

<p>Module 4</p> <p><i>Section E: Suppliers and Purchasing</i></p>
<p>Term</p> <p>Average outgoing quality limit (AOQL)</p>
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<p>The maximum average outgoing quality over all possible levels of incoming quality for a given acceptance sampling plan and disposal specification.</p>

<p>Module 4</p> <p><i>Section E: Suppliers and Purchasing</i></p>
<p>Term</p> <p>Certified supplier</p>
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<p>A status awarded to a supplier that consistently meets predetermined quality, cost, delivery, financial, and count objectives. Incoming inspection may not be required.</p>
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<p>Module 4</p> <p><i>Section E: Suppliers and Purchasing</i></p>
<p>Term</p> <p>Concurrent engineering</p>
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<p>A concept that refers to the simultaneous participation of all the functional areas of the firm in the product design activity. Suppliers and customers are often also included. The intent is to enhance the design with the inputs of all the key stakeholders. Such a process should ensure that the final design meets all the needs of the stakeholders and should ensure a product that can be quickly brought to the marketplace while maximizing quality and minimizing costs. Syn.: co-design, concurrent design, concurrent engineering, new product development team, parallel engineering, simultaneous design/engineering, simultaneous engineering, team design/ engineering. Syn.: participative design/engineering. See: early manufacturing involvement.</p>
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<p>Module 4</p> <p><i>Section E: Suppliers and Purchasing</i></p>
<p>Term</p> <p>Consignment</p>
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<p>1) A shipment that is handled by a common carrier. 2) The process of a supplier placing goods at a customer location without receiving payment until after the goods are used or sold. See: consigned stocks.</p>
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Term

Continuous replenishment

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A process by which a supplier is notified daily of actual sales or warehouse shipments and commits to replenishing these sales (for example, by size or color) without stockouts and without receiving replenishment orders. The result is a lowering of associated costs and an improvement in inventory turnover. See: rapid replenishment, vendor-managed inventory.

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Critical characteristics

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The attributes of a product that must function properly to avoid the failure of the product. Syn.: functional requirements.

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Critical-to-quality characteristics (CTQs)

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The important and measurable traits of a product or process whose performance targets must be met to satisfy the customer. They adjust improvement efforts to meet consumer requirements. [They also] represent customer expectations for a product.

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Cross-docking

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The concept of packing products on incoming shipments so they can be easily sorted at intermediate warehouses or for outgoing shipments based on final destination. The items are carried from the incoming vehicle docking point to the outgoing vehicle docking point without being stored in inventory at the warehouse. [It] reduces inventory investment and storage space requirements. Syn.: direct loading.

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Customer-supplier partnership

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A long-term relationship between a buyer and a supplier characterized by teamwork and mutual confidence. The supplier is considered an extension of the buyer's organization. The partnership is based on several commitments. The buyer provides long-term contracts and uses fewer suppliers. The supplier implements quality assurance processes so that incoming inspection can be minimized. The supplier also helps the buyer reduce costs and improve product and process designs. Syn.: customer partnership. See: outpartnering.

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First pass yield

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The ratio of products that conform to specifications without rework or modification to total input.

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First-article inspection

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A quality check on the first component run after a new setup has been completed. Syn.: first-piece inspection.

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Joint venture

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An agreement between two or more firms to risk equity capital to attempt a specific business objective.

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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.

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Term
Lean metric

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A metric that permits a balanced evaluation and response—quality without sacrificing quantity objectives. The types of metrics are financial, behavioral, and core-process performance.

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Term
Multisourcing

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Procurement of a good or service from more than one independent supplier. Syn.: multiple sourcing. Ant: single sourcing. See: dual sourcing.

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Term
Order processing

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The activity required to administratively process a customer's order and make it ready for shipment or production.

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Term

Participative design/engineering

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A concept that refers to the simultaneous participation of all the functional areas of the firm in the product design activity. Suppliers and customers are often also included. The intent is to enhance the design with the inputs of all the key stakeholders. Such a process should ensure that the final design meets all the needs of the stakeholders and should ensure a product that can be quickly brought to the marketplace while maximizing quality and minimizing costs. Syn.: co-design, concurrent design, concurrent engineering, new product development team, parallel engineering, simultaneous design/engineering, simultaneous engineering, team design/ engineering. See: early manufacturing involvement.

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Physical supply

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The movement and storage of goods from suppliers to manufacturing. [Its cost] is ultimately passed on to the customer.

