CHAPTER-IX
IMPLEMENTATION OF SYSTEM
APPLICATION PRODUCT
(SAP) MATERIALS MANAGEMENT
(MM-MODULE) FOR OUTLINE
AGREEMENT, PURCHASING,
RELEASE STRATEGY AND REPLINISHMENT
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IMPLEMENTATION OF SYSTEM APPLICATION PRODUCTS (SAP) VMATERIALS MANAGEMENT (MM-MODULE) FOR OUTLINE AGREEMENT, PURCHASING, RELEASE STRATEGY AND REPLISHMENT

9.0. INTRODUCTION

9.1. The management of procuring and control of materials is a challenge to all organization in any sector of the company. Generally in Sugar industries the problem of procurement of items is a very lengthy and risky process. So inventory does not confine them to profit making big firms. The same type of problem is encounter by social and non-profit organization also.

9.2. An umbrella agreement negotiated by a purchasing organization for an entire corporate group. The data contained within the global outline agreement is distributed as purchasing contracts or scheduling agreements to the backend systems of the release-authorized purchasing organizations of the relevant corporate group. These purchasing organizations can then use the purchasing contracts or scheduling agreements according to the terms agreed centrally within the global outline agreement.

9.3. SAP Forecasting & Replenishment for Retail (SAP F&R) is a key solution which drives efficient inventories in stores and Distributed contracts of retailers. SAP F&R allows planning and executing inventory strategies on a global basis. With its advanced multilevel replenishment capabilities it allows streamlining inventories along the supply chain and lower overall inventory levels and cost while optimizing fulfilment rates.

9.4. MATERIALS AND METHODS

9.4.1. An outline purchase agreement is a longer-term arrangement with a vendor covering the supply of materials or the provision of services, subject to predetermined conditions. These apply for a predefined period and a predefined total purchase quantity or certain total purchase value.
9.4.2. An outline agreement does not contain data on specific delivery dates or quantities to be delivered. This data is transmitted to the vendor in one of two ways, depending on the type of outline agreement. A vendor is notified of quantities and delivery dates either in a specialized form of purchase order called a contract release order, or in a delivery schedule.

9.4.3 An outline agreement can be a contract or a scheduling agreement. There are two key differences in the use of these two agreement types:

• The volume of documents

In the case of the contract, as a rule, a new purchase order is created in the system each time goods or services are released against the contract. With the scheduling agreement, on the other hand, there is only one further document apart from the agreement document; this is the delivery schedule, which is continually extended as new requirement quantities and delivery dates are added.

• Use in automatic materials planning

Requirements planning can be set up in such a way that the contract item is automatically assigned to a requisition item as the source of supply. However, this requisition must subsequently be converted into a purchase order (contract release order). In the case of the scheduling agreement, it is possible to directly generate scheduling agreement delivery schedule lines from the planning run, thus reducing purchasing department processing time.
9.5. Use of Contracts

Contracts can be created without reference, or with reference to an outline agreement requisition, an RFQ, or another contract.

Various item categories can be used. The item category influences document field control.

If the contract item is for a stock material, the corresponding views and data of the material master record must have been created. If the item is for a consumable material, the account assignment data may already be stored in the contract. Alternatively, account assignment category U can be used. The use of this account assignment category means that the account assignment data does not have to be specified until the purchase order is created.

The release documentation for the contract item is updated for each PO item created with reference to a contract. The system provides the following data for each release order:

- The number of the PO and the relevant item
- The order date
- The order quantity
- The order value

The release documentation also includes the total quantity or value already released and the target quantity in comparison with the still open quantity, or the target value in comparison with the still open value.

Whether the release documentation is updated with reference to the target value of the contract, or the target quantity of each individual contract item, depends on the agreement type used.
9.6. There are three types of contract:

9.6.1. Quantity contract

The contract is fulfilled when a stipulated target quantity per contract item is reached as a result of the issue of release orders.

9.6.2. Value contract

The contract is fulfilled when a stipulated overall target value (total value of all items) is reached as a result of the issue of release orders.

