GLOSSARY

2020 Edition of Procurement and Strategic Sourcing Glossary

This glossary includes terms from the book *Strategic Sourcing in the New Economy* which features many essential terms around *Sourcing Business Models.* This Edition has also been updated to include terms found in the *Creating A Vested Agreement* online course, as well as more basic procurement terms, making the glossary much more user friendly for introductory as well as advanced procurement/strategic sourcing courses.

3PL: (Third-party logistics). An outsourced provider that performs logistics services on behalf of its clients. A 3PL typically facilitates the movement of parts and materials from service providers to manufacturers and finished products from manufacturers to distributors and retailers. Among the services 3PLs provide are transportation, warehousing, cross-docking, inventory management, packaging, and freight forwarding.

Acceptance: A draft on which the debtor indicates by the word "accepted" his or her intention to pay or honor.[a]

Account number: Number assigned to a specific type of service or commodity. It coincides with category code.*

Acknowledgment: A standard for used by a vendor or supplier to advise that the purchase order has been received.*

Activity trap: One of Vested's 10 Ailments, which refers to outsourcing paradoxes typically found in transaction-based sourcing business models. The service provider is paid for every transaction, whether needed or not. The more transactions made, the more money the supplier makes. There is no incentive for the supplier to reduce the number of non-value-added transactions, because such a reduction would result in lower revenues.

Addendum: A document used to modify bid documents prior to receipt of bids. An addendum is incorporated into the formal contract.*

Ad valorem: The total value of goods or materials against which tariff rates are imposed.*

Advice of shipment: A notice sent to the purchaser from the seller advising that the shipment has gone forward; usually contains details of packing, routing, delivery date, and so on.*

Agency: Implies a relationship between two parties in which one is empowered to perform certain functions or business transactions for the other.*

Agent: An agent is authorized by the principal to act in the principal's behalf and interest. An agent's actions generally bind the principal as if the principal had acted directly.*

Agreement: When two or parties are in consensus. In contracting terms, an agreement usually refers to a negotiated and legally binding oral or written arrangement between parties. Many use the term *agreement* in the same way as *contract*. See also **contract.**

Airbill: A shipping or manifest document used by airlines for air freight; contains shipping instructions to the airline.*

Amendment: A revision or change made to a document.*

Approve: To accept and endorse as satisfactory; implies that the object approved has the endorsement of the approving agency or body. However, an approval may still require confirmation by another party.*

Approved provider transaction model: A model in which goods and services are purchased from prequalified suppliers that meet certain performance or other selection criteria. Frequently an organization has a limited number of preapproved suppliers for various categories from which buyers or business units can select.

Approved supplier list (ASL): A list of the approved suppliers that a company does business with. The ASL is usually created by procurement or sourcing and engineering personnel using a variety of criteria, such as technology, functional fit of the product, financial stability, and past performance of the supplier.[b]

Arbitration: The process by which partied agree to submit their disputes and claims to the determination and resolution of a third, impartial, and unbiased party.*

Arm's-length agreement: A transaction in which the buyers and sellers of a product act independently and have no relationship to each other. The concept of an arm's length transaction is to ensure that both parties in the deal are acting in their own self-interest and are not subject to any pressure or duress from the other party.[c]

As is: Indicates that the materials and equipment offered for sale are without warranty or guarantee. The purchaser has no recourse on the vendor or supplier for the quality of the materials and equipment.*

Asset specificity: The use of a capital good for a narrow purpose. Asset specificity applies to capital designed to have a single function or labor trained to

perform a single task and has limited uses because of some inherent restriction on other possible uses.[d]

Assignment: The transfer of rights or title to another party, frequently involving rights originating from a contract.*

Attribute: In the Business Model Mapping Toolkit, an attribute is defined as a characteristic that is inherent in an organization's business environment. For example, switching costs can range from low to high. The 25 attributes in the Business Model Mapping Toolkit were selected based on research that indicates an organization should consider different management practices based on the nature of each attribute.

Award fees: Fees paid at the conclusion of a fixed-duration agreement for achieving a desired goal.

Award term: An incentive in the form of contract extension. When a supplier meets annual goals, the contract is extended for an additional length of time.[a] Synonym: contract extension.

… **B** …

Back order: The part of an order that cannot be delivered at the scheduled date, but will be delivered at a later date.*

Balanced exchange: In negotiations, a term used to describe an equitable exchange. When one party takes value from a relationship, the other party must replace it with equal benefit. For example, I give you a $1 and you give me a widget.

Banker's acceptance draft: A document or draft used in financing a foreign transaction, making possible the payment of cash to an exporter, covering all part payment for a shipment made by the exporter.*

Bargain: Agreement on the terms and conditions of a purchase. Purchase of articles at a price favorable to the buyer.*

Barter: The process of exchanging one kind of article for another, as opposed to trading by use of money.*

Baseline: A basis for comparison set by monitoring the initial performance of a process. The baseline is used as a reference point to evaluate performance improvement efforts.[a]

Basic provider model: A transaction-based model that has a set price for individual products and services for which there are a wide range of standard market options. Typically these products or services are readily available, with little differentiation in what is offered.

Basic transaction model: A sourcing business model that typically has a set price for individual products and services for which there are a wide range of standard market options. These products or services are viewed readily available, with little differentiation in what is offered.

Behavioral economics: The study of the quantified impact of the behavior of individuals (or organizations). The study of behavioral economics is evolving into the concept of relational economics, which espouses that economic value can be expanded through positive relationships and win-win thinking, rather than adversarial relationships (win-lose or lose-lose). In short, entities can work together to create and expand value.

Best fit: A sourcing solution that can effectively harmonize dynamic business requirements with evolving market forces.

Best Value Assessment: An assessment that bases pricing decisions on the value associated with the benefits received, not on the actual prices or cost. It uses decision criteria that go beyond costs and include decisions on workscope and pricing based on intangibles such as market risks, social responsibility, responsiveness, and flexibility.

Bid: A complete and properly executed proposal to perform work or supply goods or services that have been described verbally or in the bidding documents and submitted in accordance with instructions to bidders. **A bid is an offer.***

Bid bond: A form of bid security purchased by a bidder; provided, subject to forfeit, to guarantee that the bidder will enter into a contract with the owner for construction of the facility within a specified time period.*

Bidding documents: Documents that typically include the advertisement or invitation to bidders, instructions to bidders, bid form, form of contract, form of bonds, conditions of contract, specifications, drawings, and any other information necessary to completely describe the work for which bidders can prepare bids for the owner's consideration.*

Bid opening: A formal meeting held at a specified place and time at which sealed bids are opened, tabulated, read aloud, and made available for public inspection.

Bill of exchange: A formal written document used to settle and pay for an existing obligation.*

Bill of lading: A transport company's contract and receipt for materials and equipment; agreement to transport from location to another and to deliver to a designated individual or party.*

Bill of materials: A list of all permanent materials required for a product on a construction project. The bill of materials list consists of all items described on a drawing and specification.*

Binder: A temporary but binding commitment by an insurance company to provide insurance coverage.*

Blanket purchase order: An order the customer makes with its supplier that contains multiple delivery dates scheduled over a period of time, sometimes at predetermined prices. It is normally used when there is a recurring need for expendable goods. Hence, items are purchased under a single purchase order rather than processing a separate purchase order each time supplies are needed. [a]

Boiler plate: A term used to describe the terms and conditions on the back of a purchase order or other specific clauses described in a contract.*

Bonds: Formal documents given by an insurance company in the name of a principal to an oblige to guarantee a specific obligation. In the construction industry the main types of bonds are the bid bond, performance bond, and payment bond.*

Breach of contract: The failure to perform any or all of the obligations that are stated with the terms and conditions of the contract.*

Budget year: The company's fiscal year.*

Bulk materials: Materials bought in lots; purchased from a generic description or standard catalog description and bought in medium to large quantities for issue as required. Examples are pipe fittings, conduit, cable, timber and stone.*

Bulletin: A document used to request pricing for a modification to the design after a contract is issued. If pricing is acceptable, a change order to the contract incorporates the requirements of the bulletin into a project.*

Burden: In construction, the cost of operating a home office with staff other than operating site personnel. Also means federal state and local taxes, fringe benefits, and other union contract obligations. In manufacturing operations, burden typically means operating overhead costs.*

Business continuity plan (BCP): A defined operational plan that is designed for implementation in the event of disruption of normal operations. Disruptions may be the result of natural disasters, civil or labor unrest, or other events.

