

# Outline agreements/Contracts in SAP

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## Logistics and Supply chain

Logistics can be defined as the management of business operations, including the acquisition, storage, transportation, and delivery of goods along the supply chain.

The supply chain can be defined as a network of retailers, distributors, transporters, storage facilities, and suppliers that participate in the sale, delivery, and production of a particular product.

### *Management of the Supply chain*

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

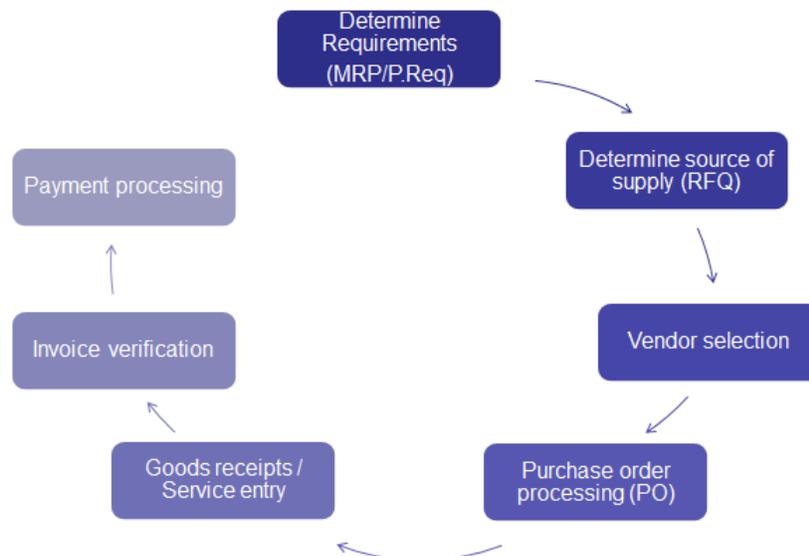
Definition...

- 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.

## Procurement process:

The typical procurement cycle for a service or material consists of the following phases:



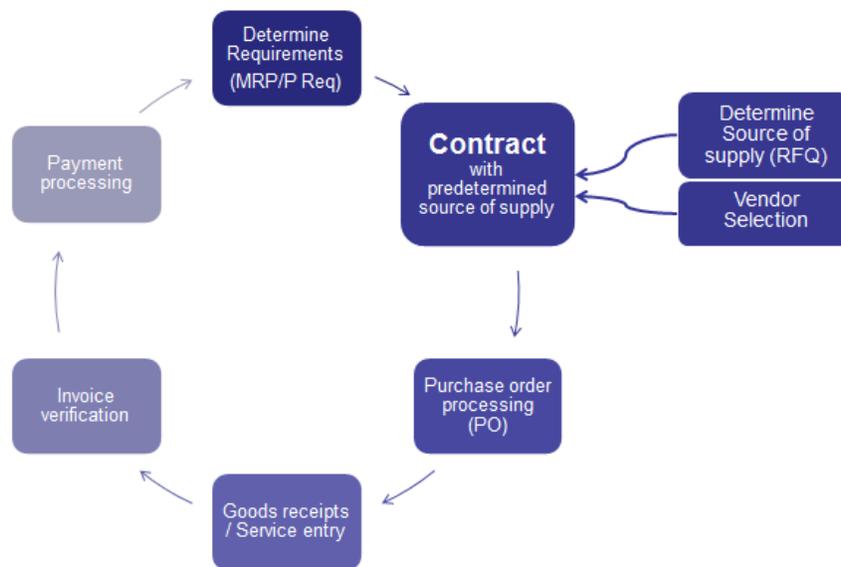
1. Determination of Requirements: Material requirements are identified either in the user departments or via materials requirement planning (MRP). Service requirements are identified via user departments or pre-determined service contracts.
2. Source Determination: The Purchasing component helps you identify potential sources of supply based on past orders and existing longer-term purchase agreements. This speeds the process of creating Request for Quotations (RFQs).
3. Vendor Selection and Comparison of Quotations: The system is capable of simulating pricing scenarios, allowing you to compare a number of different quotations. Rejection letters can be sent automatically.
4. Purchase Order Processing: The Purchasing system adopts information from requisition and quotation to help you create a purchase order. As with purchase requisitions, you can generate

POs yourself or have the system generate them automatically. Vendor scheduling agreements and contracts (in SAP System, types of longer-term purchase agreement) are also supported.

