



CONSTRUCTION MATERIALS MANAGEMENT

(COTM 5293)

4. PROCUREMENT PROCESS

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Procurement

Objectives

- Understand the concept of Procurement as it relates to the Materials Management
- Be able to identify the key procurement documents used in the Materials Management
- Execute key procurement transactions in the Materials Management



Contents

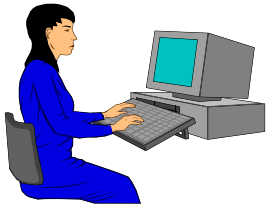
1. Procurement Cycle
2. Purchase Requisitions
3. RFQ/Quotation
4. Purchase Order
5. Release Strategy
6. Procurement of Consumable Material
7. Account Assignment
8. Special Procurement Processes
    - Consignment
    - Sub-contracting

Procurement Cycle

Determine requirements and potential sources; negotiate with suppliers to set up agreements; create supply plans

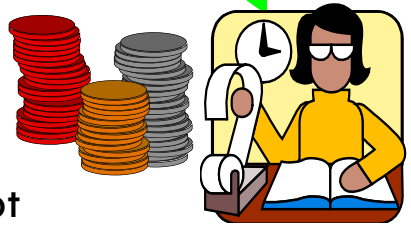


Convert *requisitions* to *Purchase Orders* or create *replenishment orders*



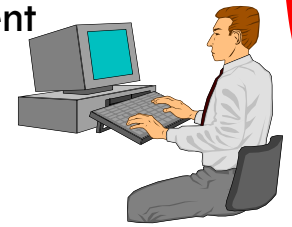
Goods delivered





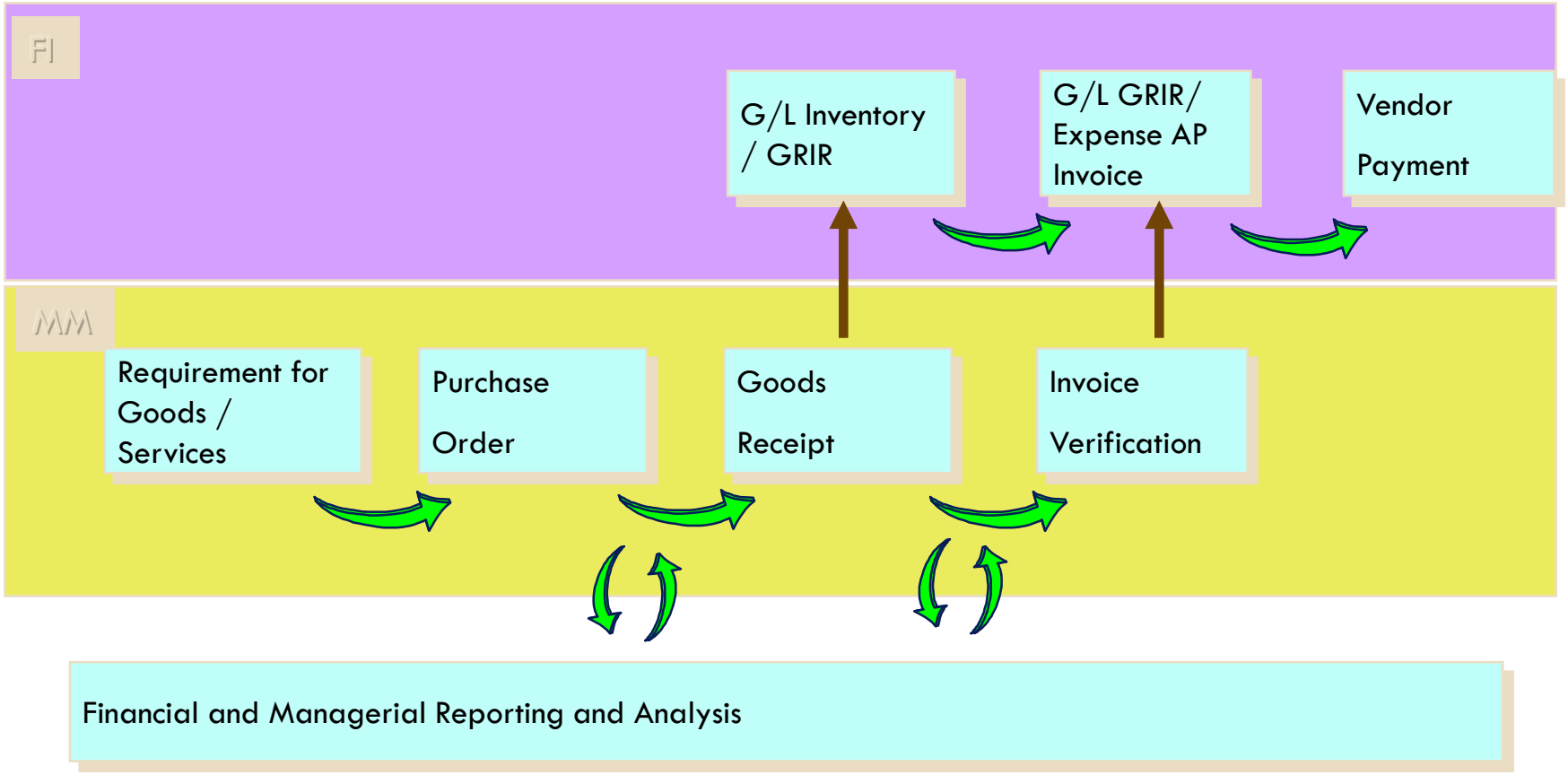
Invoice receipt

Logistics Invoice Verification and payment



Purchasing - overview

- The Purchasing component has the following tasks:
  - external procurement of materials and services
  - determination of possible sources of supply for a requirement identified by the materials planning and control system
  - determination of possible sources of supply for a requirement arising directly within a user department
  - monitoring of deliveries and payments to vendors


FI
G/L Inventory / GRIR
G/L GRIR/ Expense AP Invoice
Vendor Payment
MM
Requirement for Goods / Services
Purchase Order
Goods Receipt
Invoice Verification
Financial and Managerial Reporting and Analysis