"Business happens": A Kate Vitasek meme that refers to circumstances that occur unexpectedly and unplanned for in day-today activity. "Business happens" can refer to both good and bad surprises.

Business model: The plan implemented by a company to generate revenue and make a profit from operations. The model includes the components and functions of the business as well as the revenues it generates and the expenses it incurs.[c]

Business model-mapping analysis: An exercise that helps a company determine the appropriate business model to use for its sourcing relationship. The exercise also can help service providers consider how to offer added value to customers more closely related to the outcomes their clients' desire.

Business process outsourcing (BPO): The practice of outsourcing noncore internal functions to third parties. Functions typically outsourced include logistics, accounts payable, accounts receivable, payroll, and human resources. Other areas can include information technology (IT) development or complete management of the IT functions of the enterprise.[a]

Business requirements: The needs of business groups, business units, or even stakeholder users who consume the goods or services that are procured.

Business review: Periodic assessment of the commercial context of a business, its mission statement, goals, and strategic plan. The timing of reviews varies, but typically a review is held each quarter of the calendar year and is attended by senior managers of functional areas from both supplier and customer organizations. Often referred to as quarterly business reviews.[a]

Buyer: The buying staff negotiates and processes purchase orders, providing assistance to end users.*

Buying green: Buying products that are made from recycled or remanufactured materials.*

…C…

Cancellation of order: Annulment or cessation of order.*

Category: Refers to a group of products or services that share a common set of characteristics. A single product could belong to multiple categories; for example, detergents could be included in "Household Cleaning," "Non-Grocery," and

“Liquid.” Categories typically are used to analyze consumer usage or warehouse zoning.[a]

Category management: The process of overseeing a sourcing strategy for a specific spend category throughout the sourcing cycle.

Certificate of origin: A document, issued by the appropriate authority in an exporting country, that certifies the origin of the equipment, materials, or labor used in the manufacture of the equipment or materials being exported to another country.*

Certification letter: A form completed by vendors that supplies the company with key vendor information, including taxpayer ID, remit-to-address, type of business, and minority status.*

Change management: The process of managing and monitoring all changes to products and processes. A formal change management process typically is instituted to avoid risks associated with ad hoc change and to document any changes to the agreement. A Vested Agreement always includes a change management process.

Claim: A request for additional payment.*

COD: Cash on delivery.

Comment: A brief statement intended as an explanation or illustration.

Commercial terms: The terms and conditions of a purchase order or contract that relate to the business and commercial aspects of the purchase order or contract. The price, quantity and delivery date are the main elements covered under the commercial terms.*

Commodity: Any physical item that is traded in commerce. The term usually implies an undifferentiated product competing primarily on price and availability.[a]

Company: The organization that is outsourcing the process or function.

Compatibility and Trust Assessment ® (CaT): Professors Gerald Ledlow and Karl Manrodt developed the Compatibility and Trust Assessment TM (CaT) to measure the strength of a business relationship across five dimensions, including trust, innovation, communication, team orientation and focus. The CaT achieves what a self-assessment cannot: a 360-degree view. For example, the company assesses its trustworthiness and its perceptions of the service provider. The service provider likewise assesses its trustworthiness and its perceptions of the company. The scores reveal alignment or a lack of alignment between the

companies. The more compatible a buyer and supplier, the more likely they are to build trust and be successful.

Compensatory damages: Damages awarded to compensate an injured party by granting a monetary value equal to the loss or injury encountered.*

Competitive bidding: A common method of selecting sources for contract awards. Suppliers interested in participating in the process are asked to submit information on prices and/or other specified elements. Major public sector purchases commonly are awarded on a sealed bid basis, with the law requiring that the award be made to the lowest responsive and responsible bidder. In private sector purchasing, competitive bids usually are solicited from several suppliers with the stated intention of selecting those organizations with which negotiations subsequently will be conducted to arrive at a final contract award decision.[e]

Competitive dialogue: A procedure introduced into the European Union public procurement system in 2004 to provide an improved method for awarding complex contracts, such as those for public infrastructure and major information technology systems. The intent is to allow buyers and suppliers to collaborate on solutions.

Competitive differentiator: The ability to communicate what makes the company, product or service unique and to stand out from other companies, products or services within the marketplace.[a]

Conditional sale: A sale made with the knowledge that title will not pass to the buyer until some stated condition has been achieved.*

Conditions of the contract: A document describing the rights, responsibilities, and relationships of the parties to a contract.*

Conflict of interest: When an employee is in a position to influence the conduct of a project for personal gain due to responsibilities or to arrangements with an outside entity.*

Consequential damages: Payment for loss or damage that is not directly attributable to a wrongful action on the part of another party, but is the result of one or more of the consequences of the action.*

Consideration: A term used to describe the value that shall be reimbursed to one party to a contract by another party in return for services or articles rendered.*

Continuous improvement: A structured, measurement-driven process with the goal to review performance and make improvements on a frequent basis.

Contract (see also agreement): A legally enforceable written or oral agreement between two or more parties to provide specific goods or services. Although often used interchangeably with the term *agreement*, legal definitions of the two terms are different. Contract is defined in the Uniform Commercial Code Section 1–201 (11) as "the total legal obligation that results from the parties' agreement as affected by this Act and any other applicable rules of law."

Contract administration: Administering contracts and purchase orders to protect the interest of a specific organization and to satisfy the conditions and requirements of the contract and/or purchase order.*

Contract documents: A term applied to a collection of related documents (contract, specifications, drawings, and any additional data) that define the extent of an agreement between two or more parties.*

Core competency: Those activities through which an organization achieves sustainable competitive advantage. A core competency is seen as a process that is central to the way an organization works. It fulfills three criteria: (1) it provides consumer benefits. (2) It is not easy for competitors to imitate. (3) It can be leveraged widely to any products and markets. A core competency can take various forms, including technical/subject know-how, a reliable process, and/or close relationships with customers and suppliers. It may also include product development or culture, such as employee dedication.[a]

Corporate hierarchies: A term coined by Nobel laureate Prof. Oliver Williamson that describes a corporate structure with high administrative control and a legal system that is "deferential to the management."

Cost bar: The start of a cost analysis that breaks down the cost of the good or service into its individual cost drivers.

Cost model: A model that typically is designed to help the buyer do scenario what-if testing with cost drivers.

Cost Reimbursement: A compensation model where the Service Provider is paid for the actual costs incurred without mark-up. In some cases, costs are invoiced directly to the Buyer by a third-party providing goods or services, and paid directly to the third-party. A cost reimbursement approach is appropriate when it is too difficult to estimate a fixed price with sufficient accuracy and when the Service Provider will not agree to assume the risks associated with unknowns. A cost reimbursement compensation commonly is used to develop a new product or service or for research and development activities. For example, the U.S. government has agreed to cost reimbursement compensation models

with military defense companies that are developing new technologies for national defense. Synonyms: cost-based pricing, cost-plus agreement, cost reimbursement agreement. Cost reimbursement compensation model has two forms: Cost-Plus and Cost-Pass Through

Cost-Plus: A compensation model that uses cost reimbursement plus a markup added to the costs (e.g., cost plus 10% mark-up)

Cost Pass-Through: A compensation model that uses cost reimbursement plus a fixed fee added (e.g. cost plus a management fee).

Counteroffer: To decline an offer by submitting a new offer with conditions or terms different from the original offer.*

Creative Value Allocation: A process, outlined in the book, *Getting to We: Negotiating Agreement for Highly Collaborative Relationships* that uses a systematic process for fairly allocating value. It replaces competitive tensions that negotiators often feel when they negotiate money and pricing, with a more collaborative framework. It provides a pathway that enables parties to get beyond yes and to adopt a WIIFWe mindset. Companies choosing the Vested business model *must* adopt a Creative Value Allocation process that is supported by a pricing model with incentives that aligns the success of each party to the relationship.

