

SAP Supplier Relationship Management 7.0

Contract Management Overview



Name of Speaker, Department
Date

For the latest version of this document, please refer to the SAP Service Marketplace extranet at www.service.sap.com/srm, under SAP SRM 7.0.

This presentation gives an overview of the new and enhanced features of the SAP Supplier Relationship Management (SAP SRM) 7.0 application in the area of operational procurement, compared with the previous release.

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SAP Supplier Relationship Management



| | | | | |
|--------------------------------|--------------------------------------|---|----------------------------------|-------------------------------|
| Purchasing Governance | Global Spend Analysis | Category Management | | Compliance Management |
| Sourcing | Central Sourcing Hub | RFx / Auctioning | | Bid Evaluation & Awarding |
| Contract Life Cycle Management | Contract Authoring | Contract Negotiation | Contract Execution | Contract Monitoring |
| Collaborative Procurement | Self-Service Procurement | Services Procurement | Direct / Plan-Driven Procurement | Catalog Content Management |
| Supplier Collaboration | Web-based Supplier Interaction | Direct Document Exchange | | Supplier Network |
| Supply Base Management | Supplier Identification & Onboarding | Supplier Development & Performance Management | | Supplier Portfolio Management |

SAP NetWeaver

Contract Management in SRM Covers the Following Areas



| | | | | | |
|--------------------------------|--------------------------------------|---|----------------------------------|---------------|----------------------------|
| Purchasing Governance | Global Spend Analysis | Category Management | Compliance Management | SAP NetWeaver | |
| Sourcing | Central Sourcing Hub | RFx / Auctioning | Bid Evaluation & Awarding | | |
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AGENDA

1. Definition of Contract Management

- Overview – Contract Management in SRM
- Contract Negotiation
- Contract Execution
- Contract Monitoring
- Summary



Contract management is the process of authoring, negotiating, executing, and monitoring global contracts to help improve compliance throughout the enterprise.

A contract for procurement (purchasing contract) is a legally binding agreement between your company (the buyer) and a supplier to fulfill a set of terms and conditions.



