop Logistics Strategy within the Supply Chain*

**Term**  
Link

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The transportation method used in a logistics system to connect the nodes of the system.

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**Term**  
Make or buy cost analysis

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A comparison of all the costs associated with making an item versus the cost of buying the item. See: make-or-buy decision.

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**Term**  
Make-or-buy decision

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The act of deciding whether to produce an item internally or buy it from an outside supplier. Factors to consider in the decision include costs, capacity availability, proprietary and/or specialized knowledge, quality considerations, skill requirements, volume, and timing. See: make or buy cost analysis.

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*Section C: Develop Logistics Strategy within the Supply Chain*

**Term**  
Offshore

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The use of resources from a different country than the original company's country. See: outsourcing.

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**Term**  
Outsourcing

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The process of having suppliers provide goods and services that were previously provided internally. Outsourcing involves substitution—the replacement of internal capacity and production by that of the supplier. See: offshore, subcontracting. Ant.: insourcing.

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*Section C: Develop Logistics Strategy within the Supply Chain*

**Term**  
Product life cycle

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The stages a new product goes through from beginning to end, from initial research and development, through growth and maturity, to decline and phase-out. See: life cycle analysis.

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**Term**  
Product lifecycle management (PLM)

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The process of facilitating the development, use, and support of products that customers want and need. It helps professionals envision the creation and preservation of product information, both to the customer and along the reverse-logistics portion of the supply chain.

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**Term**  
Strategic plan

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A plan for how to marshal and determine actions to support the mission, goals, and objectives of an organization. A strategic plan generally includes an organization's explicit mission, goals, and objectives as well as the specific actions needed to achieve those goals and objectives. See: business plan, strategic planning, strategy, tactical plan(s).

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**Term**  
Strategic planning

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The process of developing a strategic plan. See: operational plan, operational planning, strategic plan, tactical planning.

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*Section C: Develop Logistics Strategy within the Supply Chain*

**Term**  
Subcontracting

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Sending production work outside to another manufacturer. See: outsourcing.

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**Term**  
Total cost of ownership (TCO)

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In supply chain management, the total cost of ownership of the supply delivery system is the sum of all the costs associated with every activity of the supply stream. The main insight that TCO offers to the supply chain manager is the understanding that the acquisition cost is often a very small portion of the total cost of ownership.