5. Goods receiving / Service entry: The system to confirm ordered goods or services.
6. Invoice Verification: The system supports the checking and matching of invoices.

## What is Outline Agreements? Where it fits in purchasing process?

The outline purchase agreement is often referred to as a blanket or umbrella purchase order. It is basically a long-term agreement between the purchasing department and vendor for material or services for a defined period of time. The purchasing department negotiates with the vendor a set of terms and conditions that are fixed for the period of agreement.



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## Which business requirements lead to use of outline agreement?

- When purchasing department want to setup long term relationship with vendor for specific group of materials or services
- To negotiate binding conditions for purchasing (i.e. price, quantity, discounts etc.) without actually releasing purchase order
- Using pre-negotiated offer during day-to-day purchasing
- Increase speed of actual purchasing to satisfy actual requirements
- Provides better monitoring and control of actual release of purchase order against offer

### *Structure of an Outline Purchase Agreement*

An outline purchase agreement consists of the following elements:

- Document header: contains information relating to the entire agreement. For example, the vendor information and header conditions are in the document header.
- Items: containing the information specific to the relevant material or service. For example:
  - Statistics on ordering activities for the item
  - Quantity or price of the item
  - Conditions, such as quantity discounts and surcharges

### Contracts v/s Scheduling agreement

In SAP MM Purchasing, such agreements are subdivided into "contracts" and "Scheduling agreements."

Contracts	Scheduling agreement
<ul style="list-style-type: none"> <li>• Longer- term contract with subsequent issue of release orders</li> <li>• Different POs can be released for same contract</li> <li>• Mainly used for frequent non-predictable requirements e.g. Purchasing office supplies</li> </ul>	<ul style="list-style-type: none"> <li>• Longer-term scheduling agreements and delivery schedules</li> <li>• Same scheduling agreement number is used with different release calls</li> <li>• Mainly used for repetitive/predictable requirements e.g. purchasing spare parts of a large fleet</li> <li>• Can be tightly integrated with MRP</li> </ul>

### Contract

A contract is a longer-term agreement with a vendor (one of the two forms of "outline agreement" in the SAP system) to supply a material or provide a service for a certain period of time. A number of different terms may be used for this concept in purchasing literature, including "blanket order", "blanket contract", "systems contract" and "period contract".

The contract does not contain specific delivery dates or the individual delivery quantities. These are specified subsequently in release orders issued against the contract when customer requires them.

### Contract types

When creating a contract, you can choose between the following contract types:

- Value contract (MK)  
The contract is regarded as fulfilled when release orders totalling a given **value** have been issued. Use this contract type when the total **value** of all release orders should not exceed a certain amount.
- Quantity contract (WK)  
The contract is regarded as fulfilled when release orders totalling a given **quantity** have been issued. Use this contract type when the total **quantity** to order over the duration of the contract is known.



### Ways of Creating Contracts

Contract can be created in one of the following ways:

- Manually: Enter all the contract data manually.
- Using the referencing technique: Create a contract by referencing
  - a. Purchase requisitions
  - b. RFQs/quotations
  - c. Other contracts

### Characteristics of contract:

- Contracts are outline agreements. They 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.
- If a purchasing information record with conditions exists for the material and the vendor, the system automatically suggests the net price according to these conditions when you create the contract item.
- Contract validity period is defined in the contract header as the validity period
- For each item in a quantity contract, you define the target quantity and purchase order conditions.