Critical products/services: Also referred to as *strategic* products/services. Critical products and services fall under one of the four Kraljic Matrix quadrants. In general, these are products or services that are high tech and high volume, which are often supplied to meet customer specifications.

…D…

Debit notice: An invoice used to offset a previous overpayment, showing the difference between the previous invoice and the payment.*

Deliverable: A product or report that must be delivered to satisfy a contractual obligation.*

Delivery: The act of transferring possession; applied to shipping, occurs when lading is surrendered and title materials, and equipment pass to the receiving party.*

Demurrage: A charge made on freight cars, vehicles, or ships held by or for a consignor consignee for subsequent loading or unloading.*

Desired Outcome(s): A term that defines collaboratively negotiated strategic business outcomes expressed in terms of a limited set—ideally, no more than five—of high-level success measures. Organizations spend the time collaboratively during the strategic sourcing process to establish explicit definitions for how relationship success will be measured. See also **Outcome-based economic model.**

Detail specification: A description of the requirements for a specific item or material or equipment.*

Discount: An allowance or deduction given by the seller to the buyer that reduces the cost of the item purchased when certain conditions are met by the buyer (e.g., prompt payment within a stipulated period).*

Draft: A legal document instructing one individual to pay another.*

Driving blind disease: One of Vested's Ten Ailments. The driving blind disease ailment affects many business relationships: the lack of a formal governance process to monitor relationship performance and measure.

Due date: The date when purchased materials and equipment will be available for installation at the project location.*

Dunnage: Protective matter used around materials or equipment to prevent movement, damage, or breakage while in transit.*

Durable goods: Consumer products that are used repeatedly over a period of years (e.g., household appliances, vehicles).*

Duty: The charge assessed by a government on materials and equipment imported or exported. An obligation established by law or contract is not formalized.*

…E…

Earnest money: Money that one party gives to another at the time of entering into a contract to "seal the deal." Earnest money can be forfeited if a contract is not formalized.*

EBITDA: Earnings before interest, taxes, depreciation, and amortization. EBITDA is a common accounting term that measures profit.

End-user: The person in the unit who is responsible for obtaining goods and services.*

Equity partnerships: A legally binding entity. Equity partnerships take different legal forms, from buying a supplier (an acquisition), to creating a subsidiary, to equity-sharing joint ventures or entering into a co-op arrangement. Equity partnerships are best used when an organization does not have adequate internal capabilities and does not want to outsource. (See *Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models for Modern Procurement*.)

Escalation clause: A contract clause that provides for a price adjustment based on specific changes.*
Ex: (Ex mill, Ex factory, Ex warehouse, Ex dock) Prefix used to denote the point of origin. When a seller quotes a price Ex, the seller proposes only to make the materials and equipment available at the Ex point of origin and includes no transportation costs in the quoted prices.*

Excise tax: A tax on the manufacture, sale, or use of certain article made, sold, or used with a country.*

Exit management plan: A plan that facilitates a smooth, effective transition of services delivery, minimum disruption of ongoing delivery, and efficient completion of all agreement obligations. The plan is invoked with the issuance of a formal termination notice under the agreement, specifying: (1) the portion of services included in the scope of termination; (2) the estimated exit transition period and vendor delivery centers affected; and (3) the period of time following a termination notice that the parties will have to agree on the specific scope of transition services provided by the vendor.

Export: Shipment of materials or equipment to a foreign country.

Export permit: A permit given by the government of an exporting country allowing a party within that country to export the materials and equipment to another country.*

…F…

Fabrication: Manufacturing operations for materials or equipment as opposed to the final installation operation.*

Factor: An agent selling goods or materials on a commission basis for his or her principal.*

Fair and reasonable: A determination that a price is fair and reasonable is really a conclusion that the proposed price is fair to both parties, considering the quality, delivery, and other factors.*

Fair market value: The value of an article as determined by negotiation between buyer and seller; considered acceptable as a basis of a purchase and sale of the particular article.

Field inspection: A thorough examination of the equipment and materials shortly after delivery to determine if they meet the requirements of the specifications and to find any hidden defects or damage.*

Field purchase order: A purchase order used in field construction situations where authority to make the type of purchase involved is usually restricted or has a predetermined not-to-exceed value.*

Firm offer: A definite proposal or offer to buy or sell some article on stated terms and conditions. Such an offer binds the proposal for a stipulated time period.*

Five Rules of Vested Outsourcing: The name given by the University of Tennessee to the five key rules it has identified to employ when crafting business-to-business agreements that require more than basic market-based exchanges. Although these rules originally were created for outsourcing deals, they are applicable to any business agreement where the parties want to create a shared value relationship to jointly leverage capabilities to innovate, lower costs, and improve service to compete. When applied to an outsourcing relationship, the rules will move the relationship from a conventional relationship to a Vested relationship. The Five Rules are:

1. Focus on outcomes, not transactions.
2. Focus on the *what*, not the *how*.
3. Agree on clearly defined and measurable outcomes.
4. Optimize pricing model incentives.
5. Governance structure that provides insight, not merely oversight.

Fixed-price agreement: An approach in which the service provider's price is agreed in advance and typically is not subject to adjustment. The parties agree on the fixed price, which includes the service provider's costs and profit. A fixed-price agreement eliminates budgeting variation for the company. Because the total fee for the products and services is fixed, the service provider, not the company, absorbs the peaks and valleys.

F.O.B.: A delivery term meaning "free on board" at a named place. The named place is where the merchandise title passes from the seller to the purchaser. This is an important, and often negotiated, aspect of the purchase agreement because whoever holds title in transit is responsible for damages and losses and the filing of claims.*

F.O.B. destination: The most desirable term for the purchaser. Title is held by the vendor until merchandise is delivered to the purchaser or dock area. The vendor is responsible for damages and losses and the filing of claims up to the time of delivery. A separate freight bill will be submitted for payment.*

F.O.B. origin: Title of the merchandise passes from the vendor to the purchaser at the moment of delivery to the freight carrier. The purchaser is liable for freight charges and must file all claims for loss or damage.*

Force majeure: Circumstances beyond an individual's control; pleadable as an excuse for the nonfulfillment of a contract or purchase order.*

Forward purchasing: The purchase of quantities exceeding the immediate requirement, that is, in anticipation of any significant price increase or market shortage.*

Free rider problem: Based on an article written on the effects of unregulated grazing on common land, a free rider problem occurs when those who benefit from resources, goods, or services do not pay for them, which then results in either an under-provision of those goods or services or an overuse or degradation of the service.

Freight forwarder: Some freight forwarder organizations act as agents on behalf of shippers in organizing the transportation of articles without handling any of the articles. Others act as freight carriers in consolidating small and midsized shipments and delivering them to the purchaser.*

…G…

Gainshare: A monetary incentive where the service provider shares in costs savings. The focus is on driving out costs that are of limited value and sharing the cost savings. The purpose of Gainsharing (called shared savings in some agreements) is to encourage the parties to reduce costs. Gainsharing is being used more frequently in contracts – especially pay-for-performance/performance-based agreements. Unfortunately, many Service Providers in non-Vested agreements report their customers are not fair in allocating cost savings and paying gainshare earnings. Gainshare is not the same as Valueshare (separately defined).

Getting to We: A negotiation paradigm that combines the WIIFWe mindset with a five-step process for negotiating highly collaborative relationships. The heart of Getting to We is an agreement to abide by six fundamental social norms that form the guiding principles for the relationship. (See *Getting to We*, Guiding principles.)

General liability insurance: A broad form of liability insurance covering claims for bodily injury and property damage.*

Generic: A term used to generally describe a group, type or class of materials and equipment, rather than name a specific trade name or source of manufacture.*

Glidepath: Refers to a formula that defines the asset allocation mix of a target date fund, based on the number of years to the target date. The glidepath creates an asset allocation that becomes more conservative (i.e., includes more fixed-income assets and fewer equities) the closer a fund gets to the target date. The term is derived from an aircraft's line of descent to land.