9.6.3. Distributed contracts

These are centrally agreed contracts that are made available to other R/3 system for the issue of release orders against the contract. Contracts can be created in one SAP system and then be made available to other independent SAP systems (that is, distributed among other systems). The central system in which the contract is created and the local systems that also procure using this contract are all separate, independent SAP systems. The data must therefore be kept identical in each individual system. In order for changes to be continually compared and reconciled, thus ensuring that all the systems involved always have the correct data, data is exchanged via Application Link Enabling (ALE).

The contract type quantity contract (MK) is chosen if the total quantity of each item to be ordered over the duration of the contract is known. After specifying the validity period of the contract in the header data, it is mandatory to enter the target quantity at item level. Specification of the total value in the header data is optional.
The contract type value contract (WK) is selected if the total value of all release orders issued against this contract is not in excess of a certain amount. In addition to the validity period, the target value must be specified in the header data of the value contract. Specification of the relevant target quantity at the item level is possible, but not necessary.

Noted that all contracts that are due to expire in the future can be listed. The analysis, which is based on a suitable selection parameter, is run over the fields Target Value and Total Release Value for value contracts and Target Quantity and Quantity Released To Date for quantity contracts.

9.6.4. Features

9.6.4.1. Plant Conditions

Centrally agreed contracts enables to specify separate conditions for each receiving plant i.e. it allows prices and conditions to be determined individually for each receiving plant. This makes it possible, for example, to make due allowance for different transportation costs for different routes and distances. Plant conditions are not an add-on to the central conditions, but a plant-specific alternative to them. Noted, however, that maintenance of plant conditions in centrally agreed contracts is only possible via Edit Plant Conditions.

When the contract release orders are created for plants without plant conditions, the conditions of the contract item are used.

If certain plants are not to issue release orders against the contract, the central contract should be blocked from use as a source of supply by these plants in the source list.
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9.7. Outline Agreement can be of two types:- Contract and Statuary Agreement (SA).

Contract is where they have a contract with the vendor, may be a for a predetermined quantity or predefined value. So every time they need the material, they need to make PO ref the contract asking for the delivery of the material. In such instance when PO is ref with contract it’s called contract release orders or call off orders.

9.7.1. Scheduling agreement is a long term purchase agreement, where we will keep issuing the delivery schedules whenever there is a change in requirement or at predetermined time intervals. The delivery schedule can be on hour/daily/weekly/monthly basis. But it will contain different zones viz. firm/trade-off/Forecast. Firm zone schedules are confirmed requirement and need to be taken by ordered party. Trade-off zone requirement is to purchase the raw materials and ordering party is liable to pay raw material cost, in case of requirement cancellation. Forecast zone requirement is to help the vendor to plan his requirements.

9.7.2. SA is also an agreement with the vendor for the supply of material, may be a quantity or value. The delivery dates will be maintained in ME38 ref the SA which is called delivery schedules. So this can maintain the delivery schedule and communicate the vendor on Fore case basis or JIT basis. And when they need some more material then will only create SA deliveries using ME38. SA could be of 2 types:- without release documentation-system will transmit the delivery info to the vendor once save the document.

With release documentation- after creating the delivery schedules need to create SA release using ME84.
The main difference between contract and SA is volume of docs generated would be higher in contract since every time need to make a PO ref the contract and its time consuming, whereas SA can be integrated with MRP such that it automatically creates delivery schedules during MRP run provided if there is a requirement to the material.

9.7.3. RELEASE PROCEDURE / Release strategy

The main function of Release procedure is to determine the approval process or the release process for the procurement of material & services, rather than relying for manual signatures. The release procedure contains release strategy.

9.8. Release Strategy (RS)

A plan defining the release codes with which a purchase requisition item, a complete purchase requisition, or a complete external purchasing document must be released (that is, approved) and the sequence in which release is to be effected using these codes. It is a unique set of conditions, sequence and level of release. It is a 2 digit code e.g. S1, S2, S3 etc.