### Item categories

*Item Category*

M - The material is unknown

W - Value and quantity are unknown

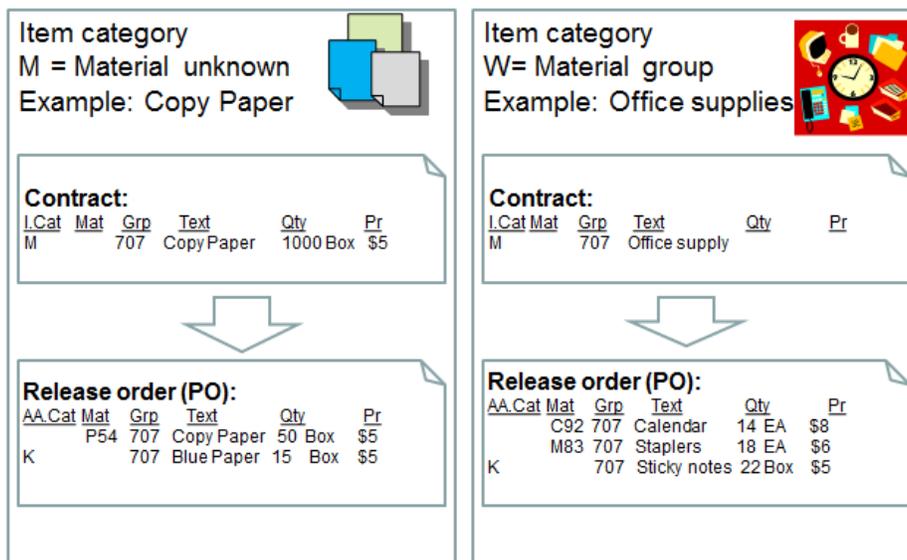
D - Procuring an external service

K - Consignment material is involved

L - Subcontracting material is involved

- Item category M is recommended for similar materials with same price but different material numbers. For example, contract for copier paper.

- Item category W is recommended for material belonging to the same material group but with different prices. For example, contract for office supplies.
- Item category W can be used only in value contracts.
- Item category M and W are not allowed in contract release orders.
- Item category D is used for services contracts.



- Account assignment category, 'U' unknown can be used in contracts. In this case, cost center will be determined at time of creating release order.
- The account assignment category, 'U' is denied in contract release orders. You have to replace the account assignment category with a valid account assignment category.

## Processing contracts

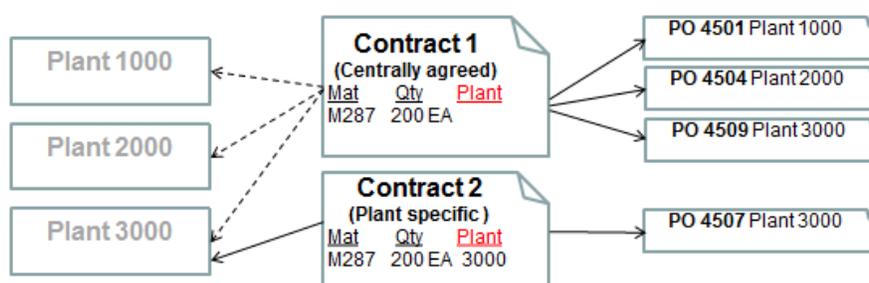
- Contract release orders are purchase orders that are created with reference to contract.
- The release order documentation (i.e. the quantity released until now, and the open quantity) is automatically updated when you create a contract release order. This can be used for monitoring the contract.
- The release order document is contained in the statistics for contract item.
- You can enter source of supply in the purchase requisition. This ensures that the outline agreement is referenced when the purchase requisition is converted into a purchase order.
- Contract release order can be created with or without reference to a purchase requisition.
- The release order documentation comprises details of ordering activity relating to a contract. The system supplies the following data on each release order:
  - a. Number of contract release order
  - b. Order date
  - c. Order quantity
  - d. Order value
  - e. Quantity released to date
  - f. Target quantity
  - g. Open target quantity

- You can list all contracts that are due to expire in the immediate future. The analysis is carried out using the Target value and Total value released fields in the contract header, based on suitable selection parameters

## Centrally Agreed contract

The centrally agreed contract allows a central purchasing organization to create a contract with a vendor that is not specific for just one plant. In this way, the purchasing organization can negotiate with a vendor by leveraging the whole company's requirements for certain materials or services.

