Glossary of Common Procurement Terms

ACCEPTANCE - The act of accepting by an authorized representative; an indication of a willingness to pay; the assumption of a legal obligation by a party to the terms and conditions of a contract.

ACQUISITION - The act of acquiring goods and services (including construction) for the use of a governmental activity through purchase, rent, or lease. Includes the establishment of needs, description of requirements, selection of procurement method, selection of sources, solicitation of procurement, solicitation for offers, award of contract, financing, contraction administration, and related functions.

ADDED VALUE – A phrase often used to classify non-cash releasing benefits realized through the procurement process. The "added value" from the procurement process may include risk reduction, stakeholder training, exclusivity, preferential access to resources etc., all of which would be classified as "added value" benefits.

ADDENDUM - An addition or supplement to a document; e.g., items or information added to a procurement document.

ADVERTISE - To make a public announcement of the intention to purchase goods, services or construction with the intention of increasing the response and enlarging the competition. The announcement must conform to the legal requirements imposed by established laws, rules, policies and procedures to inform the public.

AGREEMENT - A duly executed and legally binding contract; the act of agreeing. The word agreement can have both informal and formal meanings. Informally the word may be used to describe a contractual agreement between parties: 'the agreement has three months to run'. The formal meaning of the word is used in a legal context to describe one of the prerequisites for considering a contract valid. The parties must have 'a meeting of the minds', sometimes called 'consensus ad idem', meaning that for a contract to exist the parties must share a common understanding, and there must be no mistake as to what is being agreed. See also Contract.

AIR WAYBILL - An air waybill is a document used for airfreight that forms a record of what is shipped. It is a vital document in the handover of freight between supply chain participants. The document usually states what is being shipped, shipping instructions and shipping costs.

ALLOCATION - The practice of rationing customer orders at times of supply shortage. For example, all customers may have only part, say 50%, of their original orders delivered so that only, for example, 50% of the original order volume is delivered. To be placed 'on allocation' may cause buyers concern about continuity of supply and many buyers seek to position themselves as 'preferred customers' so that in times of shortage they get preferential access to scarce resources. See also Customer, Preferred.

ALTERNATE RESPONSE - A substitute response; an intentional substantive variation to a basic provision or clause of a solicitation by a vendor.

AMENDMENT - A written modification to a contract or purchase order or other agreements.

ANALYSIS - Analysis involves breaking down a complex whole into its constituent parts for subsequent investigation. Analysis is relevant to procurement in terms of spend analysis, category analysis, market analysis, price or cost analysis and bid analysis. In each case, we are seeking better understanding of the topic by profiling and describing the subject in different ways. Spreadsheets can help in terms of analyzing data, and many procurement processes require some analysis of trends and patterns in order to reach a better understanding. The application of technology to procurement has largely focused upon providing better tools to analyze data and produce better information. Good decisions require not only good data and better information, but also the knowledge to interpret the information and the wisdom to make informed choices.

APPROPRIATION - Sum of money or total of assets from public funds devoted to a specific purpose.

APPROVAL - Most governance schemes involve a 'sign off' or approval stage when the contents of a prior stage are submitted for review against predetermined criteria. Reducing the number of duplicate or redundant approval stages is a key goal of many initiatives to shrink procurement cycle times. See also Governance.

APPROVED LIST - A phrase used particularly in public sector organizations to describe a standing list of pre-qualified bidders for a particular scope of work. Instead of issuing public advertisements each time a scope of work is to be tendered, bidders may be selected from within an approved list for that category. See also Pre-qualification.

ARO - After Receipt of Order. It refers to the amount of time it will take an order to be delivered after the order has been placed.

ASSET - Assets can include anything that is capable of being owned to produce value. Buildings, equipment and machinery are examples of tangible assets. 'Know how', brands and other intellectual property are examples of intangible assets. Assets typically appear on a balance sheet. See also Asset, Current.

AUCTION - An auction is the process of buying and selling goods or services by inviting competing bids from a number of participants. Competing participants in an auction may or may not know the identities or actions of other competitors. Forward auctions involve buyers submitting competing bids, with the price typically increasing during the auction. Reverse auctions involve sellers submitting competing bids, with the bids usually decreasing during the auction. Online reverse auctions are a common tool for procurement practitioners seeking to harness competitive tension for relatively undifferentiated categories. Some platforms allow the buyer to evaluate bids against a variety of criteria as well as price, and bidders may have visibility on the actual prices bid, or simply the ranking of their offer in terms of competitiveness against the other bids received by the buyer.

AUDIT - Audits are typically part of a control process to validate that key activities are being or have been undertaken and to identify weaknesses or opportunities for improvement. "Tick and flick audits" which may check every 10th purchase order in order to ensure that the approvals and other controls in place are working have largely been superseded by 'systems audits' in which the integrity of the approval system as a whole is reviewed. This may involve a broader assessment not just of whether approvals took place, and addressing who undertook the approvals, but also considering whether the level of control was commensurate with the risk and, considering how else the risks may be managed.

BACK ORDER - In supply chain terms when a customer order cannot be immediately fulfilled from stock, the customer requirement may be placed on 'back order'. This implies that a replenishment order will be raised on the next tier of the supply chain and, when sufficient materials are available, the outstanding ordered amount will be forwarded to the original customer.

BAFO – Best and Final Offer refers to a multi-stage procurement process, in which written offers from bidders are subject to clarification and/or negotiation, and then the bidder[s] are invited to submit their final offer, which will not be subject to subsequent negotiation. Such processes may be appropriate when the scope of work is not well defined, the bidders' offers are substantially different and/or the procurement process represents an opportunity for buyer and bidders to develop their understanding of potential solutions.

BATNA – Best Alternative to a Negotiated Offer describes the option for a negotiator if agreement cannot be reached. It proposes that a negotiator who must reach a deal is in a weaker position than a negotiator who has an alternative option.

BEST PRACTICE - Best practice is associated with seeking to identify the best processes that exist, usually in other organizations, which it is hoped, if adopted, will lead to better outcomes. For example, a small organization may not have the economies of scale to achieve the same commercial outcomes in acquiring a category as a much larger enterprise, but they may be able to emulate the processes that the larger organization uses and, in so doing, optimize their own outcomes.

BEST VALUE - A result intended in the acquisition of all goods and services. Price must be one of the evaluation criteria when acquiring goods and services. Other evaluation criteria may include, but are not limited to environmental considerations, quality, and vendor performance.

BID - The word 'bid' is used generically to describe any proposals and may be used both to describe the buyer's issue of the 'bid documents' to potential bidders and, the actual submission of bids by the respondents. The term encompasses quotes, proposals, tenders and auction offers.

BID OPENING - Stage in a bidding process where the received bid-envelopes are opened and examined by the advertiser (called buyer, client, customer, or owner) of an invitation-to-bid (ITB). In an open or public bid opening, the bidders (and other parties) are allowed to witness the process and inspect the bids, in a closed opening only the owner's staff is present.

BID RIGGING - Bid rigging occurs when suppliers communicate with each other before lodging their bids and agree amongst themselves who will be the successful bidder and at what price. This practice is one type of collusive tendering and may be discouraged by introducing new bidders and, regularly benchmarking offers against industry standards.

BIDDER'S LIST - List of contractors who have fulfilled the requirements of pre-qualification criteria. Such contractors are called qualified bidders or contractors.

BILL OF LADING - A written receipt or contract, given by a carrier, showing a list of goods delivered to it for transportation. The straight bill of lading is a contract which provides for direct shipment to a consignee. The order bill of lading is negotiable; it enables a shipper to collect for a shipment before it reaches its destination (this is done by sending the original bill of lading with a draft drawn on the consignee through a bank). When the consignee receives the lading indicating that payment has been made, the lading will be surrendered to the carrier's agent, and the carrier will then ship the goods to the consignee, and the bill of lading will be surrendered to the carrier. Note: Shippers frequently consign shipments to themselves on order bills of lading so that delivery is made only upon the shipper's order; the person or firm to be notified upon arrival of the shipment at destination must be designated.