Governance (in buyer–supplier relationships): The management of cohesive policies, processes, and decision rights that enable parties to work together effectively manage a spend category. In short, governance involves the development of processes that bring together the appropriate people, processes, and technology to keep a sourcing solution running as a well-run system.

Governance/Vested governance framework: A governance framework that provides consistent management and cohesive policies, processes, and decision rights that enable the parties to work together effectively and collaboratively to manage performance that achieves transformational results throughout the life of the Vested Agreement. Vested governance encompasses a joint process and flexible framework that over time defines and structures an enterprise/agreement that in theory and practice works for the mutual benefit of all the parties by ensuring that they act ethically, employ best practices, and adhere to formal laws. (Also see *Vested governance structure*.)

Guarantee: A promise, pledge or formal assurance given as a pledge that another's obligation or debt will be fulfilled.*

Guardrail: Agreement boundaries or structured parameters that can block the parties from developing a formalized agreement to frame their Vested business relationship. Guardrails define the limits of acceptable risk either company is willing to assume in an outsourcing relationship; a risk outside of a guardrail boundary would likely be considered a "walk away zone." Establishing guardrails up front provides the Pricing Team with the authority to develop a pricing model within clearly stated boundaries and sets a tone of "no surprises," which will likely be a relief to both corporate authorities and the team creating the pricing model. Guardrails thus provide the team that is drafting the agreement with the authority to develop a deal within clearly stated boundaries.

Guiding principles: A common set of guiding principles—based on a foundation of trust, transparency and compatibility—form the framework for establishing and maintaining the collaborative, WIIFWe mindset. There are six core principles, which together with the principle of trust, are vital for collaborative relationships. The six principles are: reciprocity, autonomy, honesty, equity, loyalty and integrity. For example, reciprocity is at the heart of the Creative Allocation

process, because without reciprocity little value is created for the Vested partnership.

…H…

Hedging: A method of selling for future delivery whereby the parties protect themselves against potential loss.*

Hold order: A purchaser's order to hold a particular delivery at a designated location for a specific period of time.*

Hundredweight: In U.S. measurement and domestic transport, 100 pounds; in U.K. measurement, a hundredweight, or "cwt," is 112 pounds or one-twentieth of a long ton of 2,240 pounds.*

…I…

Implied contract: A contract formed when parties express, through their conduct, their agreement to be bound to its conditions and terms. An agreement is inferred and understood without express statements.*

Incentive: A type of award for the company or the service provider. Incentives can be monetary or non-monetary. In a Vested pricing model, incentives should be based on achievement of incremental achievement of the Desired Outcome. In a Vested Agreement, incentives motivate service providers to make decisions that ultimately will meet the mutually agreed Desired Outcomes.

Incentives framework: A mechanism that the parties use to measure incremental performance and establish incentive rewards or payments. Monetary incentives are calculated using a mathematical formula, non-monetary incentives are granted when a performance target is met. The simpler the incentive framework is, the better.

Indemnification: An obligation contractually taken on or legally imposed on one party to protect another party against any loss or damage from specific liability.*

Indemnity: A responsibility of one person to make good a loss or damage incurred by another. A payment for damage, loss, or expense incurred.*

Innovators Dilemma: From Clayton Christensen's book of the same name. Organizations get attached to existing successful ways of doing business and fail

to recognize what seems to be small or insignificant progress that often can "mature enough to make inroads into our playing field and have our lunch."

Inspection plan: A procedure that defines the material or equipment requiring inspection and describes the method and order of performing the tests or inspection.*

Investment-based model: An equity partnership in which the parties form a single balance sheet entity, also known as a merged in-source solution. This model can take different legal forms, from buying a service provider, to becoming a subsidiary, to equity-sharing joint ventures. Equity-based partnerships often are born out of a company's need to acquire mission-critical goods and services. Also, these partnerships often require the strategic interweaving of infrastructure and heavy co-investment. Most equity partnerships are in place on a continuing basis and often conflict with the desires of many organizations to create more variable and flexible cost structures on a company's balance sheet.

Invoice: The seller's itemized bill of quantities and prices of materials, equipment, and/or services that have been delivered to the purchaser.*

…J…

Joint Statement of Intent: A document in a Vested Agreement that is a working guideline of principles under which the parties commit to operate. (See *Statement of Intent*.)

Junkyard Dog Factor: One of Vested's 10 Ailments. The Junkyard Dog Factor occurs when the decision to outsource usually means jobs are lost as the work and jobs transition to the outsourcing provider.

…K…

Key man provision: A contract clause that spells out requirement for the supplier and/or buyer to name key positions or even individuals in the contract as "key" (or essential) to the success of the relationship. Often such a contract clause states that certain individuals should stay in a role ranging from 18 month to 48 months.

Key performance indicator (KPI): A critical metric in the outsourcing agreement that reflects performance against the overall Desired Outcomes. In most cases, the company and the service provider must work together to achieve the KPIs.

…L…

Lead time: The period of time required to perform a specific activity of work.

Lean: A production practice that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful and thus a target for elimination. Working from the perspective of the customer who consumes a product or service, "value" is defined as any action or process that a customer would be willing to pay for.

Lease: A contract whereby an individual or organization lets another use property or equipment for a definite term and for an agreed rental cost. The lessor retains title to such property or equipment.*

Liability: A state of being under obligation; exposure to a potential claim by which an individual organization may be subject to pay for compensation for loss, damage, or other acts to another individual or organization.*

Lien: A legal claim on the assets or property of another.

Liquidated damages: A sum of money agreed to by the contracting parties as to damages to be given in case of a failure to meet the obligations of the contract.*

Litigation: To engage in a lawsuit; the process by which parties submit their disputes to the jurisdiction of federal or state law courts for resolution.*

Lock-in: A business situation in which organizations are obliged to deal only with a specific company.

Logistics: The management of business operations, such as the acquisition, storage, transportation, and delivery of goods along the supply chain.

Lot size: The amount of specific materials and equipment items ordered from a vendor.*

Lump sum: An amount or value used in a proposal, bid, or contract representing the total cost that an organization is prepared to contract to perform an item of work.*

…M…

Margin matching: A technique used to fairly adjust actual prices to be paid based on movements in the defined underlying pricing model assumptions. This avoids having one party “win” at the other party’s expense. Margin matching

includes establishing a trigger point that activates to reset prices when the point is met. For example, the inflation rate might be a trigger point for resetting inventory carrying costs charges. Typically, Margin Matching includes some form of margin compensation to help Service Providers recoup lost profit resulting from efficiency gains. The goal of using a margin-matching technique is to establish pricing fairness, which ultimately builds trust and a better working environment.

Market-based pricing: The price of the product is determined on the market and is generated exclusively by market circumstances such as demand, supply, stock positions, and the economic situation and political factors.[c]

Markup: A percentage that is added to the total of all direct costs to determine a final price or contract sum. A supplier markup typically includes profit and overhead.

Master services agreement (MSA): A legally binding contract entered into by two or more parties. The agreement, which is usually service-oriented, goes into great detail regarding all its components. Because the parties intend to enter into future agreements with one another, they document terms that will govern future agreements in one place, the MSA. The same terms need not be negotiated again. Thus, the parties are freed up to negotiate deal-specific terms. Synonym: requirements agreement

Maverick spending: A term describing purchases made within an organization that are not in compliance with negotiated contract.

Measurement Minutia: One of Vested 10 Ailments that states, "With the intention of ensuring accountability, the contract requires measuring everything—accumulating more data that can be managed or used for improvement purposes."

Minority business enterprise / minority women's business enterprise: A company that is at least 51 percent owned, managed, and controlled by one or more minority persons. Minority means being African American, Hispanic American, Native American, or Asian American.*

Multistep strategic sourcing process: (1) Recognition of need; (2) specification of need in terms of quality, quantity, and timing; (3) search for potential sources; (4) analysis of suppliers and proposals; (5) negotiation with and selection of supplier; (6) administering the contract; (7) evaluation of performance and feedback to supplier; and (8) disposal of excess, scrap, or surplus.[d] *Strategic Sourcing the New Economy* expands on the concept and suggests using 20 sourcing considerations instead of a multistep process, because multistep processes are incomplete.