Procurement

Erection

From Project or Project Stock Indicator

Requirements

WBS

Commissioning

2

MM

Purchasing

DMS

1

PS

Materials Planning

Purchase Requisition

Purchasing Order

Design Document

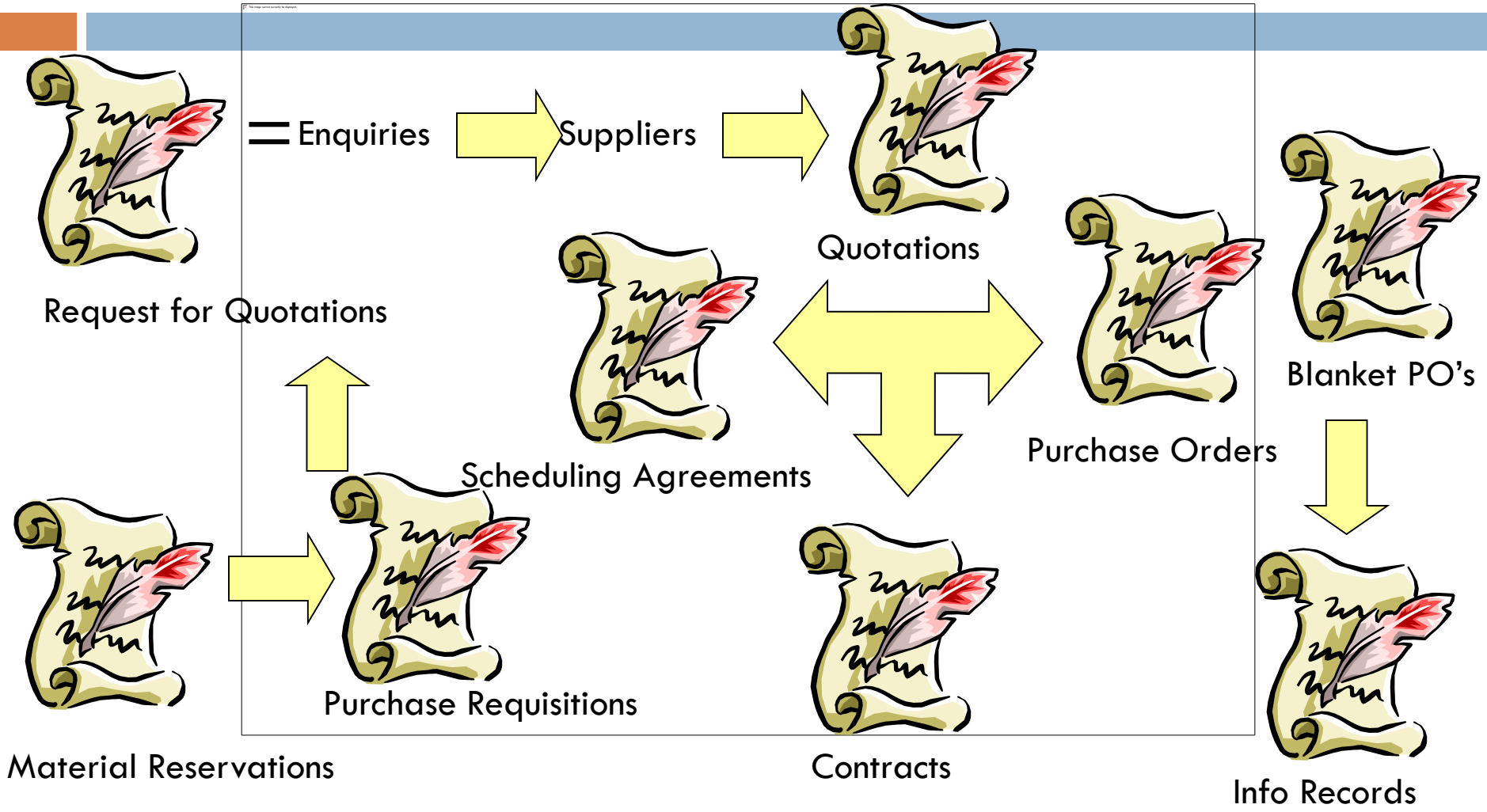
Goods Issue

Goods Receipt

Cables
PO-1

Generator
PO-2

Purchasing Documents

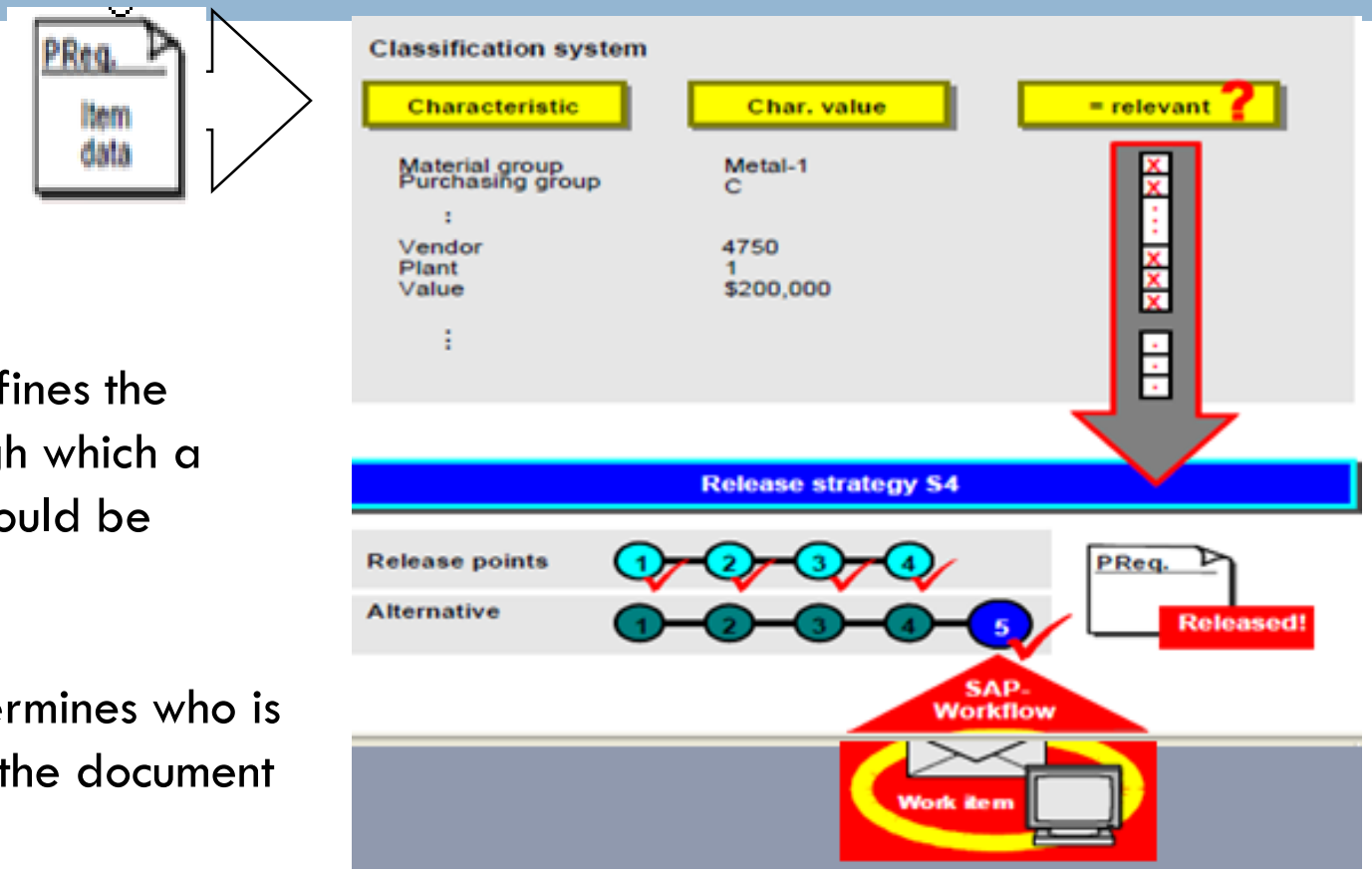


Purchasing Documents

- A purchasing document is an instrument used by Purchasing to procure materials or services.
- Types of purchasing documents
  - Purchase Requisition
    - Request for Material Procurement from user departments Or System generated as Output of MRP run
  - Request for quotation (RFQ)
    - Transmits a requirement defined in a requisition for a material or service to potential vendors .
  - Quotation
    - Contains a vendor's prices and conditions
    - It is the basis for vendor selection.

Purchasing Documents

- Purchase order (PO)
  - The buying entity's request or instruction to a vendor (external supplier) to supply certain materials or render/perform certain services/works,
  - It formalizes a purchase transaction .
- Contract
  - In the SAP Purchasing component, a type of "outline agreement", or longer-term buying arrangement .
  - The contract is a binding commitment to procure a certain material or service from a vendor over a certain period of time.
- Scheduling agreement
  - Another type of "outline agreement", or longer-term buying arrangement. Scheduling agreements provide for the creation of delivery schedules specifying purchase quantities, delivery dates, and possibly also precise times of delivery over a predefined period .



A release strategy defines the approval levels through which a purchase document should be released

