Outline agreements and Contracts in SAP

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By : Rajen Patel
rpatel@sapience-solutions.com
www.sapience-solutions.com

Reference: help.sap.com
Welcome

- Welcome to today’s session
- Introductions
Agenda

- Application of Outline Agreements
- Business process for
  - Outline agreement (contracts)
  - Scheduling agreements
- Hands-on training for contracts (Pre-requisite: working knowledge of SAP purchasing module)
Logistics and Supply chain

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

- Supply chain: Network of retailers, distributors, transporters, storage facilities, and suppliers that participate in the sale, delivery, and production of a particular product.

*Stretches all the way from your supplier's suppliers to your customer's customers*
Supply chain management

- Materials management is an integral part of Logistics function within SAP. There are three flows that are important when we look at materials management in supply chain. These are:
  - ✓ Material flow
  - ✓ Information flow
  - ✓ Financial flow
Purchasing Tasks

- External procurement of materials and services
- Determination of possible sources of supply for a requirement identified by the materials planning and control system or arising directly within a user department
- Monitoring of deliveries from and payments to vendors
- Good communication between all participants in the procurement process is necessary for Purchasing to function smoothly.
Purchasing Process Flow
(Procure to Pay)

1. Determine Requirements (MRP/P.Req)
2. Determine source of supply (RFQ)
3. Vendor selection
4. Purchase order processing (PO)
5. Goods receipts / Service entry
6. Invoice verification
7. Payment processing
Purchasing Process Flow ?!?!

Madam! I need a Marker, Highlighters, Pencils and a Paper Punch.

Alright, is that budgeted and approved? If not...

..make a requisition, get at least 5 quotes, identify 3 suppliers, evaluate them, set the terms, issue a PO.......

Well, I’ll borrow whatever I wanted from my son. Thank you!

?!?!
Purchasing Process Flow

1. Determination of requirements
2. Determination of the source of supply
3. Vendor selection
4. Purchase order processing
5. Purchase order monitoring
6. Goods receipt / Service entry
7. Invoice verification
8. Payment processing
Purchasing Process Flow

1. Determination of requirements
2. Determination of the source of supply
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8. Payment processing
Purchasing Documents in SAP

1. Purchase requisition  (Internal)
2. Request for quotation  (External)
3. Source list  (Internal)
4. Purchasing information record  (Internal)
5. Purchase order  (External)
6. Outline agreements  (External)
1. Purchase requisition (Internal)
2. Request for quotation (External)
3. Source list (Internal)
4. Purchasing information record (Internal)
5. Purchase order (External)
6. Outline agreements (External)
Outline Agreements

- Following business requirements leads to usages of outline agreement
  - To support long term procurement relationship with vendor
  - To negotiate conditions for purchasing (i.e. price, quantity, discounts etc.) without actually releasing purchase order
  - To speed up actual purchasing when requirement arises
  - To provide better monitoring and control
Purchasing Process with Contract

1. **Determine Requirements (MRP/P Req)**

2. **Contract**
   - with predetermined sources of supply

3. **Determine Source of supply (RFQ)**

4. **Vendor Selection**

5. **Goods receipts / Service entry**

6. **Purchase order processing (PO)**

7. **Invoice verification**

8. **Payment processing**
Outline Agreements

- Referred as umbrella or blanket PO
- Long term agreement
- For materials and/or services
- Fixed validity period

Two types:
1. Contracts
   - Value contract (MK)
   - Quantity contract (WK)
2. Scheduling Agreements
## Contracts v/s Scheduling Agreements

