THE PROCUREMENT PROCESS
PART 1

Standard Procurement Process

Warehouse
Create purchase requisition

Purchasing
Create and send purchase order

Warehouse
Receive materials

Accounting
Receive invoice

Accounting
Send payment
Concepts covered

Organizational levels relevant to procurement

Master data relevant to procurement

Procurement process foundational concepts

Procurement process in depth

Organizational Levels Relevant to Procurement

Client

Company Code

Plant

Storage Location

Purchasing Organization
  Identifies, selects vendors. Negotiates conditions and contracts. Sets pricing conditions. Strategic purchase planning.

Purchasing Group
  Purchasing execution
**Purchasing Organization (POrg)**

**Enterprise-Level Purchasing Organization**

**Cross-Company Code Purchasing Organization**
- Able to purchase for all plants and company codes in client
- Activity assigned to specific company code on order-by-order basis

**Company-Level Purchasing Organization**

**Cross-Plant Purchasing Organization**
- Able to purchase for all plants *in a single company code*
- Purchasing Organization assigned to 1 company code and multiple plants

**Plant-Level Purchasing Organization**

**Plant-Specific Purchasing Organization**
- Able to purchase for a single plant
- Purchasing Organization assigned to 1 plant (company code derived from plant assignment)

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**Reference Purchasing Organization**

**Reference Purchasing Organization**
- Purchasing Organization (typically Enterprise-Level) that negotiates conditions and contracts and makes those available to other Purchasing Organizations for execution.

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Diagram:
- Reference Purchasing Organization RPO1
- Negotiates
- Manages
- References
- Purchasing Org P999
- Creates
- Contract
- Negotiates
- Manages
- References
- Purchasing Org P999
- Creates
- Purchase Order
- Against contract
- ACME Company
- Fiber Boxes
- ACME Company
- Fiber Boxes
Purchasing Group

Job: Execute purchasing transactions.
   Not assigned to any organizational level.
   Assigned to material in material master.
Tasks: Planning, creating purchase requisitions, getting vendor quotes, creating purchase orders (POs), monitoring POs.
Main point of contact with vendor.
May be an external company or agent.

Concepts covered

Organizational levels relevant to procurement

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Procurement process in depth
Master Data Relevant to Procurement

Material Master
Vendor Master
Purchasing Info Record
Conditions

Master Data Relevant to Procurement—Material Master

Material Master: segmented into 12 views.
Views relevant for purchasing (highlighted):

<table>
<thead>
<tr>
<th>Basic Data</th>
<th>Storage Data</th>
<th>Work Scheduling Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>MRP Data</td>
<td>Warehouse Management Data</td>
<td>Quality Management Data</td>
</tr>
<tr>
<td>Plant Data</td>
<td>Purchasing Data</td>
<td>Forecasting Data</td>
</tr>
<tr>
<td>Financial Accounting Data</td>
<td>Sales Data</td>
<td>Classification Data</td>
</tr>
</tbody>
</table>
Master Data Relevant to Procurement—Material Master

**Basic Data view**
- Material name/description
- Unit of measure
- Weight
- Material Group
  - Groupings of similar materials to facilitate searching and analysis tasks.

**Plant Data/Storage view**
- Data needed to store material properly:
  - Environmental requirements (temperature, humidity)
  - Dimensions, volume, etc.
  - Special containers needed
  - Shelf life
  - Special handling instructions

Master Data Relevant to Procurement—Material Master

**Purchasing Data view**
- Purchasing group assignment
- Goods receipt processing time
- **Delivery tolerances**: how much over or under delivery is acceptable.

**MRP view**
- MRP procedure (type, controller, etc.)
- Lot size
- Procurement (in house, external)
- Scheduling
- Requirements calculation
- Forecasting and planning information
Master Data Relevant to Procurement—Material Master

(Financial) Accounting view

Valuation currency: currency item valued in

Valuation class:
- Integration between purchasing and FI. General ledger account associated with material (where inventory value is reflected).
- Multiple items share same valuation class (Finished Goods, Raw Materials, etc.). Depends on company needs.

Price control: how material will be valued.
- 2 choices: moving average or standard price.
  - Moving average: Changed after each transaction affecting price.
  - Standard Price: Set for a period of time. Adjusted at end of period.

Master Data Relevant to Procurement

Material Master

Vendor Master

Purchasing Info Record

Conditions
Vendor Master

Data needed to do business with vendors, i.e. to execute vendor-related transactions.

Vendor account creation and general data is managed at the **client** level.

Accounting data for each vendor is managed separately for each **company code**.

Purchasing data for each vendor is managed separately for each **purchasing organization**.

