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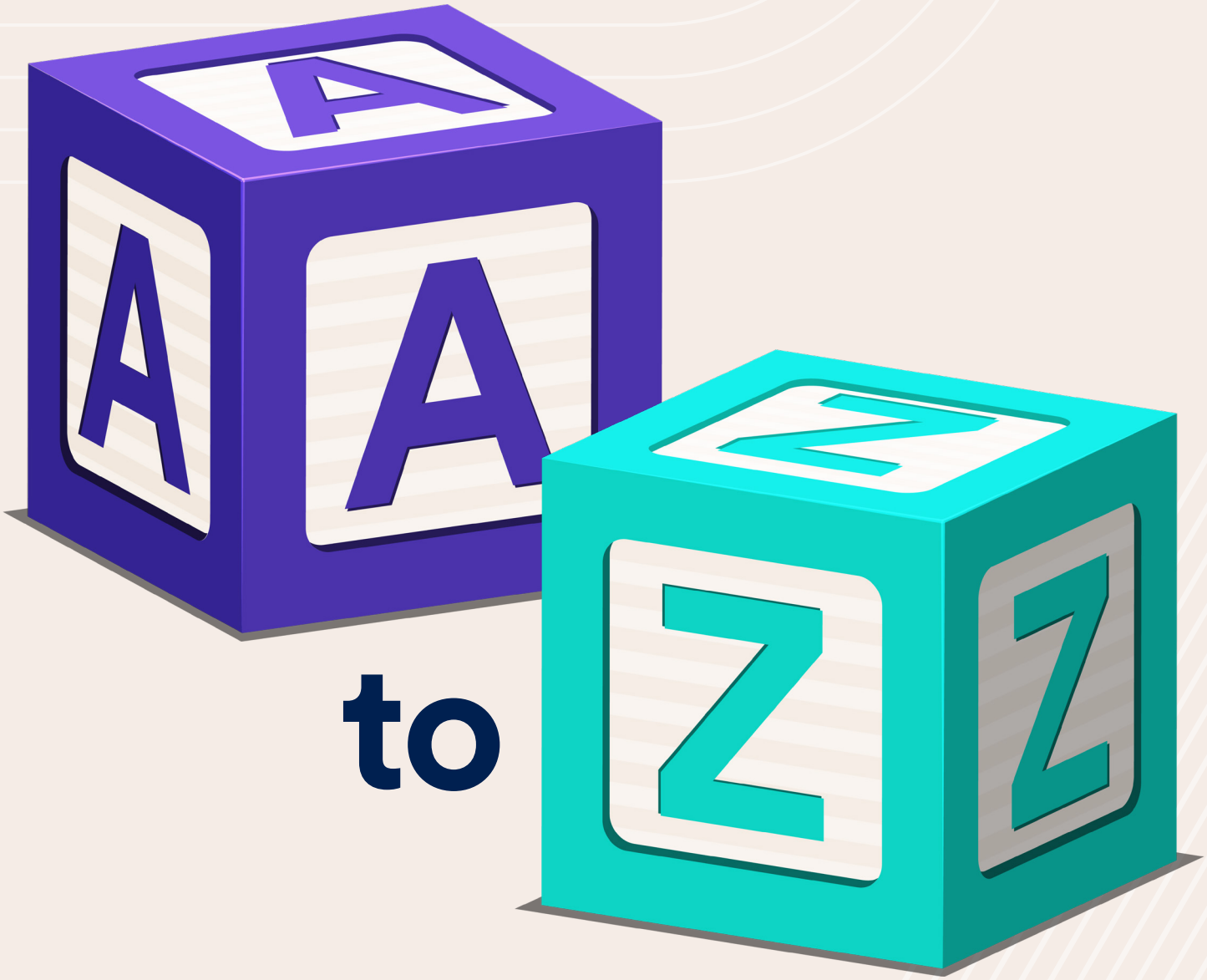

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OF PROCUREMENT TERMS

VendorPanel

2022 EDITION

Brand new to the world of procurement, or worried that your current knowledge isn’t up to date?

Go back to school with our A to Z eBook on all the terms you need to know in 2022, from basic concepts like BATNA to cutting-edge AI procurement.

Aa

Ad-hoc purchase: An item or service bought for a single or one-off purpose.

