



The EIPM Purchasing Glossary

1 Process and Fundamentals

<ul style="list-style-type: none"> • Purchasing/Procurement 	<p><u>In Europe</u>: Purchasing is the strategic part of buying a good or a service. Procurement is considered as the fulfilment of orders to secure daily's operations. Procurement normally depends on Purchasing.</p> <p><u>In USA</u>: It is the other way around. Procurement is the strategic part of buying good or a service. Purchasing is considered as transactional part of the process. Purchasing normally depends on procurement.</p>
<ul style="list-style-type: none"> • Sourcing 	Process to identify, qualify and select new suppliers.
<ul style="list-style-type: none"> • Supply chain 	Series of operations that provides goods or services though to end customers.
<ul style="list-style-type: none"> • Value chain 	Activities though which a firm develops a competitive advantage and creates shareholder value. Purchasing is one contributor to value chain.
<ul style="list-style-type: none"> • Purchasing Process 	This process includes 6 mains steps. The definition of needs, the analysis of the supplier market, the definition of the purchasing strategy, the selection of the suppliers, the Negotiation, the contract deployment and Supplier Development.
<ul style="list-style-type: none"> • Transactional purchasing • Operational purchasing • Tactical purchasing 	Purchasing which is only a support function dealing more with administration (ordering, tracking, invoicing) than strategy.
<ul style="list-style-type: none"> • Downstream purchasing 	Is the management of the purchasing process once the specifications are frozen (or the needs/requirements are defined).
<ul style="list-style-type: none"> • Strategic purchasing 	In opposition to transactional purchasing. To be involved in the definition of requirements, the client's satisfaction, the value creation process.
<ul style="list-style-type: none"> • Upstream purchasing 	Similar to EPI.
<ul style="list-style-type: none"> • EPI (Early purchasing involvement) 	Purchasing staff being involved in the definition of requirements to avoid risks and cost.
<ul style="list-style-type: none"> • Benchmarking 	Process to identify the best in class, to analyse the best in class, to understand why he is the best and to understand what we have to implement to improve ourselves.
<ul style="list-style-type: none"> • To be the benchmark 	To be the reference.
<ul style="list-style-type: none"> • ESI (Early supplier involvement) 	To have suppliers participating at the very early stage of the process to contribute in the definition of requirements.
<ul style="list-style-type: none"> • Best in class 	The company who is considered as the best in realising one given activity or a given practice (whatever the sectors).



The EIPM Purchasing Glossary

2 Definition of Requirements

<ul style="list-style-type: none"> • Segmentation 	Capability to group goods and services in function of common criteria (process, quality, technology...)
<ul style="list-style-type: none"> • ABC Analysis • Pareto Analysis • 20% / 80 % rule 	A way to classify Purchasing expenses (or selling expenses) by ordering the priorities: (20 % of clients represents 80 % of sales. 20 % of suppliers represents 80 % of Purchasing).
<ul style="list-style-type: none"> • Buying centre (Stakeholders) 	Process to identify the persons who are directly or indirectly concerned about goods or services that the buyers are responsible for.
<ul style="list-style-type: none"> • Functional definition of requirements 	An expression of needs in terms of functions, constraints, acceptance flexibility, and not in terms of technical solutions (provides more opportunities in terms of possible solutions).
<ul style="list-style-type: none"> • Value analysis 	Utilisation of functional definition of requirements methodology on an existing good to improve solutions.
<ul style="list-style-type: none"> • Design to cost (design to target cost) 	To define a solution (for a good or a service by) using functional definition of requirements, but limited by a limited target price.
<ul style="list-style-type: none"> • Technical specifications 	An expression of needs in term of technical solutions, technical characteristics, (which limits the potential solutions and the supplier).
<ul style="list-style-type: none"> • Volume effect 	By consolidating the needs of one company (over time or cross B.U.s') to increase purchasing power "vis a vis" suppliers to secure the delivery, to obtain best cost, best quality.
<ul style="list-style-type: none"> • A segment • A category • A family • A sub-family • A commodity 	The result of the segmentation: the homogeneous group of goods or services.