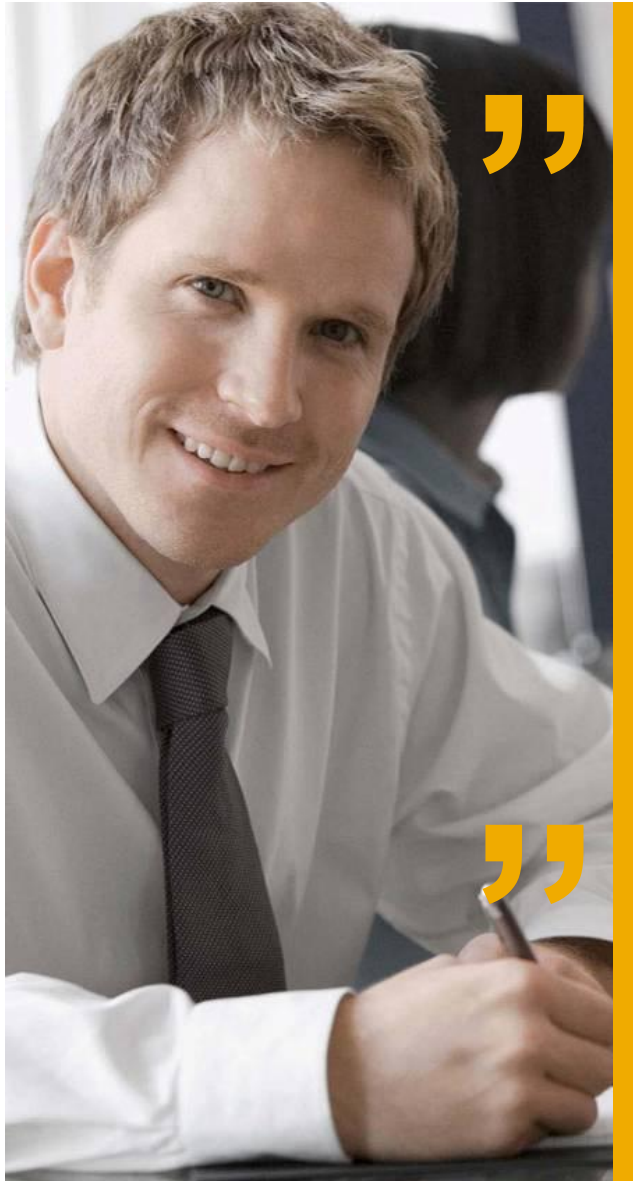


A management team cannot claim to be in control of its business if it is not in control of the contracts the business depends on.

Gartner

Contract management: a systematic process for the creation, execution, compliance, and analysis of corporate contracts for the purpose of maximizing operational performance, reducing costs, and minimizing risks. Typical benefits include 55% improved compliance, 20%–35% lower administrative costs, 50% cycle time reduction, and 25% improvement in both managing rebates and contract renewal rates.

Aberdeen Group



Companies across all industries that are moving their purchasing contracts out of filing cabinets and into Web-based systems are quickly identifying the following:

- Maverick spending by buyers
- Suppliers that are overcharging
- Contracts for unwanted services [that] are automatically renewing
- Contract creation processes that are taking too much time and effort

AMR

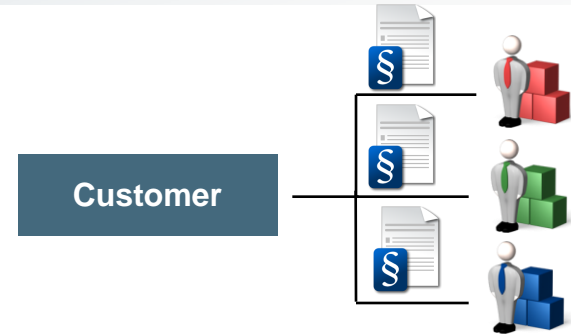
For targeted projects in certain spending categories, contract management implementations are quick wins.

AMR

Contract Management Becomes More Important

Past

- Short, simple supply chains
- Local sourcing, well-known partners, and familiar legal system
- We-make-it-ourselves attitude