BLANKET ORDER - A contract under which a vendor agrees to provide goods or services on a purchase-on-demand basis. The contract generally establishes prices, terms, conditions and the period covered (no quantities are specified); shipments are to be made as required by the purchaser.

BOND - A bond is a written agreement set up by participants in a relationship in order to guarantee performance, or to provide security against default or non-performance. Examples include bid bonds, performance bonds and completion bonds. In each case, a sum of money is deposited as surety that each party will fulfil their obligations, as the bond may be forfeited in defined circumstances.

"BRAND NAME OR EQUAL" SPECIFICATION - A specification that uses one or more manufacturers brand names or catalog numbers to describe the standards of quality, performance and other characteristics needed to meet the requirements of a solicitation and provide for the submission of equivalent products.

BROKER - A business that carries no inventory and that has no written ongoing agreement with any manufacturer or manufacturer's authorized distributor to sell the products of the manufacturer.

BUSINESS - A contractor, subcontractor, supplier, consultant, or provider of technical, administrative, or physical services organized as a sole proprietorship, partnership, association, corporation, or other entity formed for the purpose of doing business for profit.

CHANGE ORDER - A change order is the formal document through which a change is made to a construction contract, for example the scope of work or the completion date or the price of the work. Both parties agree to the change and the implications in terms of mutual rights and obligations.

CLOSE OUT - In contract management, the final stage of a project is the close out, involving all the administrative, legal and financial processes needed to bring the contract to an end. These processes include ensuring that the contractor has fulfilled their obligations, that all financial liabilities have been resolved, that the performance of the contractor has been recorded, that any outstanding claims have been identified, and that the rights and obligations of the parties in respect of ongoing liabilities such as latent defects have been recorded and executed as per the terms of the contract.

COLLUSION - Secret agreement between two or more individuals or organizations to limit competition by the use of such methods as deception, misleading behavior or fraudulent activity, where the objective is to obtain an unfair advantage. Collusion may take the form of a market sharing agreement, price fixing or bid rigging. Legally, all acts affected by collusion are considered to be void.

COMMODITY - A transportable article of trade or commerce that can be bartered or sold. A good that is supplied by many different producers and is considered to be equivalent by the market. One of the characteristics of a commodity is that its price is determined as a result of being actively traded by its market. Soft commodities are goods that are grown, for example coffee beans, wheat and sugar. Hard commodities are the goods that are extracted through processes such as mining, for example gold and crude oil.

COMPETITION - Competition is a contest between businesses that are striving for the client's business. Organizations in business are usually in competition with others for customers, markets, materials and, of course, contracts. Most procurement governance schemes value competition between suppliers as a means of securing value. Many markets are not 'free and open' as there are barriers to entry or market distortions such as monopoly, and because market offerings are not homogenous. Similarly, the practice of inviting three quotes, bids, offers or tenders may not harness the available competition.

CONSIDERATION - Something of value given or done as recompense that is exchanged by two parties; that which binds a contract. For promises to be enforceable as a contract, each party to a contract must provide 'consideration', unless the agreement is a deed. In procurement, the buyer usually agrees to pay a sum of money - the price - in return for the supplier promising to perform the contract. The mutual exchange of benefits between the parties is one test to establish the existence of a legally binding contract.

CONSUMER PRICE INDEX (CPI) - A consumer price index measures changes in the price level of a market basket of consumer goods and services purchased by households. The CPI is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

CONTRACT - Any written instrument or electronic document containing the elements of offer, acceptance, and consideration to which an agency is a party. A contract can be written or verbal. It is an agreement between two or more parties to perform specific acts and is enforceable by law. The six prerequisites for a legally binding contract are: agreement (offer and acceptance); consideration (the payment of a sum of money etc.); capacity (being of legal age and sound mind to enter legal relations); intention (the parties to the contract intend to enter legal relations); formalities (representation in writing) and certainty.

CONTRACT ADMINISTRATION/MANAGEMENT - The management of all actions after the award of a contract that must be taken to assure compliance with the contract; e.g., timely delivery, acceptance, payment, closing contract, etc.

CONTRACTOR - A person who agrees to furnish goods or services for a certain price; may be a prime contractor or subcontractor.

COOPERATIVE PURCHASING - The combining of requirements of two or more governmental units to obtain the benefits of volume purchases and/or reduction in administrative expenses. Cooperative purchasing is one of the ways that local governments can save time and money in their purchasing programs. It occurs when two or more entities (state, federal or local governments) coordinate some or all of their purchasing needs so that they can join in purchases to the mutual benefit of all the entities concerned. There are any number of levels of cooperative purchasing, from very occasional minor cooperation in a purchase, to a level where all purchases are done through the cooperation of two or more governments. There are also several types of cooperative purchases, ranging from one government "riding" on the contract of another government to splitting the purchasing duties equally.

CRITERIA - When evaluating offers, weighted factor analysis can be used to assess competing offers against a variety of criteria. A number of criteria are proposed, usually including cost, quality, time, service and other relevant factors, and each criterion is weighted with a relative weighting to value its importance in the decision-making process. Offers are then scored against the weighted criteria to identify the best value outcome overall.

DEALER, JOBBER OR DISTRIBUTOR - A business that maintains a store, warehouse, or other establishment in which a line or lines of products are kept in inventory and are sold to the public on a wholesale or retail basis.

DEBARMENT - The disqualification of a person to receive invitations for bids or requests for proposals, or the award of a contract by a government body, for a specified time commensurate with the seriousness of the offense, the failure, or the inadequacy of performance.

DEFAULT - Failure by a party to a contract to comply with contractual requirements.

DELIVERY - The formal handing over of property; the transfer of possession, such as by carrier to purchaser.

DEMURRAGE - The detention of a ship, railroad, car or truck beyond a specified time for loading/unloading; the payment required and made for the delay.

DESIGN SPECIFICATION - A specification setting forth the required characteristics to be considered for award of contract, including sufficient detail to show how the product is to be manufactured.

DESTINATION - The place to which a shipment is consigned.

DISCOUNT - A discount is a reduction in the listed or stated price of a good or service. Discounts can be applied to manufacturer's list prices, trade or retail prices. There are many reasons for discounting, including to increase short-term sales, to move out-of-date stock or to reward valuable customers. Many list prices are deliberately inflated to allow participants in the supply chain to grant discounts so, for procurement practitioners the negotiation of a discount is less significant than the scale of that discount.

DROP SHIPMENT - Merchandise which is shipped by a manufacturer directly to a customer in response to the seller who collects orders but does not maintain an inventory.

e-COMMERCE - e-Commerce is commerce that takes place over electronic systems such as the internet and other networks. The term embraces not only raising orders on web-based systems and paying invoices through electronic transfer, but also online marketing, online catalogues, electronic supply chains, electronic data interchange, online transaction processing, email and inventory management processes.

e-PROCUREMENT - e-Procurement involves the online conduct of business-to-business procurement processes using web-based applications. The significance of e-Procurement is that it enables buyers to locate potential suppliers, review product choices, select products and make purchasing transactions directly over the Internet. Typical e-Procurement applications include web-based ERP solutions that automate transactional procurement processes.

ECONOMICALLY DISADVANTAGED AREA BUSINESS (ED) - Small business eligible for certification as socially disadvantaged business or economically disadvantaged area business: A small business entity with its principal place of business in Minnesota organized for profit, including an individual, partnership, corporation, joint venture, association, or cooperative that is 51 percent owned and is operationally controlled on a day-to-day basis by citizens of the United States. The areas of economic disadvantage are determined by the US Department of Labor.

EMERGENCY ACQUISITION - A threat to public health, welfare, or safety that threatens the functioning of government, the protection of property or the health or safety of people.