The release code determines who is authorized to release the document

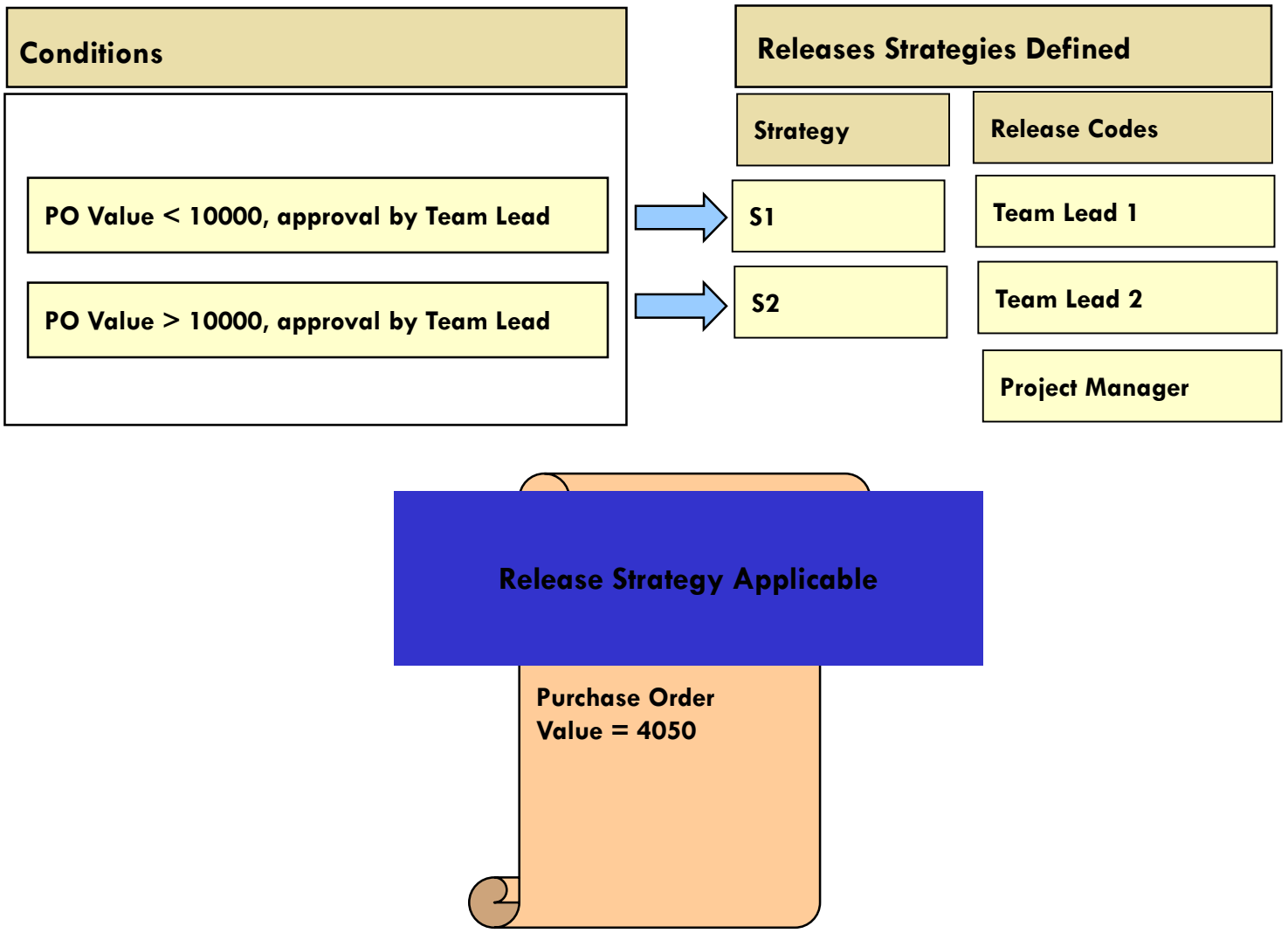
Release Procedures
Procurement Cycle Overview and Terminology

- Release procedures:
  - Allow a company to maintain control over what is purchased.
  - Can be defined for requisitions, purchase orders, contracts, and request for quotations.
  - Employ a release strategy that defines what qualifications the purchasing document must have in order to be assigned the release strategy.

- Release strategies are based upon attributes of the purchasing documents that the company desires to implement control over such as value.

- Once a release strategy is assigned, it must be released by someone with the authorization to use the specified release code. (Segregation of Duties)