3 Supplier Market Analysis

<ul style="list-style-type: none"> • A seller's or supplier's market 	A market which is favourable to the suppliers (the demand is greater than the supply).
<ul style="list-style-type: none"> • A buyer's or user's market 	A market which is favourable to the users (the supply is greater than the demand).
<ul style="list-style-type: none"> • Switching Point 	When the demand corresponds to the offer, then the price starts changing its trend (from increasing to decreasing and vice versa).
<ul style="list-style-type: none"> • Porter 5 forces analysis 	Framework to assess supplier market dynamics by looking at the supplier market competition, le demand market, the supplier's supplier market, the substitute market and the barriers to new comers.

4 Purchasing Strategy

<ul style="list-style-type: none"> • Make or buy 	The analysis to compare the advantage of realising internally (to make a product or a service) and of having it, realised externally (to buy).
<ul style="list-style-type: none"> • Core business/core activities 	What the companies consider as the key strategic elements of the company that cannot be outsourced.
<ul style="list-style-type: none"> • Make or buy criteria 	Criteria to support the decision of making or buying (cost, innovation, capacity, capability, core business).
<ul style="list-style-type: none"> • To outsource 	To look for an external supplier to realise what we were realising up till now internally.
<ul style="list-style-type: none"> • Outsourcing 	The action of realising the outsource.
<ul style="list-style-type: none"> • Kraljic matrix 	A portfolio analysis tool to define the purchasing strategy/best practices to implement per segment by looking at the Importance of the Spend and the Market Difficulty. It is composed on 4 types of segments: non-critical, bottleneck, leverage and strategic.
<ul style="list-style-type: none"> • SRM: Supplier Relationship Management 	Policies to set a new relationship with one supplier permitting to be considered as the preferred client to this supplier.



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5 Suppliers selection

• Vendors	General term to suppliers (Mainly in the USA). Companies which can potentially become suppliers of goods or services.
• Potential suppliers	Companies which have been selected in function of our own criteria, to potentially deliver us a good or a service.
• Supplier Selection	Pre-determined criteria used to evaluate and select the different potential suppliers.
• Suppliers	Company with whom a contract has been signed.
• RFI (Request For Information)	Formatted document sent by the buyer to collect general information from vendors to analyse if they could potentially be selected.
• RFP (Request For Proposal)	Formatted document sent by the buyer to collect specific information from a potential supplier on a specific proposal or demand.
• RFQ (Request For Quotation)	Formatted document sent by the buyer to collect pricing information for a certain good (quality, quantity) from a selected potential supplier.
• e-RFI	Electronic RFI
• e-RFP	Electronic RFP
• e-RFQ	Electronic RFQ
• e-RFx	Generic electronic documents
• Auction	Process in which a seller proposes a good or a service to sell at a proposed starting minimum price, while the potential buyers show their interest in good or service by increasing this given starting price to be sure to get the deal. The auction is closed when there are no longer buyers to increase the last proposed price.
• Reverse Auction	Process in which a buyer proposes to buy a good or a service. In a limited time frame, sellers have to decrease their selling price to propose the best offer.

6 Negotiation

• Purchasing Price	Price the buyer is ready to pay for a good. This buying price corresponds to the suppliers selling price.
• Purchasing cost	Cost of the transaction for a good: it corresponds to the purchasing price plus elements of transactional costs .
• Cost breakdown analysis	Process to build up and to understand the different elements which compose the cost of a good or a service (labour, investment, utilities...).
• TCO (Total Cost of Ownership)	Methodology to set a complete cost along the life of the product (including end of life, training, maintenance...).
• Value	The value is (associated to all tangible elements) plus intangible costs (expertise, satisfaction, fit, ...). It is equal to "Customer Satisfaction" / "Cost".
• Price reduction	To decrease buying price by decreasing mainly the margin associated with goods.
• Cost reduction	To decrease cost by improving efficiency on some elements of the transactional costs (order, follow-up, invoice).
• Cost avoidance	To avoid some costs by modifying technical specifications (over quality, over quantity, ...).
• KPI's (Key Performance Indicators)	Set of indicators permitting to track results (price, lead time, quality, ...).