Adaptability: The ability to adjust to new conditions such as a supply chain disruption.

Additive Manufacturing (3D printing): The creation of a 3D object by successive layering of materials, based on a digital model.

Agile: A work methodology designed to help teams deliver value in incremental stages and respond faster to changing conditions.

Approved Supplier List: A list of suppliers that meet procurement criteria.

Artificial Intelligence (AI): Intelligent machine systems that can go beyond automation to assist with procurement planning, learning, reasoning and decision-making.

As-a-Service: A business model where a product or technology is delivered to the user via a cloud network.

Automation: The reduction of human input in manual processes to increase speed and efficiency.

Bb

Benchmarking: Internal or external comparison with a best-practice standard to understand current state and guide improvement.

Benefit: The advantage gained through a procurement contract, such as cost reduction.

Best Alternative To A Negotiated Agreement (BATNA): In negotiation, a fallback position if the parties fail to reach an agreement.

Bias: Prejudiced or unfair beliefs about someone or something.

Bid: A vendor's offer of a price for a product or service.

Big Data: The large volume of data that flows into a business every day. Big data can be leveraged to gain competitive advantage.

Black Swan Event: A highly unlikely event with a major impact on operations.

Bottleneck: A point of congestion in business processes.

Bottom Line: A company's net income. Procurement activities usually impact bottom line growth.

Breach of Contract: A breach that occurs when a party fails to fulfil obligations in a legally binding contract.

Business Continuity: Having a plan to minimise disruption to enable a business to continue to operate as usual.

Business Requirements: Also known as stakeholder requirements. Having concise and clear understanding of stakeholder needs before launching a sourcing event.

Brand Damage: Also known as reputational damage. The damage to an organisation's reputation through bad publicity arising from adverse events such as an environmental breach or corruption scandal.

Cognitive Procurement: AI-powered procurement software that analyses historic and current data to make recommendations for future action.

Carbon Footprint: The amount of CO2 an organisation (such as a supplier) releases into the atmosphere when producing goods or services.

Category Management: Segmenting similar or related products in categories such as Travel, Office Supplies and IT to create customised management strategies.

Centralised Procurement: An operational structure where all procurement decisions are made by a centralised team.

Chief Procurement Officer (CPO): The executive-level head of a procurement function, ultimately responsible for all procurement activities.

Commodity: Raw materials that can be bought, sold, or traded such as oil, coffee, and minerals.

Compliance: Conforming to a rule such as an internal procurement policy, terms of a contract, or external regulation.

Contract Management: Managing a contract cycle from creation through to performance review.

Corporate Social Responsibility (CSR): A businesses' accountability for ethical behaviour and positive contribution to society. CSR is typically self-regulated.

Cost Avoidance: A procurement metric that measures money saved by limiting or avoiding possible cost increases.

Cost Driver: Any factor that causes procurement costs to increase or decrease.

Cost–Benefit Analysis: Measuring the total cost of a project against the total expected revenues and non-monetary benefits.

Cross-Functional collaboration: Bringing together people from different functions (such as Procurement, Finance, IT) to combine varied skill sets to achieve an outcome.

Cybersecurity: Protection of computer systems, networks, and data from theft or damage carried out by internal or external parties.

Dashboard: A data visualisation tool that tracks various procurement metrics at a glance.

Deliverable: A product or service provided by the supplier.

Demand Planning: Adjusting sourcing strategies to meet anticipated changes (both increases and decreases) in demand.

Decentralised Procurement: An operational structure where procurement decisions below a certain spend threshold are made by authorised buyers throughout the business rather than a central team.

Digitisation: Replacing paper-based processes with computerised processes for efficiency and transparency benefits.

Direct Procurement: The purchasing of materials or services necessary for a businesses' core operations.

Disruption: An event or technology that interrupts or challenges a business model.

Due Diligence: Assessing the risks of doing business with a supplier before entering into an agreement; for example, a credit check.

Dd

Ee

E-Catalogue: Also known as a procurement catalogue. An online catalogue on which buyers can order and pay for goods and services from approved suppliers.

Enterprise Resource Planning (ERP) System: A software system with a unified database for storing and analysing business intelligence. Often includes a procurement module.

Ethical Sourcing: Ensuring products and services are procured in a responsible and sustainable way.

Fair Trade: A movement designed to help producers in developing countries build fair and equitable trade relationships.

