Module 3
Section A: Aligning Sourcing to Demand

Term
Insourcing

Module 3
Section A: Aligning Sourcing to Demand

Term
Landed cost

Module 3
Section A: Aligning Sourcing to Demand

Term
Make or buy cost analysis

Module 3
Section A: Aligning Sourcing to Demand

Term
Make-or-buy decision

Module 3
Section A: Aligning Sourcing to Demand

Term
Offshore

Module 3
Section A: Aligning Sourcing to Demand

Term
Outsourcing

Module 3
Section A: Aligning Sourcing to Demand

Term
Subcontracting

Module 3
Section A: Aligning Sourcing to Demand

Term
Total cost of ownership (TCO)

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.

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

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.

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

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.

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

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.

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

Module 3
Section B: Category Strategy for Sourcing

Term
Strategic alliance

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Module 3
Section B: Category Strategy for Sourcing

Term
Supplier partnership

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Module 3
Section C: Product Design Influence

Term
Design

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Module 3
Section C: Product Design Influence

Term
Design for X (DFX)

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Module 3
Section C: Product Design Influence

Term
Design for manufacturability (DFM)

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Module 3
Section C: Product Design Influence

Term
Design for manufacture and assembly (DFMA)

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Module 3
Section C: Product Design Influence

Term
Design for quality (DFQ)

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Module 3
Section C: Product Design Influence

Term
Design for service

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

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

Also referred to as design for excellence, DFX is a holistic approach that embeds quality into the design process by ensuring that new products achieve desired outcomes in a manufacturable, maintainable, cost-effective, and high-quality way.

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: design for manufacturing (DFM), early manufacturing involvement.

Simplification of parts, products, and processes to improve quality and reduce manufacturing costs. See: design for manufacturing (DFM).

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

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: quality function deployment (QFD), total quality engineering (TQE).

Module 3
Section C: Product Design Influence

Term
Design for six sigma (DFSS)

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Module 3
Section C: Product Design Influence

Term
Design for the environment (DFE)

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Section C: Product Design Influence

Term
Design for the supply chain

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Section C: Product Design Influence

Term
Glocalization

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Module 3
Section C: Product Design Influence

Term
Mass customization

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Module 3
Section C: Product Design Influence

Term
Modular design strategy

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Module 3
Section C: Product Design Influence

Term
Modularization

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Module 3
Section C: Product Design Influence

Term
Multicountry strategy

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

An approach to designing products, processes, and services that meet customer requirements at six sigma quality levels in a cost-effective manner. See: design phase, quality function deployment (QFD), six sigma quality, voice of the customer (VOC).

A combination of “globalization” and “localization.” In a supply chain context, glocalization is a form of postponement in which 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.

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.

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. Automobiles and personal computers are examples of modular designs.

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

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

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

Module 3
Section C: Product Design Influence

Term
Postponement

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Section C: Product Design Influence

Term
Product differentiation

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Section C: Product Design Influence

Term
Quality

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Module 3
Section C: Product Design Influence

Term
Quality function deployment (QFD)

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Section C: Product Design Influence

Term
Simplification

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Module 3
Section C: Product Design Influence

Term
Standardization

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Module 3
Section C: Product Design Influence

Term
Standardized product

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Module 3
Section C: Product Design Influence

Term
Universality

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

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 reduces excess finished goods in the supply chain. Syn.: delayed differentiation.

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. QFD can be viewed as a set of communication and translation tools. QFD tries to eliminate the gap between what the customer wants in a new product and what the product is capable of delivering. QFD often leads to a clear identification of the major requirements of the customers. These expectations are referred to as the voice of the customer. See: design for quality (DFQ), design for six sigma (DFSS), house of quality (HOQ).

Conformance to requirements or fitness for use. Quality can be defined through five principal approaches: (1) Transcendent quality is an ideal and a condition of excellence. (2) Product-based quality is based on a product attribute. (3) User-based quality is fitness for use. (4) Manufacturing-based quality is conformance to requirements. (5) Value-based quality is the degree of excellence at an acceptable price. Also, quality has two major components: (1) quality of conformance, which is quality defined by the absence of defects, and (2) quality of design, which is quality measured by the degree of customer satisfaction with a product's characteristics and features.

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.

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

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

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

Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Annualized contract

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Section D: Supplier Selection, Contracting, and Use

Term
Bilateral contract

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Blanket purchase order

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Section D: Supplier Selection, Contracting, and Use

Term
Contract

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Cost-based contract

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Section D: Supplier Selection, Contracting, and Use

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Cost-plus contract

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Section D: Supplier Selection, Contracting, and Use

Term
Cost-plus-fixed-fee contract

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Cost-plus-incentive-fee contract

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

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.

An agreement between two or more people 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.

A long-term commitment to a supplier for material against which short-term releases will be generated to satisfy requirements. Often blanket orders cover only one item with predetermined delivery dates. Syns.: blanket order, standing order. See: open-end purchase order.

A contract in which the buyer agrees to pay the seller all the acceptable costs of the product or service up to a maximum cost. Syn.: cost-type contract.

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

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

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

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Section D: Supplier Selection, Contracting, and Use

Term
Expedite

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Section D: Supplier Selection, Contracting, and Use

Term
Fixed-price incentive fee contract

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Section D: Supplier Selection, Contracting, and Use

Term
Horizontal marketplace

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Incentive arrangements

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Incentive contract

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Negotiation

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Operating exposure

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Payment terms

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

1) To rush or chase production or purchase orders that are needed in less than the normal lead time in order to move in the delivery date. 2) To take extraordinary action because of an increase in relative priority. Syn.: stockchase.

A contract between a buyer and seller that incorporates conditions designed to motivate the supplier to improve its performance in specific areas including on-time delivery, product quality, and customer satisfaction.

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

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

A contract in which the buyer and seller agree to share cost savings beyond the target cost established in the contract. If actual costs exceed the target, the parties share the additional cost up to a maximum level specified in the contract.

Conditions surrounding payment for a sale, providing a time frame in which a customer can pay without late penalties or additional fees. The payment terms may also specify an optional early payment deadline that would trigger a discount for the customer. 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.

Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Portal

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Private trading exchange (PTX)

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Section D: Supplier Selection, Contracting, and Use

Term
Purchase order

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Reverse auction

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Section D: Supplier Selection, Contracting, and Use

Term
Service-level agreement (SLA)

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Terms and conditions

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Trading partner agreement

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Module 3
Section D: Supplier Selection, Contracting, and Use

Term
United Nations Convention on Contracts for the International Sale of Goods (CISG)

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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. See: independent trading exchange.

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. Portal ownership can be independent, private, or consortium-based. Business portals are often connected with a customer relationship management or supplier relationship management system. Portals can include structured data such as enterprise resource planning information, pictures, and documents. Unlike exchanges or marketplaces, portals 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. A purchase order, when given to a supplier, 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. See: discrete purchase order.

All the provisions and agreements of a contract.

A document that represents the terms of performance for organic support between a service provider and a customer. The agreement describes the service, documents service level targets, and specifies the responsibilities of the information technology (IT) service provider and the customer. A single agreement may cover multiple services or multiple customers.

A multilateral treaty that governs the sale of goods internationally. It facilitates international trade and removes legal barriers by providing uniform rules for commercial transactions. It is sometimes known as the Vienna Convention.

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

Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Vertical marketplace

Module 3
Section D: Supplier Selection, Contracting, and Use

Term
Virtual trading exchange

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

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