The EIPM Purchasing Glossary

7 Contract and follow-up

<ul style="list-style-type: none"> • Contract 	Document which is signed by the supplier and the buyer to give the characteristics of what it's bought, how its bought (price and delivery) and giving information to find solutions in case of problem.
<ul style="list-style-type: none"> • Frame Agreement 	Agreement which is signed by both parties to secure a price and certain quantities. All different users of the company benefit from this agreement.
<ul style="list-style-type: none"> • Contract Deployment 	Process to deploy one contract in the company among the different users, requesters, B.Us'.
<ul style="list-style-type: none"> • Supplier Development 	Set of actions to support the supplier in improving its complete process (cost, quality, and deadline).

8 Purchasing Jobs

<ul style="list-style-type: none"> • Purchasing Executive 	The purchasing executive defines the purchasing strategy and general purchasing policies, in alignment with the strategy of the company or group for which he acts. He decides how the function is organized, is responsible for determining and allocating the resources needed (human, technical and financial). He is responsible for deploying the tools and action plans. He decides the methods for measuring overall performance, and reports on performance to his immediate superiors (who belong to the executive committee, production or finance). He defines the human resources management policy (profiles, wages, career plans, etc).
<ul style="list-style-type: none"> • Commodity • Category Purchasing Manager 	The Product Family Purchasing Manager is responsible for all decisions made regarding one or more family of products. He sets out the strategic direction, the action plans to be implemented and makes sure that they are deployed. He is responsible for defining and allocating the resources needed (human, technical and financial).
<ul style="list-style-type: none"> • Purchasing manager: Group of buyers 	The "purchasing manager" is responsible for the implementations of the strategies by all the purchasing teams. He sets out the strategic direction, the policies to be implemented and makes sure that they are deployed. He is responsible for defining and allocating the resources needed (human, technical and financial). He reports on performance to the purchasing management board.
<ul style="list-style-type: none"> • Commodity • Category Lead Buyer 	The Lead buyer for a purchasing family/segment leads a purchasing team working on the same kind of purchases. He sets the objectives for that family, particularly in terms of overall strategy. He analyses the market and contracts.
<ul style="list-style-type: none"> • Upstream buyer • Advanced Buyer • Project Buyer 	The Upstream buyer heads project-purchasing teams acting upstream of projects, uses transversal procedures, and uses functional analysis tools. He sets objectives for projects, particularly in terms of general tactics. He is the interlocutor of the site-purchasing managers and the Lead Buyers.
<ul style="list-style-type: none"> • Site Purchasing Manager 	The Site Purchasing Manager leads a purchasing team. He is responsible for the economic performance of his site. He sets the savings objectives, processes and overall strategy, and allocates resources and activities within his team. He is the interlocutor of the line-purchasing managers and project-purchasing managers.
<ul style="list-style-type: none"> • Area Purchasing Manager 	The area-purchasing manager leads a team of site-purchasing managers. He is responsible for the financial performance of his area. He sets the guidelines and resources available in the area. He is responsible for deploying the actions and tools in his area (e.g. E-commerce tools, etc).
<ul style="list-style-type: none"> • Supplier Key-account buyer 	He is the unique contact point for a given supplier. He coordinates the different lead buyer in relation with this given supplier to define one common strategy for this supplier and set a Supplier Relationship Management.
<ul style="list-style-type: none"> • Buyer 	The buyer consolidates the requirements, consults the market, negotiates contracts and supervises their implementation in all the units in his area.
<ul style="list-style-type: none"> • Procurement Buyer-planner 	The buyer-planner organizes and coordinates stock management according to the general guidelines set by the stock manager. He is responsible for all related activities and expected results.