

**Module 3**

*Section A: Aligning Sourcing to Demand*

**Term**  
Insourcing

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*Section A: Aligning Sourcing to Demand*

**Term**  
Landed cost

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Make-or-buy cost analysis

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Make-or-buy decision

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Offshore

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Outsourcing

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Subcontracting

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Total cost of ownership (TCO)

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This cost includes the product cost plus the costs of logistics, such as warehousing, transportation, and handling fees.

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

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.

A comparison of all the costs associated with making an item versus the cost of buying the item.

The process of having suppliers provide goods and services that were previously provided internally. [This] involves substitution—the replacement of internal capacity and production by that of the supplier. See: subcontracting.

Outsourcing a business function to another company in a different country than the original company's country.

The sum of all the costs associated with every activity of the supply stream.

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

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*Section B: Category Strategy for Sourcing*

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Strategic alliance

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*Section B: Category Strategy for Sourcing*

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Supplier partnership

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*Section C: Product Design Influence*

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Design

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Design for X (DFX)

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Design for manufacturability

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Design for manufacture and assembly (DFMA)

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Design for quality

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Design for remanufacture

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The establishment of a working relationship with a supplier organization whereby two organizations act as one. Syn.: collaborative supply relationship.

A relationship formed by two or more organizations that share information (proprietary), participate in joint investments, and develop linked and common processes to increase the performance of both companies. Many organizations form [these] to increase the performance of their common supply chain.

Also referred to as design for excellence. A design process that ensures the outcome is manufacturable, maintainable, cost-effective, and of high quality.

The conversion of a need or innovation into a product, process, or service that meets both enterprise and customer expectations. The design process consists of translating a set of functional requirements into an operational product, process, or service.

A product development approach that involves the manufacturing function in the initial stages of product design to ensure ease of manufacturing and assembly. See: early manufacturing involvement.

Simplification of parts, products, and processes to improve quality and reduce manufacturing costs.

Products developed in a manner that allows components to be used in other products. This process is associated with green manufacturing.

A product design approach that uses quality measures to capture the extent to which the design meets the needs of the target market (customer attributes), as well as its actual performance, aesthetics, and cost. See: total quality engineering.

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*Section C: Product Design Influence*

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Design for service

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Design for six sigma

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Design for the environment (DFE)

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Design for the supply chain

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Glocalization

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Mass customization

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Modular design strategy

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Modularization

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An approach to designing products and processes that attempts to ensure the firm can provide products or services that meet six sigma quality levels. These quality levels correspond to approximately 3.4 defects per million opportunities.

Simplification of parts and processes to improve the after-sale service of a product. Syn.: design for maintainability.

Enhancement of a firm's product design in consideration of the issues that will arise in the supply chain, from raw materials to the final stage of the product's life cycle.

Considering health, safety, and environmental aspects of a product during the design and development phase of product development.

The use of mass production techniques to create large volume of products in a wide variety keeping production costs low while enabling customized output primarily utilizing postponement or delayed differentiation.

A combination of "globalization" and "localization." In a supply chain context, [this] is a form of postponement where a product or service is developed for distribution globally but is modified to meet the needs of a local market. The modifications are made to conform with local laws, customs, cultures, and preferences.

In product development, the use of standardized parts for flexibility and variety. Permits product development cost reductions by using the same item(s) to build a variety of finished goods. This is the first step in developing a planning bill of material process.

The strategy of planning and designing products so that components or subassemblies can be used in current and future products or assembled to produce multiple configurations of a product. [...].

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Multicountry strategy

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Postponement

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Product differentiation

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Quality

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Quality function deployment (QFD)

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Simplification

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Standardization

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Standardized product

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A product design or supply chain strategy that deliberately delays final differentiation of a product (assembly, production, packaging, tagging, etc.) until the latest possible time in the process. This shifts product differentiation closer to the consumer to reduce the anticipatory risk of producing the wrong product. The practice eliminates excess finished goods in the supply chain. This strategy is sometimes referred to as delayed differentiation.

A strategy in which each country market is self-contained. Customers have unique product expectations that are addressed by local production capabilities.

Conformance to requirements or fitness for use.

A strategy of making a product distinct from the competition on a nonprice basis such as availability, durability, quality, or reliability.

Improving quality and cutting costs by removing complexity from a product or service.

A methodology designed to ensure that all the major requirements of the customer are identified and subsequently met or exceeded through the resulting product design process and the design and operation of the supporting production management system.

A product that can be made in large quantities, or continuously, because it has very few product designs.

1) The process of designing and altering products, parts, processes, and procedures to establish and use standard specifications for them and their components. 2) Reduction of the total numbers of parts and materials used and products, models, or grades produced. 3) The function of bringing a raw ingredient into standard (acceptable) range per the specification before introduction to the main process.