Release Strategy - Example



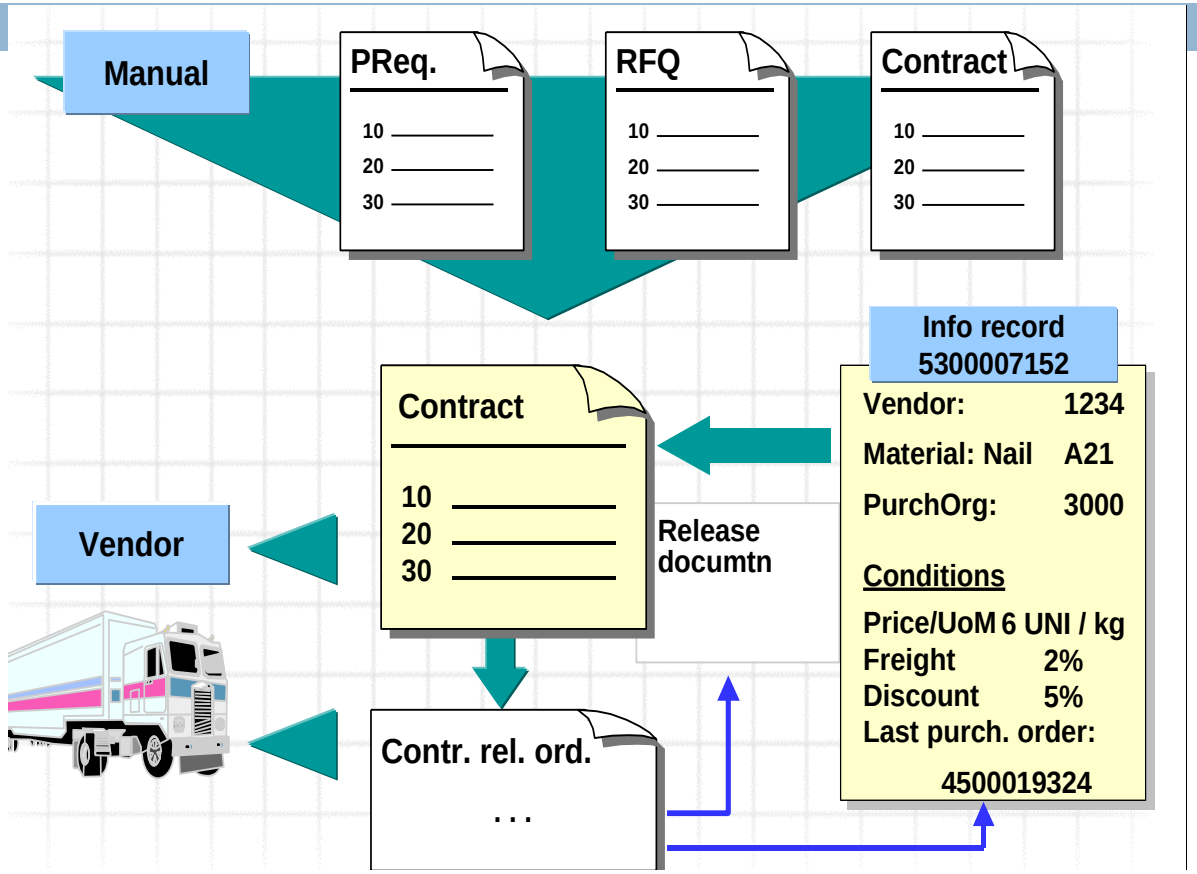
Managing Supplier Relationship

- Understand the concept of MSR as it relates to the Materials Management module in SAP
- Identify and map the key criteria for Vendor Evaluation
- Execute key procurement transactions in the Materials Management Module