ENERGY STAR - A federal standard applied to office equipment for the purpose of rating the energy efficiency of the equipment. Energy Star computers, monitors, and printers save energy by powering down and going to "sleep" when not in use, resulting in a reduction in electrical bills and pollution levels.

ENVIRONMENTALLY PREFERABLE PRODUCT (EPP) - A product or service that has a lesser or reduced impact on human health and the environment when compared with competing products or services that serve the same purpose. Such products or services may include, but are not limited to those which contain recycled content, minimize waste, conserve energy or water, and reduce the amount of toxics either disposed of or consumed.

EQUAL OR APPROVED EQUAL - Used to indicate that an item may be substituted for a required item if it is equal in quality, performance and other characteristics.

ESCALATION CLAUSE - A contract provision which permits the adjustment of contract prices by an amount or percent if certain specified contingencies occur, such as changes in the vendor's raw material or labor costs.

ETHICS - Ethics involves distinguishing between what is right and wrong behavior by an individual or organization. Many organizations and professions have codes of conduct designed to encourage integrity in carrying out duties. Typical principles are that staff must perform their duties impartially, personal interest should not affect professional decisions, information should not be used to gain financial advantage for themselves and staff should maintain the highest standard of integrity in all business relationships. It is especially important that procurement staff display standards of behavior that evoke trust among stakeholders and confidence in the objectivity of the process.

EVALUATION OF RESPONSES - The examination of responses after opening to determine the vendor's responsibility, responsiveness to requirements, and other characteristics of the solicitation relating to the award.

FISCAL YEAR - The 12 months between one annual settlement of financial accounts and the next; a term used for budgeting, etc. The fiscal year for Troy University is October 1 to September 30.

FIXED ASSETS - State property that is in one of four categories:
1. non-expendable property having a normal life expectancy of more than two years and a value of $1,000 or more.
2. semi-expendable property established by the owning agency's policy as fixed assets: any item having a normal life expectancy of more than two years and a value of less than $1,000.
3. firearms, regardless of their value.
4. sensitive items, as established by the agency policy.

FIXED COST - periodic cost that remains more or less unchanged irrespective of the output level or sales revenue, such as depreciation, insurance, interest, rent, salaries, and wages. While in practice, all costs vary over time and no cost is a purely fixed cost, the concept of fixed costs is necessary in short term cost accounting. Organizations with high fixed costs are significantly different from those with high variable costs. This difference affects the financial structure of the organization as well as its pricing and profits.

FORMAL SOLICITATION - A solicitation which requires a sealed response.

FREE ON BOARD (FOB) - An Incoterm meaning 'free on board' (named port of shipment) where the seller delivers the goods on board a ship nominated by the buyer, and clears the goods for export, but the buyer is responsible for all subsequent costs and risks. It is recommended for use only for maritime and inland waterway transport. The term FCA is preferred for multimodal sea transport in containers.

FREIGHT DEFINITIONS –
- **FOB Point of Origin, Freight Collect** – Customer takes tile of goods at point of origin or factory, pays freight, bears freight, owns goods in transit and must file claims for loss, damage or overcharges.
- **FOB Point of Origin, Freight Prepaid and Allowed** – Customer takes tile of goods at point of origin or factory, owns goods in transit and files claim. Vendor pays freight and bear freight.
- **FOB Point of Origin, Freight Prepaid and Added** – Customer takes tile of goods at point of origin or factory, bears freight and owns goods in transit. Vendor pays freight and adds freight to invoice.
- **FOB Destination, Freight Collect** – Customer takes tile of goods at destination, pays freight and bears freight. Vendor owns goods in transit and files claims.
- **FOB Destination, Freight Prepaid and Added** – Customer takes tile of goods at destination and bears freight. Vendor pays freight, adds freight charges to invoice and owns goods in transit.
- **FOB Destination, Freight Prepaid and Allowed** – Customer takes tile of goods at destination. Vendor pays freight, bears freight, owns goods in transit and files claims.

GOODS - All types of personal property including commodities, materials, supplies, and equipment.

HAZARDOUS WASTE - Any waste (solid, liquid, or gas) which because of its quantity, concentration, or chemical, physical, or infectious characteristics pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, or disposed of.

HOLD HARMLESS CLAUSE - A provision in an agreement under which one or both parties agree not to hold the other party responsible for any loss, damage, or legal liability. In effect, this clause indemnifies the parties on a unilateral or reciprocal basis.

IMPLIED CONTRACT - A legally enforceable agreement that arises from conduct, from assumed intentions, from some relationship among the immediate parties, or from the application of the legal principle of equity. For example, a contract is implied when a party knowingly accepts a benefit from another party in circumstances where the benefit cannot be considered a gift. Therefore, the party accepting the benefit is under a legal obligation to give fair value for the benefit received. Opposite of express contract.

INCENTIVES - Incentives in procurement refer to the 'carrots' that may be offered to suppliers to motivate the supplier to perform to or above agreed standards. For example, a risk and reward contract will typically feature a bonus payable to the supplier if they exceed agreed performance standards. Another incentive that may be used is an extension of the contract. For example, the contract may be for an initial two-year period with an option to extend for a further one-year and then another one year, subject to satisfactory performance. The contract extension is an incentive to motivate the contractor to perform. In practice the use of incentives seeks to equip the buyer with some way of motivating performance once competitive tension is no longer present.

INDEMNITY CLAUSE - A provision in a contract under which one party (or both parties) commit to compensate the other (or each other) for any harm, liability, or loss arising out of the contract. The formula to compute the amount of compensation is usually included in the contract.

INFORMAL SOLICITATION - A solicitation which does not require a sealed response.

INFORMATION - Information can be defined as structured data. For example, a list of all purchase orders is raw data. The list is then sorted by supplier, to provide meaning over and above the raw data, by revealing patterns. Typically there will be many suppliers having received only a few purchase orders. That information could be a factor in a decision to reduce the supply base. There may also be suppliers who have received multiple purchase orders, and that information may be a factor in a decision to change the method of purchase, perhaps to a procurement card.

INNOVATION - Innovation refers to the creation of new products, technologies, processes and/or ideas that are thought to be better or more effective by the innovator. Most organizations value their suppliers as potential sources of innovation and so the procurement process should facilitate the legitimate transfer of ideas from suppliers to the buyer. Similarly, when outsourcing or sourcing internationally, careful consideration should be given to the transfer of technology to sub-contractors who may become competitors.

INSURANCE - A contract between an insurance company and a person or group which provides for a money payment in case of covered loss, accident or death. Insurance is a form of risk management, as risk is transferred from one organization to another in exchange for payment, i.e. the insurance premium. When seeking to insure against loss, the buyer has a duty of 'utmost good faith' to advise the insurer of all relevant facts so that the insurer can reach a balanced judgement on the risk involved.

INVOICE - A list of goods or services sent to a purchaser showing information including prices, quantities and shipping charges for payment. An invoice is a document issued by a seller to the purchaser, describing what has been done or purchased, in what quantities and at what prices. The invoice will also include the agreed payment terms, which will trigger the payment process. Some organizations undertake a two-way match before paying invoices, reconciling the invoice with a purchase order, while a three-way match involves the purchase order, invoice and a receipt note. As invoice payment processes are part of acquisition costs, there has been a focus on minimizing the transaction costs of raising orders and paying invoices, especially for low-value transactions where the cost of the transaction can be more than the value of the invoice.

JOINT PURCHASES - Two or more governments join to purchase one or more goods or services jointly in joint purchases. This may involve each government handling part of the administrative chores or agreeing to have one of the governments handling the transactions under the guidance of the others. If the arrangement is long-term, rotate the roles periodically to share equally the purchasing duties. All parties to a purchase must agree to the specifications, so that a mutually satisfactory good or service is ordered.