…N…

Nash equilibrium: A game theory concept where the optimal outcome of a game is one where no player has an incentive to deviate from the chosen strategy after considering an opponent's choice. Overall, an individual can receive no incremental benefit from changing actions, assuming other players remain constant in their strategies. A game may have multiple Nash equilibriums or none at all.[b]

Negligence: Under the law, failure to exercise the care and consideration a prudent person would exercise; lack of care and attention.*

Negotiation: The process by which a buyer and seller reach an agreement on the terms and conditions regarding the purchase of materials, equipment, or goods.*

Net landed cost: The basic price inclusive of taxes, levies, transportation, all material and labor charges plus government or vendor service taxes as applicable.

Net price: The price reached after all allowable discounts, rebates, and the like are deducted from the original selling price.*

Noncompetitive purchase award: A purchase from the only available supplier of a product or service. Therefore, no bids or proposals can be obtained. Also known as sole source as well.

Noncore competencies: Activities that are conducted within an organization that do not contribute to sustainable competitive advantage.[b]

…O…

Obligation: A duty that is the result of a promise or contract; an agreement that an individual or organization is responsible to fulfill.*

Obsolete: Outmoded, worn out, discarded or no longer in use.

Offer: A proposal or bid made by an individual or organization to another individual to perform a service or action; the acceptance of such an offer results in a contract. The individual or organization that makes the offer is called an offeror, and the individual organization that receives the offer is called an offeree. A bid or a proposal are examples of an offer.*

Off-ramp: A term used to describe exit management clauses in a contract. Off-ramp clauses provide the buyer flexibility. The most common such clauses are termination for convenience and termination for cause. Performance-based and Vested sourcing business models should have more comprehensive exit management plans than these two simple off-ramp clauses.

Offshoring: The practice of moving domestic operations, such as manufacturing, to another country as a way to lower costs, avoid taxes, and the like. May or may not involve transferring employees. In many cases, organizations outsource to a supplier that then offshores the work. Offshoring is particularly common in for outsourced information technology and business process outsourcing workscope.

Operational-level agreement (OLA): An **i**nternal "back-to-back" agreement that defines how the buyer and supplier will work together. An OLA often includes hours of operation, responsibilities, authorities, response times, supported systems, and the like. OLAs tend to be more technical than in service-level agreements (SLAs) since they define information technology (IT). Not every SLA requires unique OLAs, and just a few key OLAs can help resolve the silo problem. However, it can be difficult to implement OLAs, especially between departments under different management. Implementing an OLA requires patience and the commitment of all involved as well as the recognition that each silo has its own job to accomplish. Of course, the common relationship all silos share is the provision and maintenance of IT services of all kinds to the business.

Operational metrics: The lowest level in the metrics hierarchy. These measure results at the task level.

Order lead time: Period of time required to obtain am item from a vendor or supplier once the purchase order requirements are known.*

Organizational alignment. Creating relationship and communications mechanisms that enable a company and the service provider in a Vested agreement to work together effectively to achieve the mutually defined Desired Outcomes.

Outcome: Achievement of economic or strategic value as the result of doing something. Often an outcome can be achieved only when multiple parties work together collaboratively. As such, outcome-based thinking incorporates an end-to-end perspective, not just the workscope under control of the supplier.

Outcome-based business model: A model in which a supplier or service provider is paid for the realization of a defined set of business outcomes, business results, or agreed-on key performance indicators. An outcome-based business model typically shifts risk to the service provider for achieving the

outcome. A well-structured agreement compensates a service provider's higher risk with a higher reward.

Output: Achievement of a well-defined and easily measured event or a deliverable that is typically finite in nature. An output typically relates to the purpose/functionality of the good or service instead of the activities or inputs needed to create the good or service. A supplier can achieve outputs without help from a buyer. However, often a buyer has inputs to a supplier. As such, output-based metrics/service-level agreements should be based on only what is in a supplier's control.

Output-based economic model: An economic model in which a supplier is paid for achieving a pre-specified output-based metrics. An output-based model shifts risk to the supplier for achieving the output but requires both buyer and supplier to work together to achieve the outcome. A well-structured agreement compensates a supplier's higher risk with a higher reward.

Outsource/Outsourcing: The transfer of a process or function to an external provider.

Overhead: A cost inherent in the operating of a business. A cost that cannot be charged to a specific part of the work, materials, or equipment.*

…P…

Packing list: A document or log prepared by the shipper to indicate in detail the particular package contents.*

Partial payment: A stage payment made upon delivery of one or more completed units.*

Patent: A government grant to an inventor by which he or she is the only person allowed to make or sell the new invention for a certain number of years.*

Performance-based logistics (PBL): A term used primarily in the aerospace and defense sector to describe the purchase of assets with a complete array of services and support in an integrated, affordable performance package. PBLs typically use a performance-based Sourcing Business Model. However, they can be structured as Vested model.[a]

Performance-based/Managed services model: A formal longer-term supplier agreement that combines a relational contracting model with an output-based economic model. A performance-based model drives supplier accountability for output-based service-level agreements and/or cost reduction targets. This type of agreement typically creates incentives (or penalties) for hitting (or missing) performance targets.

Performance-based outsourcing: A simple outcome-based sourcing relationship. It typically pays a service provider for the achievement of agreed-on key performance indicators. This model usually rewards the service provider for achieving or maintaining performance. It also sometimes includes a gainshare incentive but does not include a value-share incentive. A well-structured performance-based outsourcing deal that follows Vested's five rules is a Vested deal.

Performance bond: A bond obtained in connection with a contract; ensures that performance and completion of all the scope, terms, conditions and agreements contained within the contract.*

Performance management: A process and culture that drives performance and accountability to delivery performance against key performance indicators. A performance management program goes beyond just having performance metrics in place. Metrics are aligned to strategy and linked to the shop-floor or line-level workers. Tools/technology are in place to support easy data collection and use. This often includes the use of a dashboard or scorecard to allow for ease of understanding and reporting against key performance indicators.

Performance measure: An indicators of the work performed and the result achieved in an activity, process, or organizational unit. A performance measure can be financial, operational, or relational. Such measures enable periodic comparisons and benchmarking. Performance measures can be measures of activities, outputs, or outcomes.[a]

Performance measurement program: A program that goes beyond just having performance metrics in place. Measuring other important elements, like customer satisfaction and value generation, helps buyers realize the full benefit of their performance metrics.[a]

Performance work statement (PWS): Resides between a statement of objectives and a statement of work in terms of specificity. The company defines the expected results in the statement of objectives and solicits solutions from service providers. The service provider then develops a performance work statement. A PWS still expects the service provider to drive innovation to fulfill the company's statement of objectives—but it goes into more detail than a statement of objectives. A PWS allows for input and innovation from the service provider in *how* it meets the Desired Outcomes and associated statement of objectives. It is important to note that using a PWS is *not* a requirement in a Vested Agreement. If it is used, it is not part of the formal agreement but an additional resource that helps the companies establish trust as they learn to work together effectively.

Perverse incentive: A direct negative reward or unconscious behavior that drives unintended consequences.

Physical asset specificity: The use of a capital good to a narrow purpose. Asset specificity applies to capital designed to have a single function or labor trained to perform a single task and has limited uses because of some inherent restriction on other possible uses. The more specific an asset, the lower its potential resale value or redeployability. Companies may be reluctant to invest in such assets in a poor or uncertain economy. When a company purchases a highly specific asset, this purchase is considered a sunk cost, as the asset likely will not be salable or usable for purposes other than its intended purchase.[b]

Portfolio segmentation: In strategic sourcing, the overall classification of either spend categories or suppliers. Sourcing Business Model theory classifies spend categories into seven sourcing business models based on 25 attributes.

Pony: In Vested, the difference between the value of the current solution and the potential optimized solution. It represents something the outsourcing company wants but was not able to get on its own or with existing service providers.

