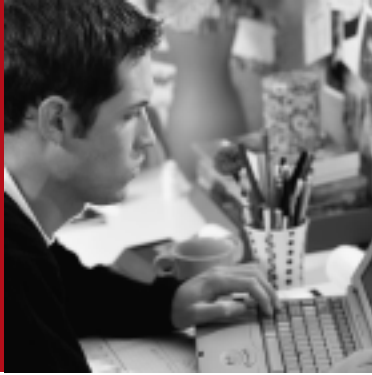


SAP Solution in Detail
mySAP SRM



PLAN-DRIVEN PROCUREMENT WITH mySAP™ SRM

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EXECUTIVE SUMMARY

In most manufacturing companies, the smooth running of the production units is essential for achieving optimal output. Even slight delays in maintenance schedules or minor downtimes can have a big impact on production schedules. That's why plan-driven procurement is vital to the running of your organization. Plan-driven procurement enables you to purchase goods or services that are a planned part of your operations.

As a core application of the mySAP™ Supplier Relationship Management (mySAP SRM) solution, plan-driven procurement ensures the smooth running of your production units by supplying the necessary maintenance items and services automatically. Whether you need a qualified engineer or the spare parts to service a machine, the plan-driven procurement functionality of mySAP SRM gives you everything at your fingertips – and at the best price available. Its main advantage, however, is that it can combine maintenance, repair, and operations (MRO) procurement and plan-driven/production-relevant procurement into one system, while better leveraging your existing contracts. It can also combine the procurement activities of more than one enterprise resource planning (ERP) system into one central entity.

By implementing the operational procurement software from mySAP SRM, you get plan-driven procurement as well as two extra e-procurement tools: self-service procurement and service procurement. This substantial set of tools quickly enables years of efficient cost reduction. In addition, should your enterprise require it, you can use the strategic-sourcing and supplier-enablement functionalities of mySAP SRM. These add global sourcing strategy, supplier collaboration, and contract optimization to your supply chain, thus further reducing costs and taking the bite out of the word **spend**.

OVERVIEW OF PLAN-DRIVEN PROCUREMENT

Organizations often spend much time and many resources procuring goods and services to maintain their production environments. Manual, paper-based procurement processes result in high transaction costs, delays, and errors, as well as inefficient supplier communication. The goal of plan-driven procurement is to provide a centralized, automated system for purchasing planned materials and services. It combines MRO procurement and plan-driven/production-relevant procurement into one system, reducing costs, increasing efficiency, and improving supplier-purchaser relationships. In addition, plan-driven procurement enables purchasing professionals to focus on strategic, business-related procurement activities.

To enable plan-driven procurement in mySAP SRM, you install the solution in your existing IT landscape. Plan-driven procurement is one of the three functionalities of the operational procurement component included in mySAP SRM. The other two functionalities are self-service procurement, which allows desktop purchasing according to company guidelines, and service procurement, which facilitates mainly temporary-labor-hiring activities. All three are included when you implement operational procurement, and all three offer excellent ROI, considering the amount of spend reduction they represent. As a central purchasing system, plan-driven procurement in mySAP SRM works together with a variety of SAP® and non-SAP planning and execution systems to fully automate all core buying activities, thus freeing your organization from the tedious, mundane task of keeping everyday supplies and goods flowing. In addition, it combines all procurement activities into one system, finds the best prices on the market by analyzing data relevant to purchasing, and makes use of central contracts.

PROCESSES IN DETAIL

Creating a Plan-Driven Requisition

With mySAP SRM, you can purchase goods and services to fulfill requirements generated by SAP and non-SAP applications for plant maintenance, project management, and production planning. To accomplish this, plan-driven procurement can receive requirements from the following components and create the necessary requisitions:

- Plant maintenance
- Project system
- Production planning – material requirements planning (MRP)
- Any SAP and non-SAP planning and execution system

With plant-maintenance software, plant engineers can create the plant-maintenance requirement using the SAP Catalog Content Management application, which is integrated into the organization's plant-maintenance system through the open catalog interface. In this way, the engineers remain in their working environment and transfer only the complete requirement to mySAP SRM for external procurement.