<table>
<thead>
<tr>
<th>Contracts</th>
<th>Scheduling Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Longer- term contract with</td>
<td>Longer-term scheduling agreements and delivery</td>
</tr>
<tr>
<td>subsequent issue of release orders</td>
<td>schedules</td>
</tr>
<tr>
<td>Different POs can be released for</td>
<td>Same scheduling agreement number is used with different</td>
</tr>
<tr>
<td>same contract</td>
<td>release calls</td>
</tr>
<tr>
<td>Mainly used for frequent non-</td>
<td>Mainly used for</td>
</tr>
<tr>
<td>predictable requirements e.g.</td>
<td>repetitive/predictable requirements e.g. purchasing</td>
</tr>
<tr>
<td>Purchasing office supplies</td>
<td>spare parts of a large fleet</td>
</tr>
<tr>
<td></td>
<td>Can be tightly integrated with MRP</td>
</tr>
</tbody>
</table>
Outline Agreements

Quantity Contract
Value Contract
Centrally agreed / Distributed contract

Contract
✓ Validity period
✓ Material/Service
✓ Total quantity / total value
✓ Conditions

Contract
Release order (PO)
✓ Quantity
✓ Delivery date

Scheduling Agreement
With Release document

Schd. Agmt.
✓ Validity period
✓ Material/Service
✓ Total quantity
✓ Conditions

Delivery Schedule
✓ Quantity
✓ Delivery date

Forecast Sched.
JIT Sched.
Contracts

- Do not contain details of the delivery dates for each of the items.
- To inform vendors of which quantity you need for which date
- You enter contract release orders for a contract.
- A release order is a purchase order that references a contract.
- Contract validity period is defined in the contract header as the validity period.
Contracts

Quantity contract (MK)

Header:
Validity: 01/01/2012 – 12/31/2012

Item
Target quantity:
Mat 1: 1000 EA at $15 /EA
Mat 2: 300 EA at $45/ EA
Condition: Freight: 3%

Value contract (WK)

Header:
Validity: 01/01/2012 – 12/31/2012

Target Value:
Item category: M, W etc
Account assignment Category: K, P, U etc
Office supplies at 10% discount
Computer repair service at $50 /hr
Create Contracts

One can create Contracts in following ways:

- Manually: Enter all information manually
- Using the referencing technique: by referencing
  - Requisitions (RV, NB)
  - RFQs/quotations
  - Other agreements
Item and Account assignment categories

Item Category
- M - The material is unknown
- W - Value and quantity are unknown
- D - Procuring an external service
- K - Consignment material is involved
- L - Subcontracting material is involved

Account assignment Category
- U - Unknown
- K – Cost center
- P – Project
- ....
Item categories M and W

**Item category**
M = Material unknown
Example: Copy Paper

**Contract:**
<table>
<thead>
<tr>
<th>I.Cat</th>
<th>Mat</th>
<th>Grp</th>
<th>Text</th>
<th>Qty</th>
<th>Pr</th>
</tr>
</thead>
<tbody>
<tr>
<td>M</td>
<td>707</td>
<td>Copy Paper</td>
<td>1000 Box</td>
<td>$5</td>
<td></td>
</tr>
</tbody>
</table>

**Release order (PO):**
<table>
<thead>
<tr>
<th>AA.Cat</th>
<th>Mat</th>
<th>Grp</th>
<th>Text</th>
<th>Qty</th>
<th>Pr</th>
</tr>
</thead>
<tbody>
<tr>
<td>P54</td>
<td>707</td>
<td>Copy Paper</td>
<td>50 Box</td>
<td>$5</td>
<td></td>
</tr>
<tr>
<td>K</td>
<td>707</td>
<td>Blue Paper</td>
<td>15 Box</td>
<td>$5</td>
<td></td>
</tr>
</tbody>
</table>

**Item category**
W = Material group
Example: Office supplies

**Contract:**
<table>
<thead>
<tr>
<th>I.Cat</th>
<th>Mat</th>
<th>Grp</th>
<th>Text</th>
<th>Qty</th>
<th>Pr</th>
</tr>
</thead>
<tbody>
<tr>
<td>M</td>
<td>707</td>
<td>Office supply</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Release order (PO):**
<table>
<thead>
<tr>
<th>AA.Cat</th>
<th>Mat</th>
<th>Grp</th>
<th>Text</th>
<th>Qty</th>
<th>Pr</th>
</tr>
</thead>
<tbody>
<tr>
<td>C92</td>
<td>707</td>
<td>Calendar</td>
<td>14 EA</td>
<td>$8</td>
<td></td>
</tr>
<tr>
<td>M83</td>
<td>707</td>
<td>Staplers</td>
<td>18 EA</td>
<td>$6</td>
<td></td>
</tr>
<tr>
<td>K</td>
<td>707</td>
<td>Sticky notes</td>
<td>22 Box</td>
<td>$5</td>
<td></td>
</tr>
</tbody>
</table>
Centrally agreed contracts