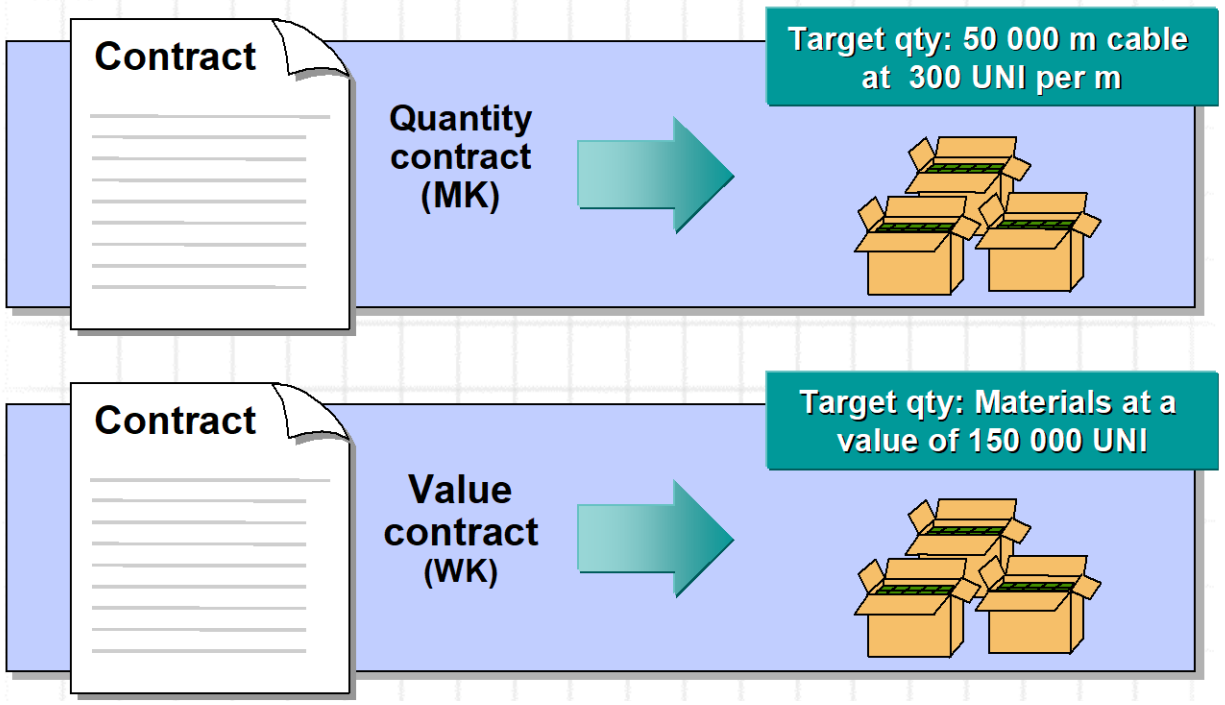


- Contracts are outline agreements. They do not contain details of the delivery dates for each of the items.

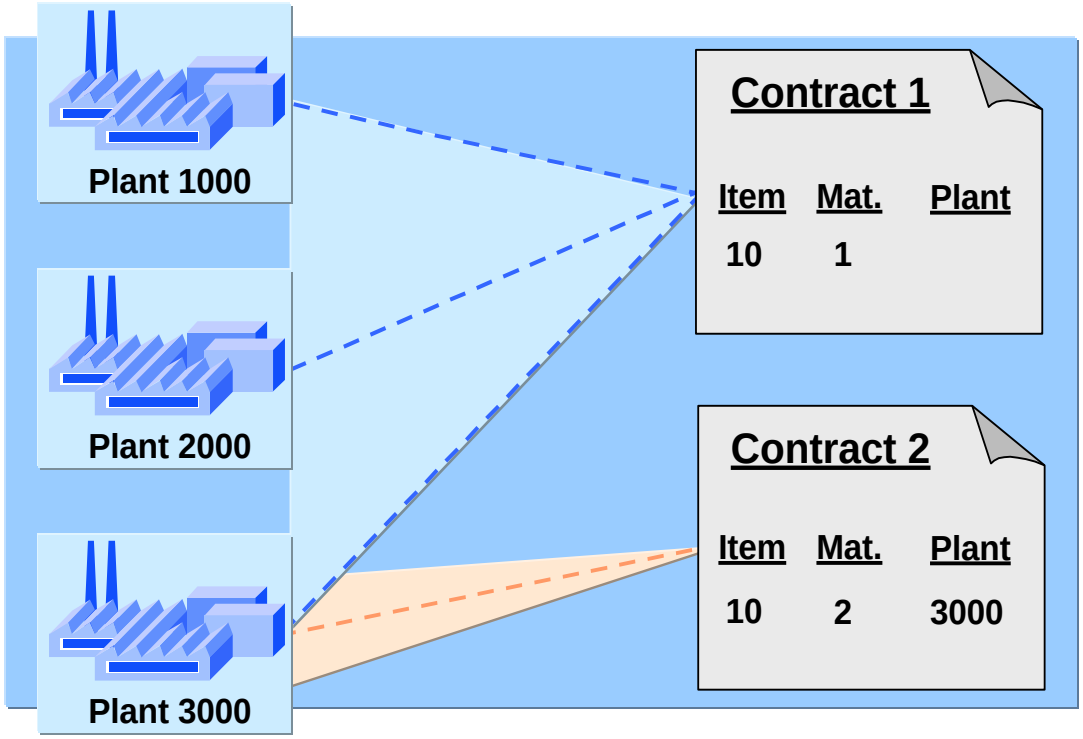
- To inform vendors of which quantities you need for which date, you enter contract release orders for a contract. A release order is a purchase order that references a contract.