Processing a Plan-Driven Requisition

Plan-driven procurement takes requirements from an SAP or non-SAP upstream system in the form of purchase requisitions. As a core part of plan-driven procurement with mySAP SRM, the SAP Enterprise Buyer component (also referred to as the e-procurement system) carries out automatic procurement for the required item. Depending on the customized settings and material groups, the system either processes requirements further – for example, to locate a contract with a supplier or to create a request for quotation (RFQ) – or immediately converts them into a purchase order. With mySAP SRM, professional purchasers have a variety of sourcing tools at their disposal to find reliable sources of supply quickly and easily.

Determining the Source of Supply

To identify the most appropriate source of supply, plan-driven procurement with mySAP SRM enables purchasers to determine the appropriate source by viewing a relevant contract or vendor list or by using multiple functionalities to optimize purchasing.

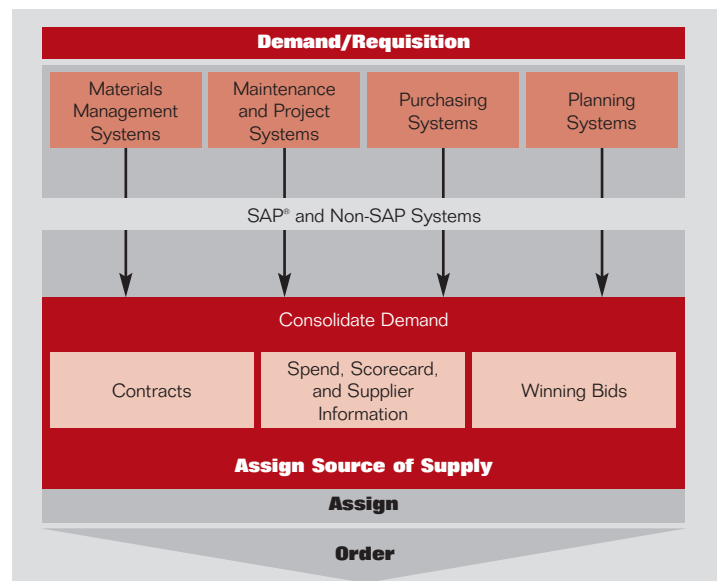


Figure 1: Central Determination of the Source of Supply

For example, you can use strategic-sourcing functionality in mySAP SRM. Whatever the scenario, plan-driven procurement can check requirements and come up with the optimal decision about which source to use. If only one contract is available to fulfill the requirement, plan-driven procurement can automatically create a purchase order, working from this contract. If several contracts are available to fill the requirement, plan-driven procurement proposes the contract that is best suited for the requirement, and you can then assign contracts to the items in the requisition. Plan-driven procurement also determines vendor-specific prices. If no contracts are available for a particular item, you can select a supplier from a vendor list.

By using the bidding engine component, a purchaser can create an invitation for a supplier to bid on the required goods, keeping a direct relationship to the requisition. Suppliers can place their bids online, and both parties can monitor the status of the RFQ in mySAP SRM.

Ordering

Once you have found the correct source of supply for the requirement, mySAP SRM creates a purchase order. When deploying plan-driven procurement, you can decide whether you want to run the procurement software as a stand-alone application – where the purchase order and all follow-on documents reside in mySAP SRM – or as an extended classic deployment of plan-driven procurement, where the purchase order created in mySAP SRM is replicated to the back-end system. In extended classic deployment, the mySAP SRM purchase order is the lead document and the back-end purchase order is a read-only copy. Changes made to the mySAP SRM purchase order subsequently update the back-end copy accordingly.

If you are using an SAP back-end system, replication of the purchase order occurs via remote function call. If you are using a non-SAP planning or execution system, the purchase order information is replicated in XML format, and the SAP NetWeaver® Exchange Infrastructure (SAP NetWeaver XI) component handles the replication. SAP NetWeaver XI is part of the SAP NetWeaver platform, the integration and application platform that powers mySAP SRM. You can output purchase orders via print, fax, e-mail, or XML.

Confirmation of Goods Received/ Services Performed

When goods are delivered or services rendered, you may create a confirmation. Depending on the type of deployment, the supplier or a central receiver can enter this information in mySAP SRM, or the plant engineer can enter it in the back-end system. If the supplier or a central receiver enters the information in mySAP SRM, the confirmation of goods receipt or service entry can be subject to approval by the plant engineer. You can save confirmations in one of two ways: by choosing to hold them for further processing at a later date or choosing to confirm, triggering the creation of follow-on documents.