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



## Scheduling Agreements

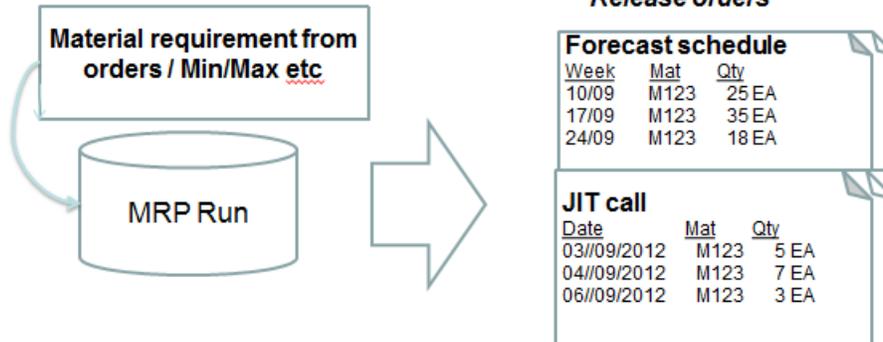
Scheduling agreement has similarities with a quantity contract: it states the target quantity of a material to be ordered from a vendor over a period of time, and the price.

For each material to be procured, you create a scheduling agreement item. For each scheduling agreement item, you subsequently set up a rolling delivery schedule by creating a number of individual schedule lines.

In vendor scheduling, vendors receive a scheduling agreement release (comprising a header and a rolling delivery schedule made up of individual schedule lines) rather than discrete purchase or release orders. The delivery schedule specifies the quantities to be delivered, the delivery dates, and possibly also delivery time-spots, and may contain data on previous goods receipts. A delivery schedule may contain firm, semi-firm, or planned (forecast) delivery dates.

### Master Data

46001 Type: LPA			Source list	
Vendor: V987			Mat: M123	
<u>Mat</u>	<u>Qty</u>	<u>Price</u>	Validity 1/1/2012 1/1/2015	
M123	1000 Pc	\$213 EA	Vendor: V987 →	
S564	3000 Pc	\$642 EA	Agreement: 460001 → Fix vendor → MRP indicator: 2	



## Ways of Creating Scheduling Agreements

You can create scheduling agreements in the following ways:

Manually: Enter all information in the scheduling agreement manually

Using the referencing technique: Create a scheduling agreement by referencing:

- Requisitions
- RFQs/quotations
- Other scheduling agreements

## Characteristics of scheduling agreements

- Before creating a scheduling agreement, the purchasing user must define account assignment, purchasing organization, and purchasing group.
- A scheduling agreement can be created for subcontracting, consignment, and stock transfer.
- Neither the item categories M and W, nor the account assignment category U (Account assignment unknown) are allowed in scheduling agreement.
- Valid material number or account assignment category is mandatory for creating scheduling agreement
- Details of delivery dates and quantities are communicated to the vendor in the form of delivery schedules.
- Delivery schedule lines can be created with or without reference to a purchase requisition. Schedule lines can also be generated automatically using the MRP system.
- Such delivery schedule lines do not constitute separate documents, but form part of the scheduling agreement. Procurement using scheduling therefore helps to volume of documents in use
- A particular advantage of working with scheduling agreement is that delivery schedule lines can be generated by the MRP system automatically provided that certain prerequisites are fulfilled.
  - a. The scheduling agreement must be uniquely defined as the source of supply
  - b. Automatically generated scheduling lines must be allowed by the source list (MRP indicator 2)

- c. Automatically generated schedule lines must be allowed in the MRP system
- There are two kinds of scheduling agreement release:
  - a. Forecast (RFC) delivery schedules are used to give the vendor medium-term overview
  - b. Just in time delivery schedules are used to inform your vendor of your requirements in the near future. Such schedules may comprise a daily or even hourly breakdown of your requirements over the next few days or weeks.

## References:

1. help.sap.com
2. SAP MM: Functionality and Technical Configuration, SAP Press

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By: Rajen Patel  
[rpatel@sapience-solutions.com](mailto:rpatel@sapience-solutions.com)  
[www.sapience-solutions.com](http://www.sapience-solutions.com)