Prebid conference: A meeting with interested suppliers prior to the submission of bids. Its main purpose is to clarify specifications and answer questions from suppliers in an open and equitable manner.*

Prefabrication: A manufacturing or fabrication technique, generally taking place at a location other than the construction site, in which various materials and equipment are combined to form a larger component element for final installation at the construction location.*

Preferred provider model: Transaction-based economic model. A key difference between a preferred provider model and the other transaction-based models is that the buyer has made the strategic choice to move to a more strategic relational model. As such, buyers that work with specifically chosen supplier(s) assume a more collaborative relationship. Repeat business and longer-term and/or renewable contracts are the norm.

Price: Price is the agreed upon amount the Buyer will pay the Service Provider for the service or product

- In traditional contracts the price may be negotiated and a compromise price reached when the parties settled for something less than they originally desired
    - often the price will not change during the contract term
- In a Vested Agreement the “price” is the output of the Pricing Model
    - the Pricing Model is used to derive the “price” that will be paid to the Service Provider and flexibility addresses business changes

Price creep: Refers to increased costs associated from changes that occur when a good or service has not been properly specified. It is generally considered harmful. See also **scope creep.**

Pricing model. The mechanism companies use to establish the price(s) between a company and its supplier. A pricing model is different from price as it allows the parties to leverage a wider range of value-generating elements instead of bargaining on price to reduce spending. We use the term *model* because in many cases prices change for various business reasons. In most cases, a pricing model consists of a spreadsheet. A good pricing model enables the parties to manipulate the assumptions of the various pricing model components. The pricing model components are:

- The compensation method (e.g. fixed price, cost plus, hybrid)
- Assumptions
- Total costs and best value assessment
- Risk allocations
- Margin matching
- Contract duration

A good pricing model:

- Is dynamic and enables the parties to adjust underlying pricing assumptions of the various pricing model components. Pricing model factors include the compensation method (e.g., fixed price, cost plus, hybrid), input assumptions, total costs and best value assessment, risk allocations, margin matching, and contract duration.
- Equitably allocates risks and rewards to realize mutual gains for the duration of the agreement.
- Allows buyers to align a supplier's payment with value received, in essence validating that a company gets what it pays for.

A Vested Pricing Model:

- Goes beyond providing a means to transact business
- Encourages the Service Provider to innovate by making investments in processes, services, or associated products that benefit both companies
- Almost always has incentives and triggers to adjust prices when "business happens"

Process metric: Measures the success of a process. Output-based metrics are typically process metrics.

Procurement lead time: The time required by a buyer to select and negotiate with a vendor or supplier and place a purchase order.*

Promissory note: A written pledge or promise by one individual or organization to pay another unconditionally a certain sum of money (principal and interest) at a specified time.*

…Q…

Quality: The essential attributes that permit materials and equipment to function in the desired manner.

Quality assurance: A formal procedure that ensures that the materials and equipment will perform satisfactorily when installed.*

Quality control: The procedure and activities that ensure adequate quality is maintained in the materials and the equipment utilized in the manufacturing process.*

Quantity: The amount of equipment or material units required.*

Quasi-contract: see agreement.

Quotation: A summary of price, terms of sale and general description of materials, equipment, or services offered for sale by a contractor or vendor to a potential buyer. When issued in response to a purchase inquiry, it is considered an offer to sell.*

Quotation expiration date: The date after which a quotation is no longer valid.*

Quote: To state a price for securities, goods and services.*

…R…

Rate of exchange: The rate at which the currency of one country is exchanged for the currency of another country. aka Exchange Rate*

Rebate: The amount refunded to a purchaser for the purchase of an agreed quantity or value within a stipulated period of time.*

Receipt of bids: The action of an owner in receiving sealed bids that have been invited or advertised in accordance with the owner's intention to award a contract.*

Relational economics: The study of the quantified impact of the behavior of individuals in a contractual relationship and the direct impact that their collective behavior has on achievement of the Desired Outcomes and realization of mutual gain.

Relationship management: The practice of establishing joint policies and processes that emphasize the importance of building collaborative working relationships, attitudes, and behaviors. The structure by necessity will be flexible

and will provide top-to-bottom insights about what is happening with the Desired Outcomes and, just as important, the relationship between the parties. Relationship management is a comprehensive approach to managing an enterprise's interactions with the organizations that supply the goods and services it uses. The goal of relationship management is to streamline and make more effective the processes between an enterprise and its suppliers. This is most definitely not a "whose-throat-to-choke" exercise; rather, it is the establishment of processes for communication, reporting, and improvement.

Relationship model: A concept based on Oliver Williamson's pioneering work that classifies an organization's sourcing needs into three categories: "market" (transactional Sourcing Business Models), "hybrid" (relational/hybrid Sourcing Business Models), and "hierarchical" (investment-based Sourcing Business Models).

Relationship rules of conduct: A firm commitment to constructive working relationships, attitudes, and behaviors. A Vested relationship is, after all, about people working together in new ways to achieve a common goal; it is not about filling seats at the lowest common denominator and bean counting. It must be recognized at the outset that behavior modification is likely necessary for success.

Request for partner: A highly collaborative process used when a buyer is actively seeking not just a solution from a supplier but also the ability to assess multiple providers' cultures, mindsets, and willingness to engage in a collaborative relational contract. A request for proposed solution is a key part of the process and is used when selecting a supplier for a Vested sourcing business model.

Request for proposal: Used to obtain pricing as well as a detailed description of services, methodologies, program management, cost, and other support provided by the supplier. A request for proposal allows a buyer to specify requirements but begins to allow suppliers to define some of the "how." For example, a buyer may ask a supplier to outline how it proposes to manage quality. Synonym: invitation for proposal.

Request for proposed solution: A collaborative process used where an organization has a dialogue with potential down-selected suppliers. It is different from a request for proposal because the buyer does not know the solution; rather it asks suppliers to propose the most appropriate solution. Also referred to as competitive dialogue process.

Requirement: The needs and wants of business groups, business units, or users who consume the goods or services that are procured. Requirements may cover discrete specifications, quality conditions, regulatory compliance, special

handling, shelf life, volumes, or any other attributes that define the needs and wants of the business.

RFx: A request to suppliers to make submissions to a purchasing organization. One of the critical documents in the RFx is the specification/statement of work. There are various types of RFx: IFP, RFP, RFQ, RFS[d] Synonym: solicitation.

Risk allocation: The process of appropriating risk to the party that can best mitigate or manage the risk on behalf of the relationship in order to maximize value. A Vested pricing model should ensure that the party that takes on risk is appropriately compensated. As such, the Pricing Team will need to do a risk assessment.

Risk mitigation: The active practice of avoiding predicted events that could cause harm to a business and its operation.

Risk premium: The value (typically in term of a fee) paid to a party that knowingly and willingly bears a risk and is rewarded for doing so in some form or another.

Root cause analysis: A problem-solving method that aims to identify the source of problems or incidents. The focus is to solve problems by attempting to correct or eliminate their basic origins rather than merely addressing their symptoms.

…S…

Salvage: The material or equipment that is saved after damage or demolition has been completed.*

Salvage value: The value recovered or realized when an article or facility is demolished, scrapped or sold.*

Samples: Examples of completed materials, products, equipment of workmanship that establish standards by which the installed work will be evaluated.*

Sarbanes-Oxley (Sarbanes-Oxley Public Accounting and Investor Protection Act; SOX): A U.S. law enacted on July 30, 2002, to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to securities laws, and for other purposes. The law is divided into 11 sections ranging from additional corporate board responsibilities to criminal penalties.

Scope creep: Refers to uncontrolled changes or continuous growth with associated workscope. Scope creep is very common when buying services such as construction or software development. It can occur because the buyer adds

on additional specifications when the scope is not properly defined, documented, or controlled. It is generally considered harmful. Synonym: requirements creep.

Scope sweep clause: A contractual clause where a supplier is asked to include (or "sweep") additional services under a defined statement of work document. These additional services usually are intended to be incidental and minor, but all too often the additional scope creates scope creep for a supplier, which creates pressure on the supplier's profit.