Invoice and Credit Memo Handling

You can enter the invoice at the same time you enter the confirmation. In plan-driven procurement, you usually enter invoices with reference to a purchase order. However, you can also enter an invoice without reference to a purchase order. Using the exception monitoring functionality of mySAP SRM, accountants can recognize problems that would hinder the booking of an invoice, before the transfer to financials takes place. The exception monitor highlights the problem, allowing the accountant to solve the dispute with an internal or external business partner, using the Interactive Forms based on Adobe software tool. Once the logistics invoice is error-free, you can transfer it to financial accounting for payment.

Plan-driven procurement in mySAP SRM also supports the evaluated receipts settlement (ERS) process, an automatic settlement procedure based on confirmations. Purchasing organizations must have an agreement with the supplier whereby the supplier does not create an invoice for each order transaction. Instead, the system automatically posts an invoice document on the basis of the purchase order and confirmation and sends the document to the supplier electronically. ERS eliminates invoice variances and communication errors and speeds completion of transactions. If goods are returned to the supplier, ERS can also generate credit memos automatically.

Plan-driven procurement can communicate with more than one back-end system. For communication with non-SAP accounting systems, you can send the invoice in XML format via the open SAP NetWeaver XI.

Payment and Accounting

Once you have approved the invoice, the payment process begins and is completed according to the agreed-upon terms, either through an automated remittance or in the traditional manner with a paper-based remittance. Accounts payable processing takes place in the back-end system, where payment information is transferred to the accounts payable or general ledger system. The ERP system checks the amounts and determines the accounts to be posted. It then creates accounting and controlling documents and reduces commitments.

Third-Party Process

The third-party process (where a supplier sends the goods directly to a buyer's customer) is also covered in mySAP SRM with plan-driven procurement. This is especially relevant for businesses that are particularly customer driven and need quick response times. The purchase order contains all the information the supplier needs to ship directly to the end customer – by using information from the sales order and master data on the customer in the sales system from SAP, whose functionality integrates with mySAP SRM. Thus, a seamless process flow, stemming from the customer order in the sales system, leads to direct shipping, billing, and finally invoicing – all available as standard in mySAP SRM.

OPEN INTERFACE

As a central purchasing system, mySAP SRM can work with a variety of SAP and non-SAP planning and execution systems. Integration with non-SAP planning systems is handled by an open XML interface. SAP NetWeaver is the universal platform that facilitates this interface.

Reporting

Plan-driven procurement provides sophisticated reporting and analysis functionality based on a state-of-the-art data-warehouse component: SAP NetWeaver Business Intelligence (SAP NetWeaver BI). mySAP SRM transfers the data from local purchase orders to the reporting system for monitoring, using the analytical functions of mySAP SRM. A wide range of standard reports in SAP NetWeaver BI gives the purchasing organization visibility into purchasing patterns, especially regarding use of specific contracts and suppliers. For example, the expiring-contracts report helps purchasing professionals renew or renegotiate contracts in a reasonable time period – eliminating potential interruptions in the delivery of key production materials. The contracts-per-product-and-supplier report helps purchasers determine how many contracts exist for a particular product and view the terms of those contracts, in addition to helping them identify potential suppliers for particular products.

The purchase-orders-per-product report delivers an overview of how many purchase orders were placed for each product. The purchase-orders-per-cost-center report provides an overview of purchase orders and the total value of orders for each cost center. The purchase-orders-per-vendor report provides information that helps strengthen a company's negotiating position for future contracts, and it helps purchasers assess relationships with vendors. The information in the purchase-order-status report enables planners and purchasers to take appropriate action if a production delay looks likely.

In addition, SAP NetWeaver BI offers the following useful reports, which help purchasers gain more insight into procurement activities and proactively improve results:

- Contract item information
- Contract header information
- Purchase orders per requester
- Purchase orders per order number
- Purchase orders per purchasing organization/purchasing group
- Purchase orders per order number with items
- Purchase orders per date
- Confirmed order quantities per purchase order and purchase order item
- Purchase orders per contract

Global Aggregation and Splitting of Requirements

The purchasing features of plan-driven procurement can integrate multiple back-end systems with a single global mySAP SRM solution, allowing aggregation of requirements from different local back-end systems into a single order. This means that you can maintain global contracts, which could lead to lower prices because of an increase in the total quantity ordered per supplier. Also, if one supplier has insufficient capacity, you can split requirements manually, assigning them to multiple suppliers and spreading the risk.