JOINT VENTURE - Joint ventures are business agreements where the parties involved agree to develop a new entity with new assets and often, but not necessarily, contribute equity to it. The parties involved maintain joint control over the new enterprise and subsequently share in any profits, as well as supporting the business initially by paying expenses and funding assets. The purpose behind a joint venture is to bring together complementary capabilities, to share risk between contracting parties, or to ensure a degree of local ownership. Joint ventures are part of a continuum of potential relationships between organizations and, while they are one form of strategic alliance, they are unique in the sense that a third legal entity is created. It is a more formal arrangement than a partnership or an alliance where two or more parties agree to cooperate, generally, but not necessarily, without creating a new legal entity.

LEAD TIME - Lead-time is the interval between the initiation and completion of a process. For example, the lead-time between the placement of an order and its delivery from the supplier is the most common lead time used in procurement. Reducing lead-time is an integral part of lean thinking and some supply chains have been configured to create rapid setup and small runs so that production can occur quickly in response to an order that pulls materials through the supply chain.

LEASE - A contract conveying from one entity to another the use of real or personal property for a designated period of time in return for payment or other consideration.

LEASING - Leasing is an alternative to outright purchase in which a buyer can obtain the use of an asset without the upfront cost. Depending upon the type of lease, the buyer may ultimately acquire ownership of the goods. Leasing, rental and hire purchase are alternatives which may suit some buyers when funds are limited, when the parties have different tax rates, or when use of the asset is needed for a short period of time.

LESS-THAN-TRUCKLOAD (LTL) - A quantity of freight less than the amount necessary to constitute a truckload.

LESSEE - One to whom a lease is granted.

LESSOR - One who grants a lease.

LETTER OF CREDIT - A Letter of Credit (LC) is a way of funding purchases when the seller is reluctant to dispatch the goods unless they have been paid for and the buyer is reluctant to pay unless they have received the goods. To overcome a potential impasse, Letters of Credit allow banks to manage the buyer and supplier’s risk by creating a documentary chain. The buyer’s bank sends a Letter of Credit to the supplier, which triggers dispatch of the goods to the carrier. The buyer’s bank also arranges to pay the seller’s bank, on presentation of evidence the goods have been shipped, such as a Bill of Lading. When the supplier presents the Bill of Lading to their own bank, their own bank pays them, if the details match. The Bill of Lading is then presented to the buyer’s bank by the supplier’s bank, and the buyer’s bank debits the amount from the buyer’s account. The buyer uses the Bill of Lading to take delivery of the goods from the carrier.

LETTER OF INTENT - A Letter of Intent (LOI) is a document outlining the status of agreement between two or more parties before a contract has been finalized and which aims to give some comfort to one or both parties that they can anticipate a contractual agreement will be forthcoming. Whether called a letter of intent, heads of agreement or memorandum of understanding, the parties want to signal that negotiations are proceeding and they need to record the status of their negotiations such as what has been agreed, perhaps to allow one party to commence work before the final contract is agreed.

L**ICENSING** - A license is permission granted by one party to another party authorizing them to use licensed material owned by the first party. The licensed material may be software, intellectual property such as trademarks, or product rights. The license typically defines the scope of the license, the term, geographical territory and renewal provisions.

LIFE CYCLE COSTING - A procurement evaluation technique which determines the total cost of acquisition, operation, maintaining and disposal of the items acquired; the lowest ownership cost during the time the item is in use.

LINE ITEM - An item of supply or service specified in a solicitation for which the vendor must specify a separate price.

LIQUIDATED DAMAGES - A specific sum of money, agreed to as part of a contract to be paid by one party to the other in the event of a breach of contract in lieu of actual damages, unless otherwise provided by law.

LIST PRICE - The price of an article published in a catalog, advertisement or printed list from which discounts, if any, may be subtracted.

LOGISTICS - Logistics is the management of the flow of goods between their origin and the point of use. Logistics includes the transportation, storage, warehousing, handling, packaging and security of goods. Logistics is usually described as having a narrower scope than supply chain management as the focus is primarily on the flow of goods and the integration of processes; in particular, the sharing of information is not as central to logistics as to supply chain management.

LOWEST RESPONSIBLE VENDOR - The vendor with the lowest price whose past performance, reputation and financial capability is deemed acceptable.

LUMP SUM - A contracting strategy that involves the client agreeing a fixed price with a contractor for completion of a defined scope of work. Payment may be made as a lump sum, or a series of progress payments against defined milestones, which is often the case in construction contracts.

Clients prefer lump sum pricing as the financial cost of the project is defined in advance, providing the scope of work does not change. If the client changes the scope, this may give rise to variations, but otherwise the risk of costs exceeding the tendered price lie with the contractor, not the client. For this reason, lump sum contracts are most appropriate when the scope of work can be defined with some certainty. If a contractor is asked to provide a lump sum price for a project with high uncertainty or many unknowns, it is likely that the bidders will include contingencies in their offers to cover the risk.

MAINTENANCE, ROUTINE, OPERATING CATEGORIES (MRO) - Maintenance, routine and operating categories are low value categories which are not an input to the production process, but which are used in support of operations. The term is a subset of indirect materials and represents a level of classification of categories. Examples of MRO categories would be cleaning materials, lubricants, laboratory supplies, spare parts, gaskets and industrial consumables, and in some procurement organizations these categories would not be aggregated as MRO, but managed individually. The reason that they are grouped together is that they have some common characteristics, such as being relatively low value, and maintaining continuity of availability is a key procurement objective.

Sometimes the acronym is used to imply maintenance, repair and overhaul, which describes categories which are used to support plant, equipment and machinery. Scheduled overhauls and maintenance campaigns require provisioning of parts and, in most situations, the cost of downtime is greater than the cost of holding inventory, so MRO often implies matching supply and demand at lowest overall total cost.

MANIFEST - A manifest is a detailed statement listing the cargo, passengers and crew of a ship, aircraft, or vehicle. The manifest is usually stored securely so that in the event of mishap the exact cargo is known. In addition, customs and other officials may request a copy of the manifest to allow for identification of the cargo that is on-board.

MANDATORY - Required by the order stipulated, e.g., a specification or a specific description that may not be waived.

MANUFACTURER - A business that makes or processes raw materials into a finished product.

MARKET - The aggregate forces (including economics) at work in trade and commerce in a specific service or commodity. To sell, analyze, advertise, package, etc.

MARKET ANALYSIS - When developing a procurement strategy, most procurement processes reconcile analysis of demand for the category with the attributes of the supply market to develop an appropriate strategy. Market analysis is the systematic review of the characteristics, capacity and capability of the supply market in order to understand the extent to which the market meets the needs of the buying organization. For example, the definition of market requires decisions about two key dimensions: the geographical scope of the market, (is it a local, regional, national or global market?), and the technical scope of the market. Technical scope addresses the range of solutions that meet substantially the same need. Once the market is defined, tools of analysis may be used to profile the market, such as life cycle, trends, technology road map, the relative bargaining power of buyers and sellers, the threat of new entrants etc.

MATERIAL VARIANCE/MATERIAL DEVIATION - A variance or deviation in a response from specifications of conditions that allows a responder a substantial advantage or benefit not enjoyed by all other responders or that gives the state something significantly different from what the state requested in the solicitation document.

MATERIALS MANAGEMENT - Embraces all functions of acquisition, standards, quality control and surplus property management.

MATERIAS SAFETY DATA SHEET (MSDS) - A Materials Safety Data Sheet is a printed form containing data about the properties of a substance. It is intended to provide staff using the product with guidance on handling or working safely with the substance, and includes physical characteristics of the substance such as melting point, boiling point and flash point, as well as toxicity, health effects, first aid procedures in the event of spillage or contact, and advice on storage and disposal. Data Sheets should be accessible to all staff that work with the materials. Many organizations use databases to ensure up-to-date information on all dangerous goods, but in particular to ensure that data sheets are up to date so that staff dealing with the products can understand the risks and adopt the most appropriate protective equipment and safe handling procedures.