Service credit: A mechanism by which an adjustment to pricing is made if actual supplier performance fails to meet the performance standards set in the service levels. Service credits can be defined in terms of a credit that is received rather than an amount deducted. Synonyms: malice payment, penalty provision.

Service-level agreement (SLA): A documented agreement between client and provider that identifies services and service targets, including prerequisites for service levels and measures for performance.

Service provider: The external company that provides the outsourced process or function.

Shared services model: An internal organization based on an arm's length outsourcing arrangement. Using this approach, processes typically are centralized into a shared services organization (SSO) that charges business units or users for the services they use. SSOs leverage the company's global corporate resources and contract with outsourcing partners to deliver cost-competitive one-stop services to their entire enterprise.

Shared value: A mutual commitment to establish economic benefits for all parties. In essence, shared value thinking involves entities working together to bring innovations that benefit them through a conscious effort to gain (or share) in the rewards. This shared value thinking is what the University of Tennessee researchers have named "what's in it for we" (WIIFWe).

Shared vision statement: The statement that sets forth the larger, guiding principles for the business relationship and the purposes for going on the Vested journey together. The shared vision gives the partnership its purpose beyond a series of transactions. Furthermore, it will guide the partners, not only throughout the negotiation process, but throughout the entire term of the relationship. A shared vision statement is an essential element of a Vested Sourcing Business Model.

Single source: A purchase from a supplier who is the only respondent to a to a competitive bid, for example, request for a quote.*

Sole source: A purchase from the only available supplier of a product or service. Therefore, no bids or proposals can be obtained. Also referred to as a noncompetitive purchase award.*

Solution concept: The combination of two critical concepts: what contractual relationship framework you will use to work with your supplier (transactional, relational, investment based), and what economic model you will use (transactional, output or outcome based).

Sourcing Business Model theory: A theory that suggests sourcing should be thought of a business model between a two parties with the goal to optimize the exchange. Sourcing Business Models are based on two factors: relationship models and economic models. The seven Sourcing Business Models are (1) basic provider, (2) approved provider, (3) preferred provider, (4) performance-based model, (5) Vested business model, (6) shared services model, and (7) equity partnership. Each Sourcing Business Model creates a system to optimize for the business situation. An organization uses a Business Model Mapping template and assesses 25 attributes to determine which Sourcing Business Model is best suited for their situation.

Sourcing strategy: The approach an organization uses to buy and manage goods and services in a spend category. Typically a sourcing strategy focuses on the highest spend categories an organization purchases and consumes.

Spend analysis: Analysis of the historical spending patterns in an organization, usually by commodity or category. This analysis provides information about the types of items purchased and their cumulative dollar value, which becomes the substance for future strategic and operational purchase planning.[d]

Spend category: Goods or services with similar characteristics that are grouped together for planning and management purposes. For instance, furniture could be a spend category for a business and have subcategories consisting of the desks, chairs, tables, and cabinets purchased by the company during the year.

Standard: The requirements of a specific standardization method approved by a recognized and approved authority.*

Standardization: The process of agreeing on a common specification. This process can take place at different levels: (1) across an organization, (2) throughout an industry, (3) across a nation and (4) around the world.*

Standing Neutral: A trusted neutral expert selected by the parties at the beginning of their relationship who is readily available throughout the life of the relationship to assist in the prompt resolution of any disputes.

Statement of intent: The book *Getting to We* outlines how to create a statement of intent. Each party must align its intentions with the shared vision.

Statement of objectives (SOO): A statement that establishes the required objectives that the parties will strive to accomplish under the agreement. Under a Vested Agreement, the company outsourcing must be willing to allow and enable the service provider to make significant changes to improve overall processes and flow within the scope of work it is assigned.

Statement of work (SOW): The tool usually used by outsource practitioners to document business requirements. Typically, a company defines and documents the tasks it wants the service provider to accomplish. SOWs are best suited for transaction-based models and not for outcome-based or Vested business models. In Vested, SOWs should be avoided in favor of a statement of objectives.

Strategic suppler: The strategic supplier program is a unit within purchasing, stores and auxiliary services. Its primary responsibility is negotiating high-valued contracts with key suppliers.*

Subsystem: A group or set of assemblies, components or elements that when combined perform a single function.*

Supplier: Vendor, seller or manufacturer.

Supplier diversity program: The purchasing staff that expend the effort to identify minority- and women-owned businesses and those classified under the Americans with Disabilities Act, who deal at the appropriate level of distribution to foster and develop these sources within the policies and procedures of the company.*

Supplier evaluation: The procedure of evaluating a supplier's ability to perform the required quantity, quality and scheduled requirements.*

Supplier relationship management (SRM): The practice of creating mechanisms to increase the efficiency and effectiveness of how a company works with its service providers. The goal of SRM is to create effective processes for working together, which in turn yields lower costs of doing business. Some SRM efforts are designed to build deeper relationships that foster improved collaboration efforts and innovation. A benefit of SRM is that it provides a common frame of reference for companies and services providers, thus establishing unified business practices and terminology for how the organizations work together.

…T…

Tariff: A listing of duties or taxes on imports or exports.

Tax-exempt: Not subject to taxes.

Tax-exemption certificate: A document given by the purchaser to the seller with the purchase order to indicate that the transportation is not subject to sales tax.*

Technical bid evaluation: The ranking of vendor or supplier bids based on the quantity, cost compliance with specifications, and delivery requirements.*

Ten Ailments: University of Tennessee research and experience have defined the 10 most common problems or Ailments, seen with outsourcing agreements, that drive perverse behaviors and lead to severe strains in the relationship—or worse, to the failure of vendors or outsourcing companies. (Described in *Vested Outsourcing: Five Rules That Will Transform Outsourcing*.)

Tender: A document that describes a business transaction to be performed; a bid or offer.[d]

Ten Elements: The framework for Vested agreements. The "elements" follow and implement the Five Rules. Buyer and supplier relationships that structure their agreement based on the Ten Elements were found to have a high degree of collaboration and success in driving transformation and innovation. The Ten Elements document the business aspects of an outsourcing contract. (Described in *The Vested Outsourcing Manual*.)

Termination for cause: Provision in a purchase order or contract that allows for unilateral ending of the contract, either in whole or in part, due to some behavior of the other party, usually breach or default.[d]

Termination for convenience: Provision in a purchase order or contract that allows for unilateral ending of the contract, either in whole or in part, without fault of the other party. Termination for convenience is not provided for by law itself and requires a specific contract provision.[d]

Terms and conditions (Ts and Cs): Specific requirements a buyer makes upon a supplier in the performance of work.*

Testing: Confirming an article's ability to meet preestablished requirements by subjecting the article to a set of physical, chemical or operating evaluations.*

Tiered governance structure: A formal mechanism for decision making (both escalations and approvals). More complex and strategic relationships often use a three-tier approach, with an operational, a management, and an executive level.

The process provides an opportunity to assess multiple providers' cultures, mindsets, and willingness to engage in a collaborative performance-based or Vested relationship.

Title: The legal right to the possession of property.

Total Cost of Ownership (TCO): The foundation for any Best Value decisions that need to be made. A TCO analysis includes determining the direct and indirect costs of an acquisition and operational costs. The purpose of determining the TCO is to help make clear decisions when it comes to pricing.

Tracing: Locating the current position of a shipment after it has entered the delivery and transportation phase.*

Trademark: A mark, picture, name or letters owned and used by a manufacturer or merchant to distinguish his or her goods from the goods of another.*

Transaction-based business model: The business model typically used by companies for all of their commercial agreements when they make buy decisions. Conventional approaches to transaction-based models keep service providers at arm's length. Three types of transaction-based sourcing relationships have evolved over time as businesses wrestle with how to create service provider relationships that are better suited for more complex business requirements: simple transaction providers, approved providers, and preferred providers.

Transaction-based pricing model: An outsourcing model where payments to the service provider are based on the number of transactions executed.