PLAN-DRIVEN PROCUREMENT AND RELATED mySAP SRM FUNCTIONALITIES

Contract Management

mySAP SRM with plan-driven procurement supports contracts for procurement of both direct and indirect materials. Purchasers can incorporate attachments, internal notes, and text about the supplier in the contract details at the header or item level. Contract condition types include absolute and percentage discounts as well as price-quantity scales and price scales. As the central procurement platform, mySAP SRM enables purchasers to create cross-plant contracts and then use these as sources of supply for operative processes. They can create contracts both for direct and MRO materials and for services. mySAP SRM enables the following methods for creating contracts:

- Manually
- As a result of an RFQ or reverse auction
- As a source of supply determination in the e-procurement system

Purchasers not only can create contracts for products, product categories, or catalog items but also can copy contracts from sample contracts that already exist. If a purchasing company has negotiated special conditions for products, it can supplement these conditions to a value contract or a quantity contract. In addition, the system can take into account details such as price scaling, validity, location-specific conditions, and discounts (absolute and percentage) in different currencies. You can manually attach documents and notes and add different versions to the contract in SAP Enterprise Buyer.

Purchasers can create a contract via an RFQ. In this case, the system transfers information such as product description, quantity, gross price, and supplier data to the e-procurement system. You can create these contracts locally in the e-procurement system or in the back-end system.

You can create contracts through the source-of-supply-determination functionality within the e-procurement system of mySAP SRM directly. On the basis of a purchase requisition that is transferred to mySAP SRM, purchasers assign a source of supply. This source can be a new or existing contract. As soon as purchasers assign a source of supply (for example, a contract), mySAP SRM creates a purchase order in the back-end system, using the pricing information from mySAP SRM contracts.

Once you have created or changed the contract, an approval workflow starts. The contract constantly shows its current status by the terms **approved**, **locked**, or **closed**.

Contract management as part of mySAP SRM sourcing also supports other features. These include global outline agreements and distribution of contracts and of global outline agreements.

A strategic purchaser can create and maintain a global outline agreement centrally in mySAP SRM. Once the purchasing manager approves the global outline agreement, mySAP SRM can release the contracts. Before a contract is released for the purchasing process, the purchasing manager may have to approve it by using a workflow that is triggered when a contract is created.

The approval initiates an automatic distribution of the contract into different back-end systems as soon as the solution releases the global outline agreement. After distribution, contracts are available in the local back-end systems, and purchase orders created locally in systems such as the mySAP ERP solution can be issued against the operational back-end contracts that have been created through the global outline agreement of mySAP SRM.

mySAP SRM posts the release values against the local contract and against the global outline agreement. In the system, the purchase order issued against the back-end contract includes information such as purchase order number, purchase order item number, purchase order date, purchase order quantity, and purchase order value.

Companies with multiple back-end systems using a variety of classification methods often find it difficult to identify contracts with the same supplier or orders for the same product category. To take full advantage of volume discounts, companies need to be able to integrate back-end systems and synchronize the product and supplier data they contain. This is supported by mySAP SRM. The solution helps companies to identify and view products and suppliers that have been assigned different classifications and to combine multiple requisitions of the same product into a single order with a single supplier to benefit, for example, from price scales.

Strategic Sourcing

You can also deploy mySAP SRM as a “sourcing hub.” This enables the following tasks:

- Creation of contracts in the back-end system via the purchaser’s sourcing application in mySAP SRM
- Creation of bid invitations automatically for requirements coming from different sources (for example, from the materials management component of mySAP ERP) for which no sources of supply have yet been assigned. (You can create a bid invitation in every case if you choose to define this functionality in the system settings.)
- Creation of purchase orders in the back-end system from a bid via mySAP SRM. (A purchase order or contract is created in the system that generated the requirement.)

Possibilities for Supplier Connectivity

You can communicate with suppliers in several ways:

- Using e-mail, fax, or conventional mail
- Using the supplier-enablement functionalities of mySAP SRM, which offer the ability to communicate with a large number of suppliers regardless of their own systems
- Sending electronic messages directly to suppliers’ sales and distribution systems – a particularly valuable method for communicating with major suppliers

mySAP SRM offers a way to use the materials management component of mySAP ERP, rather than SAP Enterprise Buyer, for procurement of goods (primarily materials). The materials management component is directly integrated with the SAP Supplier Self-Service component, part of the supplier-enablement functionalities of mySAP SRM. SAP Supplier Self-Service provides a Web-based interface mainly for small and midsize suppliers.