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**Master Data Relevant to Procurement—Vendor Master**
Hypothetical example...supplier ACME Anvils

Vendor Master Data

- General Data (Client)
  - Vendor number
  - Name
  - Address
  - Communication

- Accounting Data (Company Code)
  - Accounting info
  - Reconciliation acct
  - Banking info
  - Payment terms
  - Communication (dunning)

- Purchasing Data (Purchasing Org)
  - Partner functions
  - Incoterms
Vendor Master Data terminology

**Partner Function:** detailed information needed to conduct transaction tasks with a particular partner company. Addresses (ordering address, shipping address, payment remittance, etc.), contacts (people, contact info, role, etc.)

Term **partner function** is used for both customers and vendors.

**Incoterms:** terms of sale that govern when title passes in transaction.

- **Ex-Works (EXW)** Seller makes goods available. Does not load or transport. Buyer bears all costs and risk of delivery.
- **Free Carrier (FCA)** Seller delivers to a designated carrier at a named location.
- **Free Alongside Ship (FAS)** seller delivers to a designated sea port. Title passes upon arrival at the origin port.

Incoterms, continued

- **Free On Board (FOB)** Seller places item on transport vehicle. Title passes at designated location.
- **Cost and Freight (CFR)** Seller pays cost and freight to bring goods to named location. Buyer bears risk once items are shipped.
- **Cost, Insurance, and Freight (CIF)** Like CFR, but seller bears risk and must provide insurance.

http://help.sap.com/erp2005_ehp_04/helpdata/EN/35/26c795afab52b9e10000009b38f974/content.htm
Master Data Relevant to Procurement

Material Master

Vendor Master

Purchasing Info Record

Conditions

Purchasing Info Record

Intersection of vendor data (purchasing org data) and material data (plant data).

One info record for each combination of vendor and material purchased from that vendor.

General data, purchasing data, conditions, vendor data, text/notes
### Master Data Relevant to Procurement

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### Conditions

Rules used for price determination. Automatically used when purchase orders created.

- **Contract Conditions**: applied to orders where a pricing contract is referenced.
- **Purchasing Info Record Conditions**: applied to orders based on data in purchasing info record (material master and vendor master intersection).
- **Extended Conditions**: applied only if specified criteria met (i.e. volume discounts, etc.)
- **Output Conditions**: (not pricing related) specifies policies for document exchange between buyer and sell. What documents, to whom, when, how.
Concepts covered

- Organizational levels relevant to procurement
- Master data relevant to procurement
- **Procurement process foundational concepts**
- Procurement process in depth

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**Item Categories**

Item categories determine the specific process is used to procure the material.

- **Standard**: normal process for external goods procurement.
- **Consignment**: pay for materials only upon use or sale. Process: no invoice receipt. **FI impact**: stock not valuated.
- **Subcontracting**: materials originate with purchaser, sent to third party for processing, returned to purchaser. Process: outbound shipment of "material to be provided" to vendor.
- **Third-party**: vendor drop ships directly to our customer. Process: no goods receipt.
- **Stock Transfer**: internal CC transfers between plants. Process: no invoice, no payment.
- **Services**: purchase involves no goods. Process: no goods receipt. **Service sheet** records performance of service.
Stock materials vs. consumable materials

**Stock materials**: items purchased, typically for resale, that are placed in inventory and valued as an asset.

Stock materials have a material master.

The material master designates a **valuation class**. 
*The valuation class maps the material to an account where the material value is reflected.*

The above mapping is done through automatic **account determination**.

For stock materials an inventory count is kept (storage location \(\rightarrow\) plant \(\rightarrow\) company code) and a inventory valuation (company code).

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**Consumable materials**: bought for consumption by a process or entity.

Material master not necessary, but may be created.

Even if material master exists, inventory not valued as an asset. Consumption is tracked in the material master record. (Unit count of inventory reflected in master, but no FI value.)

**Account assignment object**—where the cost of the purchase will be reflected. (Could be a cost center or other cost object.) Must be set for each purchase (since cannot be set in a material master).
Account assignment object

Stock Type/Stock Status

**Stock Status:** Determines the state of a material in our possession:
- Unrestricted Use
- Quality Inspection
- Blocked Stock (damaged, unusable, wrong delivery)
- Stock in Transit

Details shown in Plant Stock view on material master. Changing the stock type or value of a material only possible through **goods movement**.
Four types of goods movements

**Goods Receipt**—Inbound from external vendor or production. Stock is increased.

**Goods Issue**—Outbound. Material withdrawn, consumed, or shipped to customer. Stock is decreased.

**Stock Transfer**—Lateral movement between storage areas. Internal to organization. (Can cross company codes.)

**Transfer Posting**—changes stock type (raw material to trading goods) or status, *even if goods did not physically move*.

A transfer posting is the only type of goods movement that can change a stock status and/or material type.

Material Documents

Allow tracking of all goods activities.

**Header**
- Document number
- Created by
- Date
- Reference
- Transaction Code

**Items**
- Quantity
- Material
- Location (plant/sloc)
- Movement type
- Process dependent data
Concepts covered

Organizational levels relevant to procurement

Master data relevant to procurement

Procurement process foundational concepts

Procurement process in depth (next slide deck)

Purchasing Process Key Point Overview
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