MODEL PROCUREMENT CODE (MPC) - A publication approved by the American Bar Association which sets forth procurement statutory principles and policy guidelines for managing and controlling the procurement of supplies, services and construction for public purposes; administrative and judicial remedies for the resolution of controversies relating to public contracts; and a set of ethical standards governing public and private participants in the procurement process.

MONOPOLY - In procurement, a monopoly occurs when only one supplier supplies a particular category. Monopolies can occur due to barriers to entry such as patents, or through mergers or government license. Monopolists have some or all of the following characteristics: they may maximize profit, set the price of the category in the marketplace and restrict the supply of the product or service. Monopolies are a form of market structure, and procurement strategies need to address the monopolist’s behavior and the fundamental lack of competition. Market regulators may resist potential mergers and acquisitions that may create market dominance, and in some circumstances the planned merger may not be allowed.

MULTIPLE AWARD - Contracts awarded to more than one supplier for comparable supplies and services. Awards are made for the same generic types of items at various prices.

NEGOTIATION - Negotiation is a process through which each party tries to achieve their goals in the context of the relationship with the other party. In procurement, the other party may be a long-term supplier or a one-time supplier, and our approach may be different in each case. However, in every negotiation we need to be clear about our objectives, and decide how we plan to achieve our goals. For example, ‘win-win’ negotiations may be appropriate in some circumstances, and we may plan to share value with the other party, perhaps through the exchange of concessions or trading negotiable variables. In other situations we may have no remit for the relationship with the other party and plan to claim value for us, by using facts and reason, without helping the other party ‘win’. The common elements are clear objectives - the ‘what’ and the ‘how’ - how we plan to persuade the other party, which needs to be consistent with the relationship that we want to create.

NET PRICE - Price after all discounts, rebates, etc., have been allowed.

NETWORKING - Building rapport with stakeholders or fellow procurement practitioners is called networking. For knowledge workers, the ability to solve a problem can sometimes be linked to not just what you know personally, but who you have in your network of contacts and associates who may know the answer. For example, category managers may create a network, external to their organization, of contacts also managing the same category that can share category-specific information. Internally, power users and key team members may form networks to share insights and understanding.

NO BID - A response to a solicitation for bids stating that respondent does not wish to submit an offer. It usually operates as a procedure consideration to prevent suspension from the vendors list for failure to submit a response.

OFFER - In a legal context an offer is 'an expression of willingness to contract on certain terms, made with the intention that it shall become binding as soon as it is accepted by the person to whom it is addressed'. Typically suppliers make offers in the form of bids, quotations or tenders, which may then be accepted by the buyer. The offer defines the terms upon which the supplier is willing to be bound, which normally include price, date of delivery, payment terms and a description of the category. One of the essential prerequisites for the formation of a contract is the existence of an offer.

ORDER ACKNOWLEDGMENT - Historically, suppliers would issue an order acknowledgment to advise the buyer that a purchase order had been received; however, the order acknowledgment has become part of the 'battle of the forms'. The practice of issuing order acknowledgments has declined in some sectors, as individual transactions now occur within a broader business framework, such as an overarching contractual agreement.

OPTION TO EXTEND/RENEW - A provision (or exercise of a provision) which allows a continuance of the contract for an additional time according to permissible contractual conditions.

OSHA - The Occupational Safety and Health Administration, US federal agency created in 1970 under the US Department Of Labor to establish and enforce standards and laws for working conditions in commercial and industrial sectors. Its recommendations and guidelines (such as those for material safety data sheet) are followed in several other countries as well.

OUTSOURCING - Outsourcing is the process of changing the provider of a service or good from an internal division to an external source. The make or buy decision precedes outsourcing, which only occurs if the analysis concludes that the better value is possible from sourcing externally.

Outsourcing a business process for the first time requires baselining what services are currently offered, at quality standard and cost, and deciding if there are opportunities to change the range or quality of those services. Decisions also have to be reached about the future of in-house employees. The outsourcing process is the application of the procurement process to an activity that is currently insourced, but otherwise is no different to the procurement of other services.   The extent of involvement of the existing procurement team in outsourcing decisions is a measure of the maturity of the procurement function, as sometimes the procurement team is not involved, for reasons of confidentiality or perceived sensitivity of the process.

PACKING LIST - A document which itemizes in detail the contents of a particular package or shipment.

PARTIAL PAYMENT - The payment authorized in a contract upon delivery of one or more units called for under the contract or upon completion of one or more distinct items of service called for thereunder.

PARTNER - Partner is a label applied to suppliers with whom the buying organization enjoys a longer term and cooperative relationship. It is part of a classification of potential buyer-supplier relationships, and represents a type of relationship in which both parties work to reduce waste, reduce cycle time, and create joint profit and other forms of value. The creation of joint working teams and the adoption of common work practices are linked to longer term relationships, in which both parties forego opportunism, and work towards longer-term goals. Such relationships are; however, time consuming to create and resource hungry.

PARTNERING - Partnering refers to the process of developing a relationship to one in which both parties are prepared to work cooperatively. It requires selecting the potential partner and facilitating changes in behavior, such as the replacement of competition with cooperation and the development of trust. If the parties have been used to claiming value from each other in win-lose negotiations, partnering implies creating and sharing that value. Partnering also describes the creation of a culture where the seller is open about their costs, and the buyer declines to behave opportunistically.

PARTNERSHIP - Partnership is a label given to a relationship in which the parties forego short-term opportunism and demonstrate a longer-term commitment to jointly strive for lower costs and the creation of new ways of working together to improve joint competitiveness. In a partnership, senior managers from both organizations will meet to align longer term planning and goals, and commission joint teams to work across organizational boundaries to align systems, processes and behaviors.

PAYMENT TERMS - The conditions under which a seller will complete a sale. Typically, these terms specify the period allowed to a buyer to pay off the amount due, and may demand cash in advance, cash on delivery, a deferred payment period of 30 days or more, or other similar provisions.

PER DIEM - By the day.

PERFORMANCE - The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract.

PERFORMANCE BOND - A contract of guarantee, executed subsequent to award by a successful vendor to protect the buyer from loss due to the vendor's inability to complete the contract as agreed.

PERFORMANCE REVIEW - A performance review is the process of monitoring and evaluating performance, i.e. a supplier's during a contractual agreement. As part of supplier relationship management, buyer and seller meet periodically to review performance and plan for any potential deviations from agreed standards. For example, a provider delivers a service where one of the standards required is 99% uptime. At the scheduled performance review meeting the actual uptime is reviewed and root causes to variations in the standard are investigated. To improve service reliability and meet uptime standards action plans are agreed for implementation moving forward.

PIGGY-BACKING – In piggy-backing, one government purchases for themselves and for others as to a convenience to the others. Both governments should protect themselves by establishing an agreement in writing, even when the arrangement is informal. The agreement should specify the duties and responsibilities of each party.

POINT OF ORIGIN (shipping point) - The location where a shipment is received by a transportation line from the shipper.

POLITICAL SUBDIVISION - A subdivision of a state which has been delegated certain functions of local government. Can include counties, cities, towns, villages, hamlets, boroughs and parishes.

POST-CONSUMER MATERIAL - A finished material which would normally be disposed of as a solid waste after its life cycle as a consumer item is completed. Does not include manufacturing or converting wastes. This refers to material collected for recycling from office buildings, homes, retail stores, etc.

PRE-CONSUMER MATERIAL - Material or by-products generated after the manufacture of a product but before the product reaches the consumer, such as damaged or obsolete products. Pre-consumer material does not include mill and manufacturing trim, scrap, or broken material which is generated at a manufacturing site and commonly reused on-site in the same or another manufacturing process.

PRE-QUALIFICATION - Pre-qualification describes the evaluation of potential bidders, before tenders are invited, against a list of criteria to ensure that only bidders which meet defined standards are eligible to bid, which can reduce the cycle time of the procurement process. Competitive tendering is predicated on the evaluation of offers on an 'apples with apples' basis, to ensure that bidders are of equal capability, or meet minimum professional and financial accreditation. In addition, the maintenance of standing lists of approved bidders can ensure that fair and open competition is demonstrated, and that bids can be evaluated on a broadly 'like-for-like' basis.