With materials management, an MRP run can generate requirements, which are then fulfilled through the operational procurement functionalities in mySAP SRM. The advantage of this is that it reduces supply lead times because the supplier is directly connected to the planning system. In this way, you can automate the generation of purchase orders. Although materials management is not suitable for the procurement of services, you may use the services-procurement application of mySAP SRM instead.

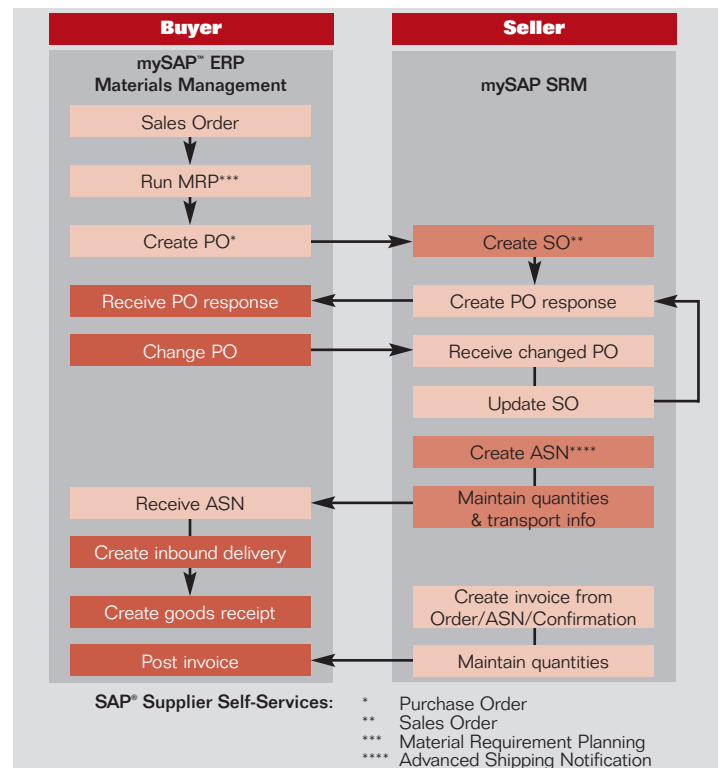


Figure 2: Centralized Procurement with mySAP SRM

DEPLOYMENT

Typically, organizations integrate plan-driven procurement in mySAP SRM with one or more back-end systems (for example, the materials management component of mySAP ERP). In extended classic deployment, the purchaser creates the purchase order locally within mySAP SRM. If the data in the shopping cart is insufficient to generate a complete purchase order, the system manually supplements the data before transferring the order to the back-end system. The subsequent purchase order created is the leading purchase order, while the version that is transferred to the back end is not an exact copy, but a much leaner, read-only version of the leading purchase order.

This copy supplies the reference information needed to create goods receipts, service-entry sheets, and invoices in the back-end system. Users can enter and copy confirmations and invoices to the back-end system. This type of deployment is appropriate if the following information is true:

- The purchasing department wants to take advantage of the streamlined purchasing functionality offered by mySAP SRM.
- The purchasing department uses the full purchasing functionality that mySAP SRM offers.
- The organization must create confirmations and invoices against stock items.
- The purchasing department needs the flexibility to enter confirmations and invoices in mySAP SRM.