- A contract is a long-term agreement with a vendor concerning the supply of material or performance of services.
- You can create contracts manually. When doing so, you can reference other contracts, purchase requisitions, and RFQs or quotations.



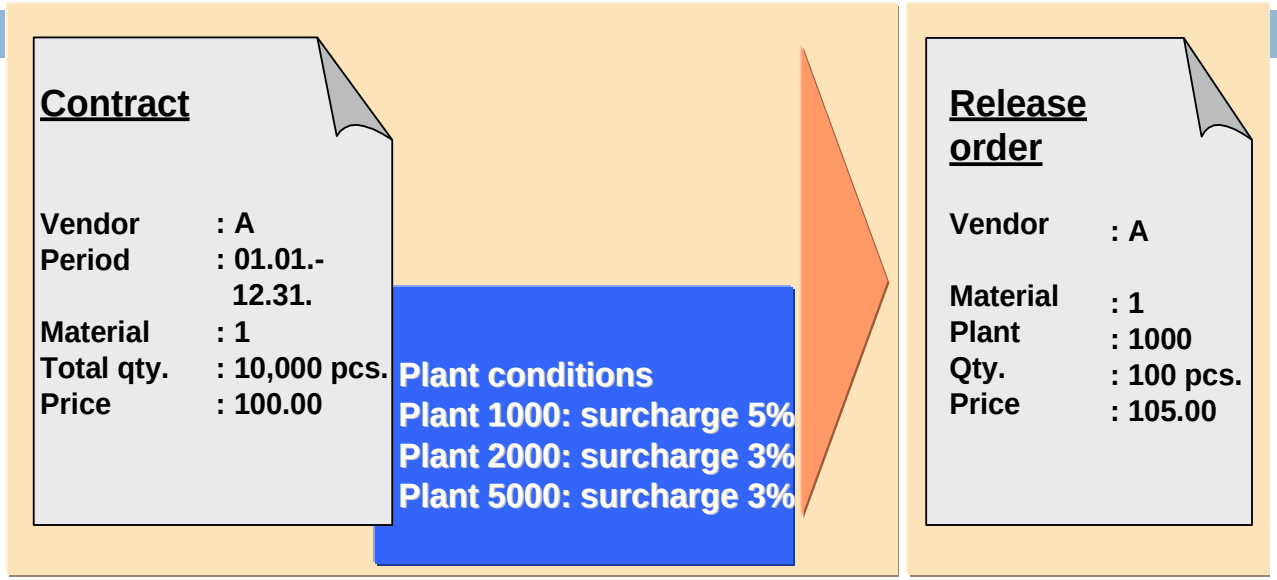
- One of the things you define in the contract header is the validity period.
- For each item in a quantity contract, you define the target quantity and purchase order conditions.



- Contract items can relate to a single plant or to all plants covered by a purchasing organization (centrally agreed contract).
- All the plants of a purchasing organization can order against a centrally agreed contract.

- An enterprise working with a central purchasing organization covering several plants can negotiate better conditions at a high level.
- Centrally agreed contracts can be entered into with a vendor's entire corporate group. The individual contract release orders can be issued to different individual companies belonging to the vendor corporate group. This is made possible by the partner functionality.

- Items of a centrally agreed contract do not relate to just one specific receiving plant.
- All the plants covered by a purchasing organization can order against a centrally agreed contract.



- An enterprise that works with a central purchasing organization covering several plants can negotiate better conditions at a high level.
- Using the *Plant conditions* function, the centrally agreed contract allows you to stipulate separate prices and conditions for each receiving plant. Among other things, you can take account of differing transport costs for different supply routes.



Thank You