PREFERENCE -An advantage in consideration for award for a contract granted to a vendor by reason of the vendor's residence, business location, or business classifications (e.g., minority, small business).

PREPAID -A term denoting that transportation charges have been or are to be paid at the point of shipment.

PREQUALIFICATION OF VENDORS - The screening of potential vendors in which such factors as financial capability, reputation and management are considered when developing a list of qualified vendors. See Vendors List, Qualified Vendor/Responsible Vendor.

PRICE - The amount of money that will purchase a definite weight or other measure of a commodity. Price is the monetary sum exchanged for goods and services. Price levels are an outcome of competitive processes, such as the levels of supply and demand in the market. In procurement, most buyers are measured on the 'hard dollar' savings that they make, and so have a keen interest in optimizing price. Most total cost models demonstrate that purchase price, while not the only component of total cost, is a key part of the total cost of most categories, and so procurement practitioners will focus on price as one procurement goal.

PRICE AGREEMENT - A contractual agreement in which a purchaser contracts with a vendor to provide the purchaser's requirements at a predetermined price. Usually involves a minimum number of units, orders placed directly with the vendor by the purchase, and limited duration of the contract. See Blanket Order and Requirements Contract.

PRICE FIXING - Agreement among competing vendors to sell at the same price.

PRO FORMA INVOICE - An abridged or estimated invoice sent by a seller to a buyer in advance of a shipment or delivery of goods. It notes the kind and quantity of goods, their value, and other important information such as weight and transportation charges. Pro forma invoices are commonly used as preliminary invoices with a quotation, or for customs purposes in importation. They differ from a normal invoice in not being a demand or request for payment.

PROCUREMENT - The combined functions of purchasing, inventory control, traffic and transportation, receiving, inspection, store keeping, and salvage and disposal operations.

Procurement describes all those processes concerned with developing and implementing strategies to manage an organization's spend portfolio in such a way as to contribute to the organization's overall goals and to maximize the value released and/or minimize the total cost of ownership. Procurement is a more comprehensive term than purchasing, which is more focused on the tactical acquisition of goods and services and the execution of plans rather than the development of strategies.

Procurement can be a department, a role and/or a process. As a process, procurement begins with the review of the spend portfolio and the development of an opportunity analysis. Once categories are defined, the procurement process involves identifying and engaging with potential stakeholders, defining business needs and preparing a business case. Once the market has been reviewed, a reconciliation of the business need and the supply market character ensures that appropriate procurement strategies are developed. Strategies may involve insourcing, outsourcing, competitive bidding, direct negotiation, and a variety of other sourcing strategies. Once the strategy is developed, the execution will involve market engagement and the issue of the RFI and the RFP and/or negotiation. Once offers are evaluated, the optimum solution will be selected and the appropriate contractual agreement established.

PROCUREMENT CARD - A procurement card is a credit card used by some organizations as an alternative acquisition method to raising a requisition and/or purchase order. PCards were initially used to acquire low-value and low-risk categories, such as travel and entertainment, though because of their low transaction costs, they are increasingly being used for a wide variety of acquisitions.

Most PCard systems incorporate a variety of controls to prevent abuse, and a key control is to limit the number of staff who have access to a PCard. Other controls can include a single purchase dollar limit, a monthly expenditure limit and a control on which merchants can be used. Once expenditure has been incurred, the card provider will issue a statement to the buying organization, which will allow reconciliation of expenditure and attribution to the appropriate budget and expenditure accounts.

The use of PCards can reduce the transactional workload for purchasing teams and focus activity upon establishing agreements for the key category spends, rather than managing individual transactions.

PROPRIETARY - The only items that can perform a function and satisfy a need. This should not be confused with "single source." An item can be proprietary and yet available from more than one source. For example, if you need a camera lens for a Nikon camera, the only lens that will fit is a Nikon lens, thus, this lens is "proprietary." However, the Nikon lens is available from more than one source, thus, it is not single source.

PUBLIC PRIVATE PARTNERSHIP (P3) - Public Private Partnership refers to a project that is operated and funded by a partnership between private sector companies and government. Typically, the PPP involves the private sector entity injecting capital into the development of an asset, which it may then operate and assume some financial risk for. For example, a government may plan a tunnel, but be reluctant to levy taxes on the public to raise the capital. Instead, they may enter into a PPP with a contractor, or an alliance of contractors. The contractor invests the money and manages the building of the tunnel in return for the right to levy tolls on road users of the tunnel for a defined period, for example 30 years. At the end of the period the ownership of the asset may transfer to the government, and so the contractor's risk would be that patronage of the tunnel might be less than anticipated, and they might not make as much profit as planned, or even make a loss.

PURCHASING - Purchasing describes all those transactional processes concerned with acquiring goods and services, including payment of invoices. It is a narrower term than procurement, describing reactive, tactical processes. Typically purchasing processes are triggered by the development of a request to purchase by a user. The purchasing process differs from sourcing or procurement in three key aspects: the scope of the process, the degree of influence exerted on the process, and the nature of the choices made. In terms of scope, the purchasing process typically begins after a user has selected the solution, or defined the need, and ends on the receipt of the good or service and payment of the supplier's account.

In terms of influence, the purchasing process is primarily concerned with selecting the supplier and agreeing the terms, though the acquisition may be made against an existing agreement. In terms of the nature of decisions made, purchasing decisions tend to be focused on individual transactions, and not aligned to the organization's overall goals, or to choices with longer-term strategies.

PUBLIC PURCHASING - The process of obtaining goods and services for public purpose following procedures implemented to protect public funds from being expended extravagantly or capriciously.

PURCHASE MANUAL - A document that stipulates rules and prescribes procedures for purchasing with suppliers and other departments.

PURCHASE ORDER - The signed written acceptance of the offer from the vendor. A purchase order serves as the legal and binding contract between both parties.

QUALIFIED VENDOR/RESPONSIBLE VENDOR - A vendor determined by a buying organization to meet minimum set standards of business competence, reputation, financial ability and product quality for placement on the vendor list.

QUALIFIED PRODUCTS LIST (QPL) - A list of products that, because of the length of time required for test and evaluation, are tested in advance of procurement to determine which suppliers comply with the specification requirements. Also referred to as an "approved brands list."

QUALITY - Quality is defined within the relevant standard ISO 9000 as 'the degree to which a set of inherent characteristics fulfils requirements'. Requirements in this case are needs or expectations, and refer to the ability of a product or service to satisfy the customer's needs. Quality is rarely an absolute standard and can only be measured against a customer's needs or reasonable expectations. In procurement, quality is always a key factor in decision-making and is often the single most important factor; if the solution chosen is not fit for the intended purpose, why would you select it? There are also legal obligations on suppliers to supply goods of acceptable quality. This implies that goods need to reach a basic level of quality given the price of the goods and any description that is provided with the goods. The goods need to be fit for all the purposes for which the goods are commonly supplied, acceptable in appearance and finish, safe, durable and free from defects and faults.

Services must be carried out with due skill and care and any materials provided as part of the service must also be fit for the purpose.

QUANTITY - Amount or number.

QUANTITY DISCOUNT - A reduction in the unit price offered for large volume contracts.

RADIO-FREQUENCY IDENTIFICATION (RFID) - Radio-frequency identification is a technology that allows a reader to capture information from an electronic tag using radio waves. The technology has applications in identifying and tracking inventory, assets and vehicles. It may replace some barcoding applications as multiple RFID tags can be read at once and without the line of sight needed with a barcode.

