

KEY TERMS you should be familiar with ...

Administrative or operating budget:	This budget is based on anticipated operating workloads, includes all of the expenses incurred in the operation of the supply function.
Benchmarking:	A process of evaluating a company's work methods, processes, service levels, or products against meaningful standards to answer the question, "How are we doing compared to other firms?"
Capital budget:	The capital expenditure plan often has a multiyear horizon, based on the firm's strategic plan for product lines, market share, and new ventures.
Commodity:	A term that can be used in several ways: (1) a raw material that is traded on a commodities market, such as flour, steel, or copper, and (2) more broadly to describe a purchase category such as computers, travel, or printed circuit boards.
Corporate social responsibility (CSR):	The voluntary integration of social and environmental concerns into business operations.
Cross-functional sourcing teams:	Teams comprised of people from multiple functional areas such as supply, operations, marketing, and finance that do the research and planning but do not actually do the buying.
Effectiveness metrics:	These metrics are attempts to measure how well something is done; they include evaluating direct and indirect contributions to final customer satisfaction, profit, revenue enhancement, or asset management.
Efficiency metrics:	The traditional approach to measuring supply performance is focused on efficiency, which emphasizes price and departmental operating efficiency; performance measures include purchased material price reductions, operating costs, and order processing time.
Investment recovery.	Analysis of disposal methods (including recycling), channels, and techniques to isolate those that will provide greatest net return to the firm.
Key Supplier Performance Indicators:	Direct measures that quantify supplier performance at the time work is completed.
Lease or buy.	Collection of data on the advantages and disadvantages of each alternative so that the most attractive decision can be identified.
Maintenance, repair and operating (MRO) supplies budget.	The MRO budget covers a purchase plan, typically for a 12-month period, for maintenance, repair, and operating supplies.
Make or buy and continue making or outsource.	Comparison of economic and managerial outcomes from each alternative to make an informed choice.
Materials (operations) purchase budget:	The budgeting process begins with an estimate of expected operations, based on sales forecasts and plans, and identifies cash flow commitments and isolates problems.
Performance benchmarking:	A process that measures <i>what</i> results organizations have achieved in their purchasing/supply activities.
Process benchmarking:	A process that attempts to determine <i>how</i> an organization achieves results.

Specification.	Analysis of current specifications compared to the final customers' required performance level to eliminate unneeded attributes or unnecessarily high levels of performance, and to enable competitive sourcing.
Standardization.	Review of how specific products are used and consideration of using one item to fill the needs for which multiple items currently are purchased.
Substitution.	Analysis of the technical and economic ramifications of using a different item than the one presently purchased.
Target costing:	An approach that starts with the selling price of a final product or service minus the desired operating profit to arrive at a pool of money available for all costs; responsibility for cost pools and attaining cost targets is allocated to functions throughout the organization.
Triple bottom line reporting:	An attempt to account for the social, environmental and financial impact of an organization's activities.
Value analysis:	Application of value methodology on purchased items used in the ongoing production process.
Value engineering:	Application of value methodology in the design stage.
Value methodology:	Compares the <i>function</i> performed by a purchased item with the <i>cost</i> in an attempt to find a better-value alternative.