The Release Strategy contains the following:

- Release Group
- Release Codes
- Release Indicators
- Release Prerequisite

9.9. Release Group:

It is a 2-digit code, which is assigned with a class (Class contains group of characteristics). It contains one or more release strategies.
9.10. **Release Codes:**

It is a 2-digit code, which identifies the department or responsible person for the approval process & release process.

Example. AA – Manager : BB - Sr. Manager : CC - Vice President : DD - Managing Director

9.11. **Release Indicator:**

It is a Code that represents the release status. If the proper approval process is performed that the release Strategy has to be release if it is not performed than the Release Strategy is blocked

R – Release: B – Blocked

9.12. **Release Conditions:**

It determines the type of the release strategy. For example

- If the price ranges from 1 to 1000, It is approved by AA, BB, and CC
- If the ranges from 1001 to 1 lac then it is approved by AA, BB, CC, and DD

9.13. **Release Prerequisite**

It will informs the system which RS has to be take place in the PO CEBAN is used for the purchasing requisition.
9.14. Characteristics:

1. Net value of PO --- GNETW (GSWRT for PR)

2. Plant --- WERKS

3. Purchasing organization – EKORG

4. Purchasing Group --- EKGRP

5. Material group – MATKL

9.15. RESULTS

9.15.1. Use: A Global Outline Agreement (GOA) is a purchasing document within the mySAP Supplier Relationship Management (mySAP SRM) solution that the strategic purchaser negotiates with a vendor for the entire corporate group, outlining the terms of agreement between the two parties. The strategic purchaser typically creates a GOA when multiple backend systems are involved.

The system provides users with specific levels of authorization to GOAs, and also categorize them as confidential. And also send e-mails directly from the application to the authorized purchasing organizations informing them that the approved GOA is available. These purchasing organizations can register themselves to use this GOA for their purchase orders, limit confirmations and invoices.
9.15.2. When to Use: When a plant has the need to restock materials on their shelves. All plants will start with the reorder point planning method. In reorder point planning, procurement is triggered when the sum of plant stock and firmed receipts falls below the reorder point. The reorder point should cover the average material requirements expected during the replenishment time. Safety stock exists to cover both excess material consumption within the replenishment time and any additional requirements that may occur due to delivery delays. Therefore, the safety stock is included in the reorder level.

In manual reorder point planning, both the reorder level and the safety stock level are defined manually in the appropriate material master. The use of past consumption data (historical data) can be used to set reorder point levels. The material master is where the values for the reorder point (MRP 1 view) and for the safety stock (MRP 2 view) is entered.

Every time a material is withdrawn from the warehouse, the system checks whether this withdrawal has caused stock levels to fall below the reorder level. If this is the case, the system makes an entry in the planning file for the next planning MRP run for the material to be ordered.

SAP Forecasting &Replenishment provides the following capabilities to Sugar factory:

- Sophisticated demand forecast: The forecasting calculations include automated consideration of trends, seasonality and demand influencing factors such as promotions or specific holidays with significant impact on the sales curve.
- Automated replenishment with flexible safety stock policy and optimization features for orders, such as Truck Load Building or Economic Order Quantity.
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- Efficient DC replenishment driven by rolling store order forecasts up to the DC level for a most precise consideration of future demand.
- Alert-driven manual interventions to support the high degree of automation throughout all of the processes.
- Standard analytics content within SAP Business Warehouse to monitor the quality of the processes and of the solution implementation.
- Scalability and management of high data volumes.

9.16. CONCLUSION

Any module in the ERP system is implemented by the consultants engaged by the company. After the implementation (installation), the system has to be used by the employees of the company who are called the end-users. They have to be accustomed to the way the system works to get optimum benefit from the system. Using the software at the end or after the implementation is an End User is the one who performs transactions in SAP after it goes live.

Since the financial position of Indian farmers is very weak, the loan facility provided by the industries through Bank encourages the farmers to grow more cane and also motivates the farmers. The loan amount is paid immediately to the Bankers from the farmers through factory will also increase the transactions of the Bank in turn both bankers and farmers are mutually benefitted.