Fleet Management: The procurement of vehicles used by an organisation, alongside the procurement of services such as maintenance and parking spaces.

Flexible Warehousing: Term used to describe any technique which allows the short-term ability to increase or decrease storage space.

Forward Buying: Buying more than an organisation currently needs to avoid possible future price increases.

Freight: Goods transported in bulk by trucks, trains, ships or planes.

Fraud: Criminal deception such as bribery or corruption with the intent to benefit financially or otherwise.

Ff

Gg

Gap Analysis: Comparing what has been achieved against what was planned to understand current state.

Global Sourcing: Sourcing from international vendors and building a worldwide supply chain.

Green Procurement: Also known as sustainable procurement. Ecologically responsible procurement of goods and services to minimise an organisation's adverse environmental impacts.

Hh

Heads of terms: A document outlining the key terms of a proposed contract between parties.

Hedging: Buying similar products from two or more markets to mitigate effects of price increases.

Hybrid Procurement: An organisational model combining both centralised and decentralised structures. Often referred to as centre-led.

Ii

Indigenous Procurement: Purchasing goods and services from Indigenous-owned businesses.

Indirect Procurement: The purchase of goods or services necessary for the day-to-day running of an organisation, but not involved in the creation of a business's core product or service.

Integration: The mechanisms involved in data, processes or systems coming together.

Internet of Things (IoT): A network of objects connected to the internet with sensors that connect and exchange data

Inventory costs: The costs caused by holding supplies in a warehouse. High inventory costs can be reduced through a Just-in-Time supply management strategy.

ISO Certification: Certification in one or more of the global standards established and managed by the International Organisation for Standardisation.

Joint Venture: A business arrangement where two parties pool resources to accomplish a shared goal.

Just in Case (JIC): A supply management technique involving the purchase and storage of more goods than needed to protect against supply shocks and improve business continuity.

Just in Time (JIT): A supply management technique where goods are delivered just as they are needed to reduce inventory costs and wastage.

Jj

Kk

Kaizen: A methodology that focuses on small continuous improvements across every part of an organisation.

Key performance indicators (KPIs): The metrics used to assess performance in areas such as delivery and quality.

Key Risk Indicators (KRIs): Metrics used to measure and assess the risk level of a sourcing activity.

Kraljic Matrix: A tool to understand the strategic importance of suppliers by segmenting them into four classes.

Lead Time: The time between placing an order with a supplier and receipt of goods.

Lean: A work methodology that focuses on process optimisation through the identification and elimination of waste.

Legacy Systems: Old or out-of-date software or systems that may be holding an organisation back from achieving its targets.

License to Operate: Also known as social license. The acceptance granted to an organisation by the community in which it operates.

Local Sourcing: Contracting with local businesses for goods and services.

Logistics: Planning, implementing and controlling the flow of goods to their final destination.

Low-Cost Countries: Countries where rates of pay, and therefore sourcing costs, are low.

Ll

Make or Buy: The decision to manufacture a product in-house or purchase it from a supplier.

Market Analysis: Understanding the supply market for a particular category, its trends, competitiveness and key suppliers.

Maverick Spend: Purchasing goods or services from suppliers outside established procurement policy.

Minimum Order Quantity (MOQ): The minimum quantity of units a supplier will accept.

Modern Slavery: Institutional slavery that occurs in present-day supply chains all around the world.

Monopoly: Monopolies occur when a single supplier is the sole provider in the market with no competition.

Multi-sourcing: Also known as **Supplier Diversification**. The decision to use two or more suppliers for a product or service.

Mm

Nn

Negotiation: A dialogue between two parties to reach an agreement such as a bulk discount for goods or services.

NGOs: Non-Governmental Organisations work to improve social or environmental outcomes and may offer accreditation programs.

NPOs: Non-Profit Organisations reinvest all revenue back into the organisation.

Offshoring: Relocating business processes such as manufacturing or call centres to another country, often to take advantage of lower costs.

Off-the-shelf: A standardised product or service that cannot be changed or customised.

Onboarding: The processes involved in setting up a new supplier, such as giving the supplier access to shared systems.

Outcomes-Based Procurement: A method of procurement that defines the need to be met rather than how to do it, encouraging suppliers to come up with innovative solutions.