REBATE - When negotiating with suppliers, if the buyer cannot accurately forecast demand, the parties may agree a rebate arrangement. In this case, a rebate is calculated as a sum of money payable back to the buyer by the supplier, based on actual purchase volumes over the previous operating period. The arrangement is attractive to suppliers, as the discount is based on actual rather than estimated volumes, and is payable in arrears. The scale of the discount may be based on a volume price agreement, the greater the volume purchased, the greater the discount. For example, if purchases over the period exceed $100,000, a 1% discount is 'earned' payable in arrears. Rebates are sometimes used by procurement agencies as a means of funding their operations. Suppliers agree to charge customers a price that includes a premium due to the procurement agency that negotiated the arrangement as a fee for the service.

RECEIPT - A receipt is a document of confirmation that goods have been delivered or services performed. The supplier may present a proof of delivery and the buyer may generate a goods receipt note. The goods receipt note is usually part of a three-way match between the purchase order, the invoice and the goods receipt note, and is needed to confirm that the invoice might be paid. When a two-way match occurs, the invoice is matched either to the purchase order or simply to the goods receipt note. In some organizations without an ERP system it can be difficult to encourage end users to confirm that the services have been performed or the goods delivered, and a two-way match reconciling the invoice with the purchase order triggers payment in defined circumstances, such as below a certain value threshold.

RECYCLED CONTENT - The portion of a product that is made from materials directed from the waste stream; usually stated as a percentage by weight.

RECYCLED PRODUCT - A product that contains the highest amount of post-consumer material practicable, or when post-consumer material is impracticable for a specific type of product, contains substantial amounts of pre-consumer material.

RECYCLING - Recycling is the processing of waste materials into new products. Recycling aims to limit the loss of potentially useful materials, reduce the consumption of new materials, lower energy usage, reduce potential air pollution from the incineration of garbage, reduce water pollution produced by landfill by reducing the need for 'conventional' waste disposal methods, and lower the emissions of greenhouse gases in comparison to the potential emissions created in the production of new goods. The fourth component of the 'waste hierarchy', the others being 'avoid', 'reduce' and 'reuse', recycling is a key component in modern waste reduction.

REMANUFACTURED PRODUCT - Any product diverted from the supply of discarded materials by refurbishing and marketing said product without substantial change to its original form.

RENT - A rental contract giving the right to use real estate or property for a specified time in return for rent or other compensation.

RENTAL – A rental contract is an agreement to allow the use of an asset for a period of time without ownership passing. The terms 'hire', 'rent' and even 'lease' are often used as synonyms, with the differences related to context. Typically equipment is rented on a short-term basis where the nature of demand does not warrant outright purchase.

REQUEST FOR BID (RFB) - A solicitation in which the terms, conditions, and specifications are described and responses are not subject to negotiation.

REQUEST FOR INFORMATION (RFI) - A Request for Information is a market enquiry prepared by the buyer and issued to one or more prospective suppliers. The purpose is to gather information about the category, the supplier's solutions, capacity and or capability, and key market intelligence. An RFI is used when the buyer lacks understanding of the product or service and/or the category, and wishes to increase that understanding prior to seeking commercial offers through a Request for Quotation, Proposal or Tender. RFIs are usually part of a multi-stage procurement process, with the next step usually involving shortlisting potential respondents based on the RFI replies and inviting commercial offers. The RFI may also be used to stimulate the supply market and to condition prospective suppliers about the potential opportunity that may exist.

REQUEST FOR PROPOSAL (RFP) - A Request for Proposal is a market enquiry prepared by the buyer and issued to prospective suppliers for higher value and/or more complex solutions. The purpose is to invite commercial offers from a number of suppliers in order to secure competition, and to gather information about the supplier's solutions and capability, and key market intelligence. The selection of a Request for Proposal as opposed to a Request for Tender usually reflects the fact that the specification is not a conformance specification, which requires complete adherence to the buyer's standards, but rather that bidders are free to submit potential solutions which meet the performance required. The evaluation of the RFP may require the buyer to compare alternative approaches to meet the same need, and most buyers structure their documentation such that some elements are to be read, and some elements are to be completed and returned in the format and with the contents requested. Typically this will include an opportunity for the supplier to confirm acceptance of the buyer's terms and conditions so that the buyer may win the 'battle of the forms'.

The use of RFPs has increased significantly as more and more categories and projects have become contestable. The corollary is that bidders' success rates tend to be low, with a 20% success rate being unusually high. Accordingly, some suppliers manage their success rate by only bidding for those RFPs which are clear and demonstrate good governance, and which they believe their company has a reasonable chance of winning.

REQUEST FOR QUOTATION - Request for Quotation [RFQ] is a market enquiry prepared by the buyer and issued to prospective suppliers, typically for lower value or simple acquisitions. The purpose is to invite commercial offers from a number of suppliers in order to secure competition, and to gather information about the supplier's solutions, their lead time, service support and other dimensions of their value proposition. The selection of a Request for Quotation as opposed to a Request for Tender usually reflects the fact that the value of the proposed acquisition is lower, and a less formal approach is required. For example, the offers may be submitted on the supplier's own stationery, rather than conform to the buyer's requirements, and the closing time and date for receipt of offers may be less critical. Requests for Quotation may be issued competitively or non-competitively, depending on the buyer's governance regime, though many governance regimes require a minimum of three quotations. The key requirements of the RFQ are to ensure that the supplier's response states their price, delivery or performance timescale, the nature of their value proposition or offer and the period of validity of their offer. This allows the evaluator to select the most appropriate response and adopt a simple and streamlined approach to the acquisition.

REQUIREMENT - Materials, personnel or services needed for a specific period of time.

REQUIREMENTS CONTRACT - A form or contract that is used when the total long-term quantity required cannot be definitely fixed, but can be stated as an estimate or within maximum and minimum limits with deliveries on demand.

REQUISITION - An internal document that a functional department (stores, maintenance, production, etc.) sends to the purchasing department containing details of materials to meet its needs, replenish stocks or obtain materials for specific jobs or contracts. A requisition is a formal written request from the end user requesting that a purchase order be raised for goods or services they need. While some organizations do not use formal requisitions, most create a formal system to allow budgetary approval of the proposed expenditure prior to the requisition being processed in to a purchase order. For example, the end user may state what they need, in terms of a description of the good or service, a quantity, the budget or expenditure code, and a required delivery date. Sometimes the user may suggest a supplier, though this depends on the context. Increasingly, end users are empowered to order directly goods and services that are already subject to a procurement arrangement without creating a requisition. Procurement cards may be used for this purpose, reducing non-value adding processes, or in the case of ERP or procurement systems, a software solution creates and manages the workflow automatically. The user's requisition is routed to the appropriate approver, based on the system rules, and the approver approves or denies the request. For categories that are subject to existing contractual agreements, the system may create a purchase order automatically. This changes the role of procurement practitioners from managing individual transactions to a category-based approach to managing key spend streams.

RESIDENT VENDOR - A person, firm, or corporation authorized to conduct business in the State of Minnesota on the date a solicitation for a contract is first advertised or announced. It includes a foreign corporation duly authorized to engage in business in Minnesota.

RESPONDER - One who submits a response to a solicitation document.

RESPONSE - The offer received from a vendor in response to a solicitation. A response includes submissions commonly referred to as "offers," "bids," "quotes," or "proposals."

RESPONSIBLE BIDDER - A bidder whose reputation, past performance, and business and financial capabilities are such that the bidder would be judged by an appropriate authority as capable of satisfying an organization's needs for a specific contract.

RESPONSIVE BIDDER - A bidder whose bid does not vary from the specifications and terms set out in the invitation for bids.

RESTRICTIVE SPECIFICATIONS - Specifications that unnecessarily limit competition by eliminating items capable of satisfactorily meeting actual needs. See Performance Specification.

REUSED PRODUCT - Any product designed to be used many times for the same or other purpose without additional processing other than specific requirements, such as cleaning, painting or minor repairs.

REVENUE - The income generated from sale of goods or services, or any other use of capital or assets, associated with the main operations of an organization before any costs or expenses are deducted. Revenue is shown usually as the top item in an income (profit and loss) statement from which all charges, costs, and expenses are subtracted to arrive at net income.