- Contract items can relate to all plants covered by a purchasing organization.
- All plants of a purchasing organization can order against a centrally agreed contract.
- The centrally agreed contract allows you to stipulate separate prices and conditions for each receiving plant. For example, different transport costs.

<table>
<thead>
<tr>
<th>Plant 1000</th>
<th>Plant 2000</th>
<th>Plant 3000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contract 1 (Centrally agreed)</th>
<th>Contract 2 (Plant specific)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mat M287</td>
<td>Mat M287</td>
</tr>
<tr>
<td>Qty 200 EA</td>
<td>Qty 200 EA 3000</td>
</tr>
<tr>
<td>Plant</td>
<td>Plant 3000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PO 4501 Plant 1000</th>
<th>PO 4504 Plant 2000</th>
<th>PO 4509 Plant 3000</th>
<th>PO 4507 Plant 3000</th>
</tr>
</thead>
</table>
YOU'RE WATERING A PLASTIC PLANT.

WHY?

FUNNY STORY.

YOUR BOSS REPLACED THE LIVE PLANTS WITH PLASTIC ONES TO SAVE MONEY.

MY COMPANY HAS THE CONTRACT TO WATER YOUR OFFICE PLANTS.

NO ONE EVER CANCELLED OUR CONTRACT.

NOW MY CAREER IS LESS IMPORTANT THAN A GNAT'S TOOT IN A HURRICANE.

BUT IT'S STILL WAY BETTER THAN SITTING IN A FABRIC-COVERED BOX ALL DAY.

I NEED TO STOP TALKING TO PEOPLE.
Overview of Scheduling Agreements

- Material number or Account assignment is mandatory
- Release orders have same agreement number (No additional PO number necessary)
- Can be automated with MRP
- Provide immediate and planned requirements to vendor in great details
Scheduling Agreements

**Master Data**

46001 Type: LPA
Vendor: V987

<table>
<thead>
<tr>
<th>Mat</th>
<th>Qty</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>M123</td>
<td>1000 Pc</td>
<td>$213 EA</td>
</tr>
<tr>
<td>S564</td>
<td>3000 Pc</td>
<td>$642 EA</td>
</tr>
</tbody>
</table>

**Source list**

Mat: M123
Validity: 1/1/2012 - 1/1/2015
Vendor: V987 → Agreement: 460001 → Fix vendor → MRP indicator: 2

**Material requirement from orders / Min/Max etc**

**Release orders**

**Forecast schedule**

<table>
<thead>
<tr>
<th>Week</th>
<th>Mat</th>
<th>Qty</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/09</td>
<td>M123</td>
<td>25 EA</td>
</tr>
<tr>
<td>17/09</td>
<td>M123</td>
<td>35 EA</td>
</tr>
<tr>
<td>24/09</td>
<td>M123</td>
<td>18 EA</td>
</tr>
</tbody>
</table>

**JIT call**

<table>
<thead>
<tr>
<th>Date</th>
<th>Mat</th>
<th>Qty</th>
</tr>
</thead>
<tbody>
<tr>
<td>03/09/2012</td>
<td>M123</td>
<td>5 EA</td>
</tr>
<tr>
<td>04/09/2012</td>
<td>M123</td>
<td>7 EA</td>
</tr>
<tr>
<td>06/09/2012</td>
<td>M123</td>
<td>3 EA</td>
</tr>
</tbody>
</table>
Questions ?
Thank You

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