Outsourcing: Engaging a supplier to deliver a business process that used to be done internally.

Oo

Pp

Pareto Principle: Also known as the 80/20 rule. A rule-of-thumb wherein 80% of spend will come from 20% of suppliers, and 20% of spend comes from 80% of suppliers.

Purchasing Power: An organisation's ability to obtain discounts through bulk purchasing. Organisations can band together under a Group Purchasing Organisation (GPO) to increase purchasing power.

Procurement Process: The series of steps used to obtain goods and services, from needs identification to supplier discovery, RFQ, supplier selection, negotiation, contracting, receipt of goods and services, payment and performance management.

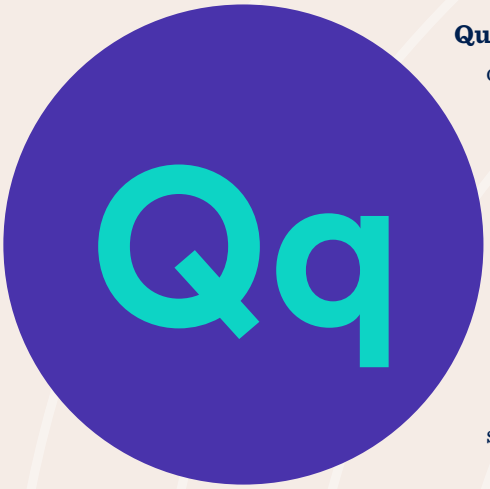
Performance Management: A method used to measure and manage supplier performance, usually against a set of predetermined KPIs, to lower costs, alleviate risks and drive continuous improvement.

Process Mapping: A method used to identify the distinct steps in a process and visually describe a flow of work.

Procure to Pay (P2P): A subdivision of the procurement process from purchase through to payment. P2P systems integrate procurement with accounts payable.

Procurement Technology: Usually integrated with other systems such as ERPs, platforms that help manage procurement of goods and services, suppliers, and spend data. Procurement technology enables automation of the procurement process and data analysis to support decision-making.

Purchase order (PO): A document sent from a buyer to a seller with a request for products or services, including quantities, specifications, and agreed prices.



Quality Control: A review process used to ensure the quality of products or services received from suppliers is maintained or improved.

Qualitative Analysis: Analysis based on non-quantifiable information such as statements and opinions rather than numerical data.

Quantitative Analysis: Analysis based on quantifiable information such as numerical or statistical data.

Quotation: A supplier statement, often in response to an RFQ, that provides the costs of goods or services to be provided in a specific period.

Request for Information (RFI): A document that solicits information about suppliers, their capabilities and solutions. Generally issued prior to the RFP process.

Request for Proposal (RFP): A document that provides background to potential vendors and invites them to submit potential solutions to meet a business need.

RFx: A collective term referring to any "Request-for-" documents such as Requests for Proposals and Requests for Information.

Request for Quotation (RFQ): A document inviting potential suppliers to provide pricing and payment information on products and services to evaluate vendors based on price.

Reshoring: Moving a business operation that was offshored (moved overseas) back to the organisation's original country.

Reverse Auction: An auction where vendors place bids for the amount they are willing to be paid for a good or service, with the lowest amount winning.

Risk Management: Identifying, evaluating, prioritising, and controlling risks that could negatively impact an organisation.

Risk Mitigation: Techniques aimed at reducing the impacts of a risk event.

Ss

Should Cost Analysis: Breaking down cost elements to develop a realistic estimate of what a product or service should cost.

Single Sourcing: Procuring a product or service from a single supplier only.

Spend Analysis: Analysing expenditure data to identify opportunities for cost reduction and efficiency improvements.

Source-to-Contract: A subdivision of the procurement process from the RFX stage to awarding a contract to a supplier.

Sourcing: The end-to-end process by which organisations identify and select suppliers to provide goods or services.

Spend Data: All the data generated by organisational spend which can be analysed to provide insights and inform procurement strategy.

Spend Management: A collection of techniques to track, manage, and analyse business expenditure.

Stakeholders: Internal and external people who can affect or be affected by a procurement decision.

Strategic Alignment: Ensuring procurement goals and targets are aligned with those of the wider enterprise.

Supplier Relationship Management (SRM): Managing and improving relationships between the organisation and its suppliers to ensure maximum value is obtained.