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Universality

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*Section D: Supplier Selection, Contracting, and Use*

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Annualized contract

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Bilateral contract

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Blanket purchase order

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Consortia trade exchanges (CTX)

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Contract

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Contracts for the international sale of goods (CISG)

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Cost-based contract

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A negotiated agreement with a supplier for one year that sets pricing, helps ensure a continuous supply of material, and provides the supplier with estimated future requirements.

The strategy of designing a product initially intended for one market in such a way that it can also be sold in other markets. A form of standardization.

A long-term commitment to a supplier for material against which short-term releases will be generated to satisfy requirements. Often [these] cover only one item with predetermined delivery dates. Syn.: blanket order, standing order.

An agreement wherein each party makes a promise to the other party.

An agreement between two or more competent persons or companies to perform or not to perform specific acts or services or to deliver merchandise. A contract may be oral or written. A purchase order, when accepted by a supplier, becomes a contract. Acceptance may be in writing or by performance, unless the purchase order requires acceptance in writing.

An online marketplace, usually owned by a third party, that allows members to trade with each other. Such sites lower members' search costs and enable lower prices for the buyer.

A type of purchasing contract where the price of goods or services is tied to the cost of key inputs or other economic factors such as interest rates.

Govern the sale of goods in the international environment. They enable exporters to avoid choice-of-law issues.

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Cost-plus contract

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Cost-plus-fixed-fee contract

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Cost-plus-incentive-fee contract

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Expedite

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Firm fixed-price contract

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Fixed-price incentive fee contract

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Horizontal marketplace

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Incentive arrangements

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A contract in which the seller is paid for costs specified as allowable in the contract plus a stipulated fixed fee.

A pricing method where the buyer agrees to pay the seller all the acceptable costs of the product or service up to a maximum cost plus a fixed fee. Syn.: cost-type contract.

To rush or chase production or purchase orders that are needed in less than the normal lead time; to take extraordinary action because of an increase in relative priority. Syn.: stockchase.

A contract in which the seller is paid for costs specified as allowable in the contract plus a profit, provided certain provisions are met.

A contract in which the seller is paid a set price and can earn an additional profit if certain stipulations are met.

A contract in which the seller is paid a set price without regard to costs. Syn.: fixed-price contract.

Incentive contract that allows for the sharing of the cost responsibility between the buyer and seller. Incentives are incorporated into the contract to motivate the supplier to improve its performance in areas such as quality, on-time delivery, and customer satisfaction. There are three elements of an incentive agreement: target cost, target profit, and the sharing agreement.

An online marketplace used by buyers and sellers from multiple industries. This marketplace lowers prices by lowering transaction costs.

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Incentive contract

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Negotiation

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Operating exposure

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Payment terms

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Portal

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Private trading exchange (PTX)

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Purchase order

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Reverse auction

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The process by which a buyer and a supplier agree upon the conditions surrounding the purchase of an item or a service.

A contract where the buyer and seller agree to a target cost and maximum price. Cost savings below the target are shared between buyer and seller. If actual cost exceeds the target cost, the cost overrun is shared between buyer and seller up to the maximum price.

Conditions surrounding payment for a sale, providing a time frame in which a customer can pay without late penalties or additional fees. See: terms and conditions.

The risk introduced by flexible exchange rates when operating in the global environment, including their effect on production, storage, and buying and selling prices.

A trade exchange hosted by a single company to facilitate collaborative e-commerce with its trading partners. As opposed to public e-marketplaces, a private exchange provides the host company with control over many factors, including who may participate (and in what manner), how participants may be connected, and what contents should be presented (and to whom). The ultimate goal might be to improve supply chain efficiencies and responsiveness through improved process visibility and collaboration, advanced integration platforms, and customization capabilities.

A multiservice website that provides access to data that may be secured by each user's role. Users can aggregate data and perform basic analysis. Ownership [of this] can be independent, private, or consortium-based. Business [types of this] are often connected with a customer relationship management or supplier relationship management system. [This] can include structured data such as ERP information, pictures, and documents. Unlike exchanges or marketplaces, [it] generally can display and aggregate data without integration between application software.

An internet auction in which suppliers attempt to underbid their competitors. Company identities are known only by the buyer.

The purchaser's authorization used to formalize a purchase transaction with a supplier. [When given to a supplier, this] should contain statements of the name, part number, quantity, description, and price of the goods or services ordered; agreed-to terms as to payment, discounts, date of performance, and transportation; and all other agreements pertinent to the purchase and its execution by the supplier.

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Service-level agreement (SLA)

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Terms and conditions

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Trading partner agreement

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Vertical marketplace

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Virtual trading exchange

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All the provisions and agreements of a contract.

A document that represents the terms of performance for organic support.

An online marketplace connecting buyers and sellers within the same industry. It enables lower prices by lowering transaction costs.

A contract between trading partners that describes all facets of their business together. A legal and binding agreement suitable for legal purposes as well as standard working agreements.

An online trading exchange that enables both information integration and collaboration between multiple trading partners.