Transaction costs: Costs that occur when participating in a market. The level of transaction costs depends on three important factors: (1) transaction frequency, (2) level of transaction-specific investment, and (3) external and internal uncertainty. To use a very simple example, when buying a book, to be considered are not only its purchase price but also the costs incurred in purchasing it, which could include energy and effort in selecting the book, the costs of traveling to the store or using the Internet, the time waiting for receipt of the book, and the effort and costs of making the payment. Transaction costs are the costs that go beyond the book's price. They include actual monetary costs, expertise, flexibility, risk, asset specificity, the cost of managing the relationship, and supplier setup and switching costs, to name only a few that must be considered.

Transaction cost economics (TCE): In its simplest form, the study of the economics of all of the hidden costs associated with the transactions that companies perform. TCE is an economic model that adopts a contractual approach to the study of economic organizations. Oliver Williamson is a pioneer

is the study of TCE and won a Nobel Prize in 2009 for his research and thought leadership on TCE.

Transformation management: Management that supports the transition from the old to the new as well as improvement of end-to-end business processes. The focus is on mutual accountability for attaining desired outcomes and the creation of an ecosystem that rewards innovation and a culture of continuous improvement.

Transit charges: Costs of services rendered while a shipment is being transported.*

Transload: Shipment stopped while being transported in order to be partially unloaded.*

Transmittal: A form or letter indicating the action to be taken on an article being transmitted from one party to another.*

Transparency: Using a Total Cost of Ownership/Best Value approach avoids a virtual shell game as service providers shift costs around in an effort to maintain their target margins and cover costs. Like it or not, the costs of providing the service are real and service providers needs to make a fair profit. The preferred approach is *always transparency, where the total costs* to own a product or have a service over time *are factored into the price.*

…U…

Uniform commercial code (UCC): A codification of law that clarifies and regulates the rights and obligations of buyers and sellers engaging in commercial transactions It has been adopted by all states except Louisiana.*

Unit cost contract: A contract in which reimbursement is based on a preestablished cost per unit as measured for the quantities produced or installed.*

Unit of issue: A unit of measurement in which an item is issued from stock.*

Unit of measure: Used to specify the number of units or items to be purchased.*

Usage: The number of units or articles of an inventory item consumed over a period of time.*
Use tax: A tax imposed on the user of materials and equipment.*

…V…

Value: The regard that something is held to deserve; the importance, worth, or usefulness of something. Typically there is an estimation of the monetary worth of something.

Value balancing: A process of creating a balanced exchange between a buyer and a supplier with the goal of creating economic equilibrium. Typically, buyers think of value in one direction. However, to create equilibrium, buyers must think in terms of a two-way exchange of value.

Value-based purchasing: Purchasing goods or services based on value received, not tied to the actual costs.

Value engineering: A discipline that reviews the real value of various life cycle costs, materials, equipment and manufacturing techniques. Value engineering reviews the initial cost of design, coupled with the costs associated with maintenance, energy use, and life cycle.*

Value-share: The practice of allocating a share of the total value that is derived from an improvement or innovation to the parties. The savings are based on the entire value to all stakeholders, not just the company. Value-sharing encourages service provider innovation for total overall value, and not just what is in their span of control. Value-sharing sometimes utilizes non-monetary incentives to reward the parties, especially when Desired Outcomes are not easily quantifiable.

Variable costs: The costs associated with raw materials and all manufacturing operating costs, which vary with manufacturing output.*

VAT: Value added tax.

Vendor: See supplier.

Vested®: Vested is a business model, movement, and methodology that enables true win-win relationships in which parties are invested in each other's success. Vested combines a relational contract with an outcome-based economic model. When applied, a Vested approach fosters a highly collaborative environment that sparks innovation, resulting in transformation, improved service, and reduced costs. Vested is a progressive approach that takes business relationships to the next level, sparking innovation, improving service, and reducing costs—creating a true win-win.

Vested Agreement: An agreement between two or more companies whereby the beginning foundation of the agreement determines its future success—shared value. Vested's Five Rules and Ten Elements provide the flexible,

customizable framework for the agreement to enable both parties to "contract" for mutual success.

Vested governance. A framework that uses a relationship management structure and joint processes as a controlling mechanism to encourage organizations to make proactive changes for the mutual benefit of all parties

Vested pricing model. A pricing model designed to reward both the company outsourcing and the service provider for achieving their Desired Outcomes. When properly structured, the pricing model should generate returns in excess of target margins for the parties when they achieve the Desired Outcomes. Vested pricing models always include input assumptions. Think of input assumptions as the levers that will affect the parties' prices and bottom lines. When the lever is pulled (triggering increases or decreases), the profit potential of one or both of the companies is impacted. By documenting scope assumptions, the intention is to smooth out any profit peaks and troughs. The parties will use assumptions to establish actual prices and to model estimated profits.

Vested principles. Principles describing the Vested approach, in which a balanced partnership based on trust, collaboration, transparency, and value delivery. Companies and service providers establish joint and flexible processes that allow for timely decisions while providing proper controls for ensuring ethical decisions. (See guiding principles.)

Vested sourcing business model. A business model that is a hybrid of outcome-based, shared value, and relational economics approaches. A Vested sourcing business model is technically defined as a relational contract with an outcome-based economic model. It is best used when a company wants service providers to move beyond just performing a set of directed tasks and instead develop solutions to achieve the company's Desired Outcomes.

Visual inspection: Manual inspection of materials and equipment.*

Volume banding: A technique where a buyer and a supplier agree on a fixed price at various volume thresholds. Prices remain constant within a prespecified band of purchasing commitment. If volumes increase above the band, the price per transaction typically goes down. If volumes decrease, the buyer agrees to pay a higher price for each unit/transaction. Volume banding is an especially important concept when there is a great deal of variability in volume. It is used to maintain fair profits for suppliers in the event of volume changes.

Voucher: A document that serves as proof that the terms of a transaction have been met.*

…W…

Waive: To give up a right or claim; to refrain from claiming or pressing.*

Warranty: A promise or pledge that something is what it is claimed to be. The seller makes a specific assurance concerning the nature, quality and character of the goods.*

Watermelon scorecard: A term coined by University of Tennessee researchers to explain the concept that a supplier can meet a buyer's required specification but not proactively collaborating to drive innovative value over the long term for the buyer. In essence, the scorecard is green on the outside but red on the inside.

What's in it for Me (WIIFMe): A power approach to negotiation that centers on getting the best possible deal for oneself.

What's in it for We (WIIFWe): A collaborative approach to negotiation that ensures all parties share risk and benefit. It is a there's enough-for-all mindset.

WIIFWe mindset: This is the foundation of a Vested relationship, embodying a change in social norms away from the WIIFMe approach. WIIFWe is the philosophical mantra that forms the framework for a collaborative and trusting relationship. Once it is embraced, the WIIFWe mindset has the power to deliver a competitive advantage for the parties long after the initial deal is signed.

Win-win: Negotiation philosophy in which all parties to an agreement or deal stand to realize their fair share (not 100 percent) of the benefits or profit.

Workload allocation: A Vested term that describes maximum integration (management and visibility) of the entire business process. The organization and the service provider work together to optimize the end-to-end process rather than focusing on process effectiveness specific to the internal company.

Workscope: A generic term used to define the work that a supplier will perform under a contract. Workscope is often defined as a combination of type of work (activities, output, and outcomes) and breadth of work (geography, business units). Organizations typically define workscope in a formal statement of work or a performance work statement.

…Z…

Zero-sum games: Associated with game theory. A situation in which one person's gain is equivalent to another's loss, so the net change in wealth or benefit is zero. A zero-sum game may have as few as two players, or millions of participants.[b]

Definitions are original or are taken or adapted from the following sources:

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[a] From W.C. Benton, Jr., *Purchasing and Supply Chain Management*, 3rd ed. (New York: McGraw-Hill Education, 2014).
[b] Council of Supply Chain Management Professionals Glossary of Terms; https://cscmp.org/research/glossary-terms
[c] From www.investopedia.com; http://www.investopedia.com/dictionary/
[d] From Arjan J. van Weele, *Purchasing and Supply Chain Management,* 5th ed. (N.p: Cengage Learning EMEA, 2009).
[e] Institute of Supply Management Glossary of Terms; https://www.instituteforsupplymanagement.org/glossary/