Supplier Discovery: Also known as Vendor Discovery. Market research to discover suppliers with the potential to meet a business need.

Supplier Diversification: Sourcing from multiple suppliers to lower the risk of supply chain disruption.

Supplier Consolidation: Sourcing from a reduced number of suppliers to reduce costs, reduce duplication and improve efficiency.

Supplier Diversity Program: Engaging suppliers who are at least 51% owned by diverse individuals or groups.

Social Procurement: Leveraging organisational spend to improve social outcomes.

Strategic Procurement: Procurement processes that are focused on long-term improvement rather than short-term needs.

Supplier scorecard: A tool used to track and assess performance of suppliers towards goals and targets agreed to in the contract.

Spend Threshold: In a decentralised model, the monetary threshold over which procurement will get involved in a purchase decision.

SME: Small- to medium-sized enterprise. Company sizes can be defined by revenue or number of employees.

Statement of Work (SoW): A document that outlines activities, deliverables and timelines for the vendor providing a product or service.

Strategic Supplier: Suppliers that are core to an organisation's business, with significant impacts if supply is disrupted.

Supplier Evaluation: The process used to assess suppliers through qualitative and quantitative techniques.

Supplier Pre-Qualification: A screening process to discover if potential suppliers meet criteria such as capability, compliance, financial stability and insurance coverage.

Supply Base: The network of suppliers that procurement manages and contracts with.

Supply Chain: The network and process involved in goods management, from supply of raw materials to distribution and sale.

Tt

Tactical: Low-risk or routine sourcing, usually in response to an immediate need.

Tail Spend: Low-value, low-risk, day-to-day spend. Often consists of 20% of organisational spend with 80% of suppliers (see Pareto Principle).

Tariff: Government tax imposed on imported goods.

Technology Ecosystem: Also known as Technology Stack. A suite of integrated software solutions, each of which performs a different function within an overall process or function.

Tender: A document used to invite suppliers to formally quote on a project.

Tier 1 Supplier: A supplier that provides a product directly to the purchasing organisation.

Tier 2 Supplier: A supplier that provides products to tier 1 suppliers.

Total Cost of Ownership (TCO): An estimate of all the costs involved in owning and operating a product over its lifetime, including purchase price, maintenance and disposal costs.

Traceability: The ability to verify the history or location of goods.

Transparency: Honesty and openness to scrutiny by external parties.

Uu

Unconscious Bias: Also known as implicit bias. Unintended attitudes and stereotypes about groups of people that may impact decision-making.

Unit Price: The price of a unit of a good or service, such as one labour hour.

Vv

Vendor Management: See Supplier Relationship Management (SRM).

Vendor Selection: The process used to assess and approve vendors to purchase from.

Visibility: The ease with which procurement data or other relevant information can be found.

Voice of the Supplier: A survey undertaken to ask suppliers to rate the purchasing organisation in different areas.

Vertical Integration: When a company acquires business operations within its supply chain, such as a supplier of raw materials.

Vendor: Also known as a Supplier. An entity or individual that sells a product or service.

Volatility: Uncertainty stemming from changes in demand, price, or other factors in procurement and supply management.

Ww

Walk-away point: The threshold or position beyond which a negotiator will decline a deal.

Warehouse: Storage facility for procured goods.

Waste: Unwanted goods or materials, or inefficiencies in processes or operations.

Win-win: A negotiation outcome with which all parties are satisfied.

Weighted Scoring: A framework for assessing suppliers by assigning numeric values to prioritise the things that matter most in a project.

Xx

Yield: In the manufacturing industry, this means the ratio of usable amount of output from the total amount of output. Outside of manufacturing, this can refer to profits made.

Zero Based Budgeting: A form of budgeting where you start from a base of zero, and every expense above this must be justified.

Yy

Zz

Top 10 Procurement Terms of 2021

Which procurement terms have been most relevant to your organisation this year?

Here are VendorPanel's pick of the top 10 procurement terms as we emerge from the COVID crisis:

1. Adaptability
2. Business Continuity
3. Digitalisation
4. Risk Management
5. Green Procurement
6. Technology Ecosystems
7. Volatility
8. Just in Case (JIC)
9. Automation
10. Local Sourcing

Learn more about VendorPanel's award-winning preferred supplier and vendor management and procurement collaboration tools.

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