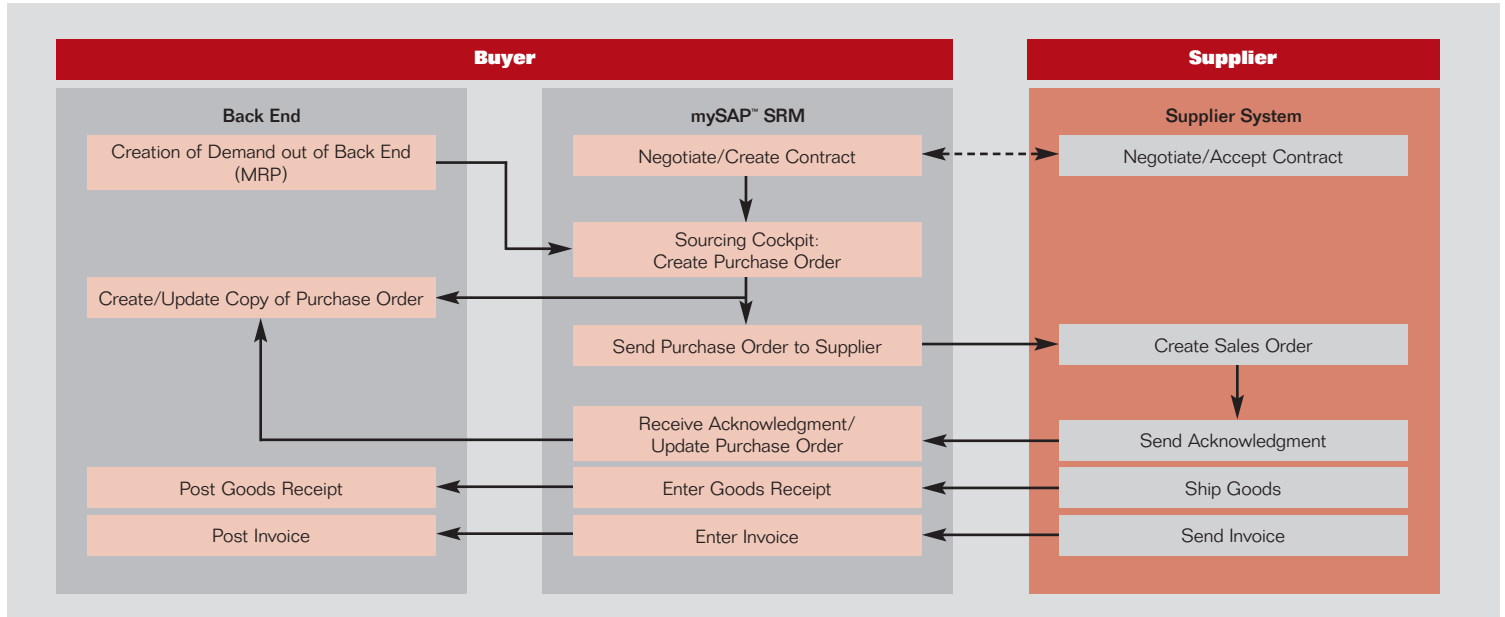


Figure 3: Central Purchasing (Extended Classic Deployment)

SUMMARY AND BENEFITS

Plan-driven procurement in the operational procurement software of mySAP SRM provides a substantial reduction in costs and time spent by offering a central tool for all procurement activities. It can integrate multiple back-end systems into one central purchasing system. mySAP SRM further reduces costs by analyzing contracts, connecting buyers and suppliers, and maximizing the efficiency of your entire business even further.

Some of the more immediate benefits offered by mySAP SRM with plan-driven procurement include the following:

- **A complete centralized buy-side solution**
mySAP SRM seamlessly integrates supply chain management processes with collaborative sourcing and procurement processes. It allows centralized purchasing of plan-driven materials even with highly heterogeneous system landscapes, because mySAP SRM offers options for integrating with multiple back-end systems.
- **Lower administrative and IT costs**
The solution enables savings on total time and effort spent in procurement and IT because of the central approach – with a state-of-the-art technology platform that is fully based on XML and works with a simple Web browser.
- **Easier budget planning and cost control**
mySAP SRM provides accurate information on total expenditures on materials and services for mission-critical processes.
- **Increased efficiency at every stage and procurement expertise where it is needed**
Web-based, automated procurement enormously reduces transaction costs, cycle-time delays, and errors that arise from paper-based processes and inefficient communication with suppliers. This automation of time-consuming procurement tasks enables purchasing professionals to shift their attention from rote purchasing tasks to strategic sourcing, supplier negotiation, and other activities that generate true business value.

- **Reduced costs of goods procured and of inventory**
mySAP SRM helps aggregate requisitions so that organizations can obtain better prices from suppliers or leverage existing price scales. Also, mySAP SRM ensures easy, rapid procurement of time-critical or recurring materials. Pruning procurement cycles results in shorter production cycles, lower production costs, and faster time to market.
- **Ease of use**
There is no need for mastering multiple systems to create and process plan-driven requirements, because you can access all systems through a unified portal. The same user processes requests for materials used directly in core business processes as well as requests for other materials such as office supplies.

To learn more about how mySAP SRM can help meet your plan-driven procurement needs, call your SAP representative today or visit us on the Web at www.sap.com/solutions/business-suite/srm.

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