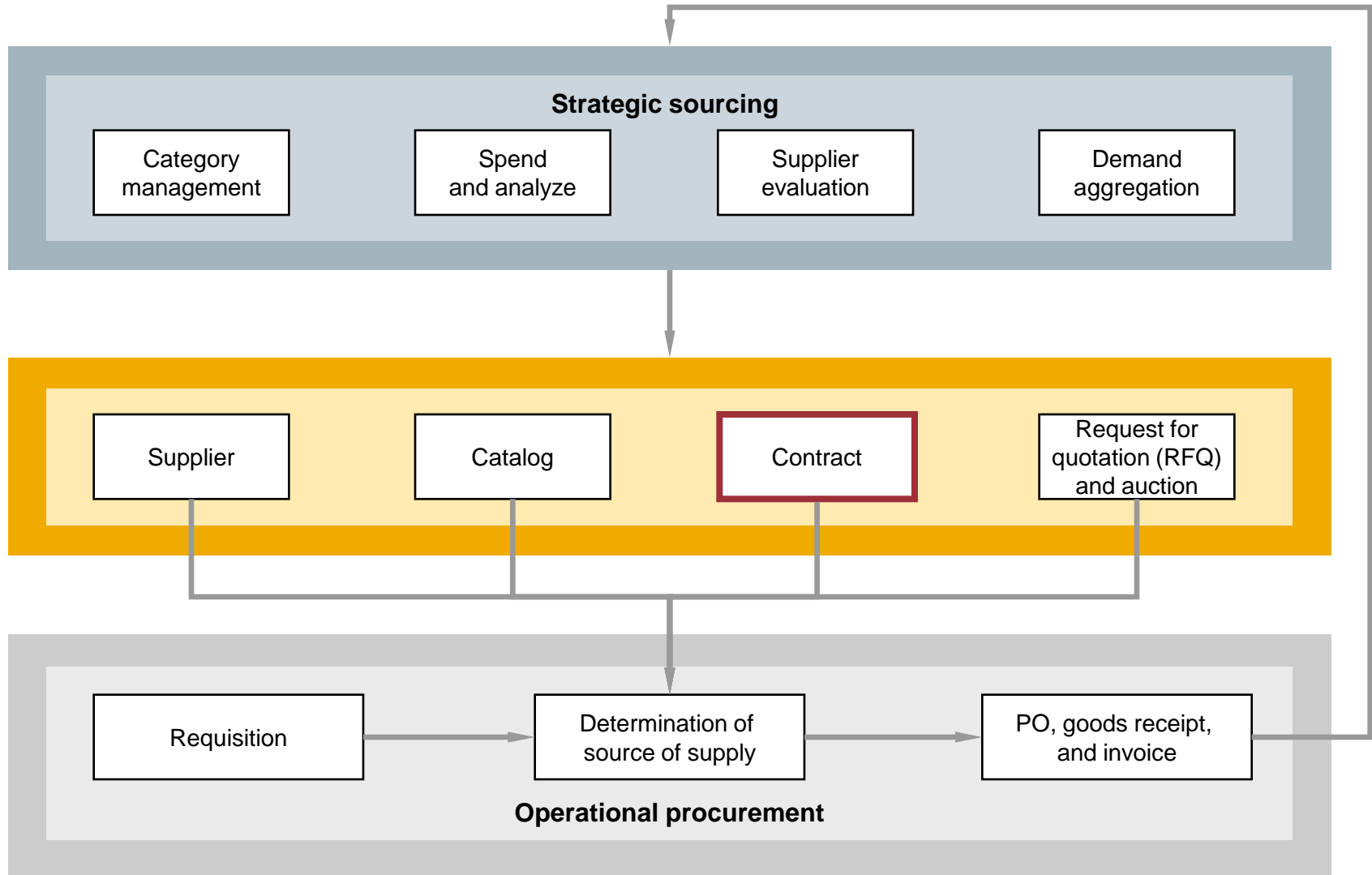
Today

- Long, complex supply chains
- Global sourcing, foreign partners, and dealing with unknown legal systems
- Concentration on key capabilities; focus on outsourcing
- Increasing number of suppliers and increasing percentage of contracted spend in comparison with total revenue



- ➔ **Number and complexity of contracts are increasing**
- ➔ **Business is more dependent than ever on contracts**

Contracts as an Integral Part of the Relationship Between Sourcing and Operational Procurement



Contract Management – Customer Challenges Addressed by SRM



A link between contract negotiation and contract execution is missing

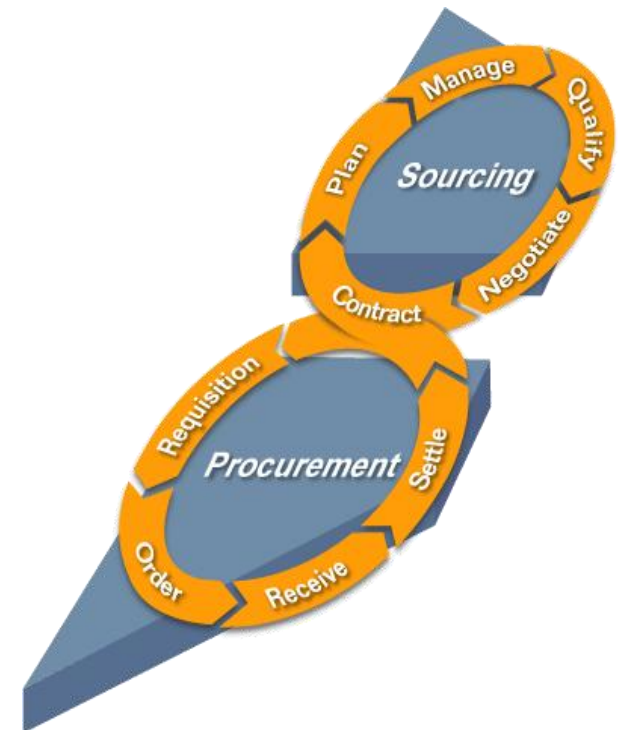
- Central contracts not used by local entities; unusable potential for better prices (higher spend volume)
- Contracted conditions (payment terms) not always properly used
- No reporting about contract compliance (especially on a global basis)
- No automatic alerting about the need to renegotiate contracts
- No insight into vendor performance in comparison to contracted obligations