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Point-of-use delivery

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Direct delivery of material to a specified location on a plant floor near the operation in which it is to be used.

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Procurement

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The business functions [of...] planning, purchasing, inventory control, traffic, receiving, incoming inspection, and salvage operations.

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Term
Purchase order

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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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Purchase requisition

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An authorization to the purchasing department to purchase specified materials in specified quantities within a specified time. See: parts requisition.

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Term
Purchasing

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The term used in industry and management to denote the function of and the responsibility for procuring materials, supplies, and services.

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Term
Request for quote (RFQ)

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A document used to solicit vendor responses when a product has been selected and price quotations are needed from several vendors.

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Responsible procurement

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Assuring the use of ethical sources of goods and services where a firm does business to bring about a positive impact and minimize the negative impact on societies and environments—including reduce, reuse, and recycle of materials. Includes processes for identifying, assessing, and managing the environmental, social, and ethical risk in the supply chain. Syn.: environmentally responsible purchasing.

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Reverse auction

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

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Single-source supplier

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A company that is selected to have 100 percent of the business for a part although alternate suppliers are available. See: sole-source supplier.

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Sole source

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The situation where the supply of a product is available from only one organization. Usually technical barriers such as patents preclude other suppliers from offering the product. See: single sourcing.

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Term
Strategic alliance

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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.

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Term
Strategic partnerships

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Alliances with top supplier and buyer performers to enhance a firm's performance.

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Strategic sourcing

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A comprehensive approach for locating and sourcing key material suppliers, which often includes the business process of analyzing total-spend-for-material spend categories. Includes a focus on the development of long-term relationships with trading partners who can help the purchaser meet profitability and customer satisfaction goals. From an information technology applications perspective, includes automation of requests for quote (RFQ), requests for proposal (RFP), electronic auctioning (e-auction or reverse auction), and contract management processes.

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Term
Supplier

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1) Provider of goods or services. See: vendor. 2) Seller with whom the buyer does business, as opposed to vendor, which is a generic term referring to all sellers in the marketplace.

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Term Supplier audit

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Auditing supplier processes as part of a supplier development system.

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Term Supplier certification

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Certification procedures verifying that a supplier operates, maintains, improves, and documents effective procedures that relate to the customer's requirements. Such requirements can include cost, quality, delivery, flexibility, maintenance, safety, and ISO quality and environmental standards.

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Term Supplier measurement

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The act of measuring the supplier's performance to a contract. Measurements usually cover delivery reliability, lead time, and price. Syn.: purchasing performance measurement. See: vendor measurement.

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Term Supplier relationship management (SRM)

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A comprehensive approach to managing an enterprise's interactions with the organizations that supply the goods and services the enterprise uses. The goal of [this] is to streamline and make more effective the processes between an enterprise and its suppliers. [It] is often associated with automating procure-to-pay business processes, evaluating supplier performance, and exchanging information with suppliers. An e-procurement system is often an example of [this type of] family of applications.

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Term Tactical buying

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The purchasing process focused on transactions and nonstrategic material buying. Closely aligned with the “ordering” portion of executing the purchasing transaction process. Its characteristics include stable, limited fluctuations; defined standard specifications noncritical to production; no delivery issues; and high reliability concerning quality-standard material with very little concern for rejects. See: strategic sourcing.

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Term Terms and conditions

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All the provisions and agreements of a contract.

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Term Third-party logistics (3PL)

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A buyer and supplier team with a third party that provides product delivery services. This third party may provide added supply chain expertise.

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Term Total cost of ownership (TCO)

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

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Term Value analysis

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The systematic use of techniques that identify a required function, establish a value for that function, and finally provide that function at the lowest overall cost. Focuses on the functions of an item rather than the methods of producing the present product design.

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Term Vendor-managed inventory (VMI)

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A means of optimizing supply chain performance in which the supplier has access to the customer's inventory data and is responsible for maintaining the inventory level required by the customer. Accomplished by a process in which resupply is performed by the vendor through regularly scheduled reviews of the on-site inventory. The on-site inventory is counted, damaged or outdated goods are removed, and the inventory is restocked to predefined levels. The vendor obtains a receipt for the restocked inventory and accordingly invoices the customer. See: continuous replenishment.

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Term Virtual organization

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Short-term alliances between independent organizations in a potentially long-term relationship to design, produce, and distribute a product. Organizations cooperate based on mutual values and act as a single entity to third parties.