RFP OR RFB CONFERENCE - A meeting arranged by a procurement office to help potential bidders understand the requirements of an RFB or an RFP.

SALES TAX - A levy on a vendor's sale by an authorized level of government.

SCOPE OF WORK - The division of work to be performed under a contract or subcontract in the completion of a project, typically broken out into specific tasks with deadlines.

SEALED - A method determined by the commissioner to prevent the contents being revealed or known before the deadline for submission of responses.

SERVICE CONTRACT – A business agreement between a contractor and customer covering the maintenance and servicing of equipment over a specified period.

SERVICES - Unless otherwise indicated, both professional or technical services and service performed under a service contract.

SINGLE SOURCE - An acquisition where, after a search, only one supplier is determined to be reasonably available for the required product, service or construction item.

SMALL BUSINESS - A designation for certain statutory purposes referring to a firm, corporation or establishment having a small number of employees, low volume of sales, small amount of assets or limited impact on the market.

SOFT COST - A cost for an item that is not considered direct construction cost. Soft costs include architectural, engineering, financing, and legal fees, and other pre- and post-construction expenses.

SOLICITATION - The process used to communicate procurement requirements and to request responses from interested vendors. A solicitation may be, but is not limited to a request for bid and request for proposal.

SOURCING - Sourcing describes all those activities within the procurement process concerned with identifying and evaluating potential suppliers, engaging with selected suppliers and selecting the best value supplier(s). The outcome of the sourcing process is usually a contract or arrangement that defines what is to be procured, on what terms and from which suppliers. The phrase 'strategic sourcing' may be used to describe the application of the sourcing process to significant acquisitions, or the team that manages the sourcing process on behalf of the organization.

SPECIFICATION - A concise statement of a set of requirements to be satisfied by a product, material or process that indicates whenever appropriate the procedures to determine whether the requirements are satisfied. As far as practicable, it is desirable that the requirements are expressed numerically in terms of appropriate units, together with their limits. A specification may be a standard, a part of a standard, or independent of a standard.

SPEND ANALYSIS - Spend analysis is the part of the procurement process focused on reviewing expenditure data to allow exploration of the opportunities which may exist to create value in a category. The key activities include acquiring the data, cleansing the data, and analyzing the data.

STANDARD - An item's characteristic or set of characteristics generally accepted by the manufacturers and users of the item as a required characteristic for all such items.

STANDARDIZATION - The process of defining and applying the conditions necessary to ensure that a given range of requirements can normally be met, with a minimum of variety, in a reproducible and economic manner based on the best current techniques.

SUPPLIER - Supplier is one term used to describe external organizations that deliver services or goods to a buyer. Other terms in common use include vendor, service provider and contractor. In some contexts the word 'supplier' denotes a company that supplies materials, while the word 'contractor' is used for providers of services.

SURPLUS PROPERTY - Property in excess of the needs of an organization and not required for its foreseeable use. Surplus may be used or new, but it possesses some usefulness for the purpose it was intended or for some other purpose.

SUSTAINABILITY - Sustainability is about meeting the needs of the present, without compromising the ability of future generations to meet their needs. In practice, this means adopting a broader range of decision-making criteria than traditional economic criteria. Corporate social responsibility [CSR] and triple bottom line considerations extend procurement decision-making criteria away from just price and quality to include the environmental merits, as well as the social impacts of alternative solutions.

TABULATION OF RESPONSES - The recording of responses for the purposes of comparison, analysis and record keeping.

TERMS AND CONDITIONS - A phrase generally applied to the rules under which all bids must be submitted and the stipulations included in most purchase contracts; often published by the purchasing authorities for the information of all potential vendors.

TERMS OF PAYMENT - When parties agree commercial terms in a contract, one of the terms will include the interval between the buyer receiving a correct invoice and the buyer making payment of the agreed sum. The actual terms agreed will reflect the balance of power between the parties and the degree of trust in the relationship.

THREE WAY MATCH - When approving a supplier's invoice for payment, a three-way match reconciles the purchase order; the goods receipt note and the supplier's invoice, in order to determine whether the invoice should be paid in its entirety.

TITLE - The instrument or document whereby ownership of property is established.

TORT - A wrongful act, other than a breach of contract, such that the law permits compensation of damages.

TRAVEL COST - In temporary travel assignments, air travel and local transportation, per diem mileage allowance, lodging, and other non-labor associated expenses. In long-term or permanent relocation, it includes all moving expenses also.

TRUCKLOAD (TL) –

1. 1. A quantity of freight to which truckload rates apply or a shipment tendered as a truckload.
2. A highway truck or trailer loaded to its carrying capacity. See Less-Than-Truckload.

UNIFORM COMMERCIAL CODE (UCC) - A comprehensive modernization of various statutes relating to commercial transactions, including sales, lease, negotiable instruments, bank deposits and collections, funds transfers, letters of credit, bulk sales, documents of title, investment securities and secured transactions. The Minnesota law is found in Minn. Stat. Ch. 336.

UNIT OF MEASURE - The unit used to quantify an item, for example length, mass, volume, area, number etc. Some materials may be sold by weight, while others may be sold by volume, but whichever convention is adopted, transactions will be more efficient if both buyer and seller adopt the same unit of measure.

UNIT PRICE - The price of a selected unit of a good or service (e.g., pound, labor hours, etc.).

UNSUCCESSFUL VENDOR - A vendor whose response is not accepted for reasons such as price, quantity, failure to comply with specifications, etc.

VALUE - Value is an umbrella term, describing the range of benefits or utility derived, either by the user, a stakeholder, the supplier or the buyer. Procurement practitioners have typically used three broad areas to measure value. The first is cash-releasing benefits, which broadly equate to 'savings'. The second is value released through the procurement process that does not translate into bankable savings, ('hard dollars'), in the budgets of buying organizations. This is known as cost avoidance. Third, the procurement process may release value through reducing risk, reducing cycle time, affording the buying organization competitive advantage or other 'value adds'. These definitions reflect the fact that it is often easier to describe value than to measure it and the challenge of the procurement process is to bring to light what represents value for each category and ensure that the solution selected represents best value.

VALUE ADDED - The value added to a product or service at each phase of the supply chain, based on the difference between the input value and the output value.

VALUE ANALYSIS - An organized effort directed at analyzing the function of systems, products, specifications, standards, practices, and procedures for the purpose of satisfying the required function at the lowest total cost of effective ownership consistent with the requirements for performance, reliability, quality and maintainability.

VENDOR - Someone who sells something; a "seller." The term 'vendor' is a generic label applied to suppliers.

VENDORS LIST - A list of names and addresses of suppliers from whom bids, proposals and quotations might be expected. The list, maintained by the purchasing office, should include all suppliers who have expressed interest in doing business with the government.

VIRGIN PRODUCT - A product that is made with 100 percent new raw materials and contains no recycled materials.

VOLATILE ORGANIC COMPOUNDS (VOCs) - Compounds that evaporate easily at room temperature and often have a sharp smell. They can come from many products, such as office equipment, adhesives, carpeting, upholstery, paints, solvents, and cleaning products. Some VOCs can cause cancer in certain situations, especially when they are concentrated indoors. VOCs also create ozone, a harmful outdoor air pollutant.

WAREHOUSE - A building used to store inventory. Warehouses are typically single-story buildings with good transport links, containing facilities for the receipt, storage, picking and issue of goods.

WARRANTY - The representation, either expressed or implied, that a certain fact regarding the subject matter of a contract is presently true or will be true. Not to be confused with "guarantee," which means a contract or promise by one person to answer for the performance of another person.

WASTE - Waste refers to activities that do not add value. Central to the adoption of lean practices is the elimination of waste.

WORK ORDER - In contracting, a work order is a written order from the customer that informs the contractor of the tasks required to be undertaken and authorizes commencement of the work on the agreed terms.

02/15/2016