A completely end-to-end and integrated contract management solution provides better compliance with negotiated terms and operational contract execution because of seamless integration

Key functionality

- End-to-end integration between legal contract, operational contract, and contract execution
- Central contract repository for operational contracts
- Central contract with distribution into back-end systems running the SAP ERP application and materials management software
- Centralized compliance reporting
- Sourcing integration of operational contract
- Online and offline mass change for operational contracts



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 - **Overview – Contract Management in SRM**
 - Contract Negotiation
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**Contract
negotiation**

**Contract
execution**

**Contract
monitoring**

SAP Supplier Relationship Management (SAP SRM) 6.0

- Renegotiation of an expiring contract by converting an expiring contract into a sourcing event
 - Creation of a new contract from a winning bid
 - Update of an existing operational contract from a winning bid
 - Mass update and appending of contracts out of winning bid
- Using contract for sourcing
 - In SAP SRM, creating Shopping Cart or PO against contract
 - In SAP ERP, creating Requisition or PO against contract
 - Complex prices
 - Central contract that is available as source of supply in systems running SAP SRM and SAP ERP
 - Quota arrangements
 - Contract hierarchies
 - Contract mass change
- Monitoring contracts
 - Collecting call-off
 - Tracking call-off volume against contracted quantities
 - Tracking maverick spending
 - Generating alerts and renewal process
 - Status control
 - Powerful search

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1. Definition of Contract Management
2. Overview – Contract Management in SRM
 - Contract Negotiation
 - Contract Execution
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1. Definition of Contract Management
2. Overview – Contract Management Life Cycle
 - **Contract Negotiation**
 - Contract Execution
 - Contract Monitoring
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Contract negotiation is the process of establishing and finalizing a contract either from an RFQ process, a renewal or net new.



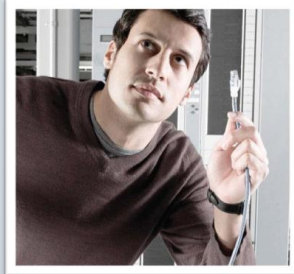
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1. Definition of Contract Management
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- 3. Contract Negotiation**
 - 4.1 Business Challenges**
 - 4.2 Positioning and Business Value
 - 4.3 Business Process
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- Contract Monitoring
- Summary



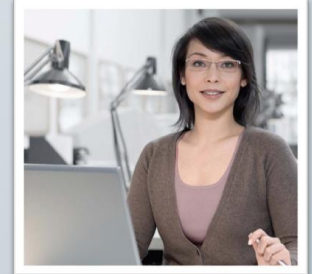
Pressure

- Renegotiating expiring contract and finding new or additional suppliers
- Time-consuming supplier negotiation process
- Little transparency



Opportunity

- Seamless integration between the operational contract and the sourcing process in the bidding engine functionality of SAP SRM
- Process visibility



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Contract Negotiation in SAP SRM enables:

Seamless integration between the operational contract and the bidding engine functionality of SAP SRM, enabling you to renegotiate an expiring contract or transfer a winning bid into an operational contract



Contract Negotiation in SAP SRM enables:

- Renegotiation of an expiring contract by converting an expiring contract into a sourcing event
- Creation of a new contract from a winning bid
- Update of an existing contract from a winning bid
- Mass update and appending of contracts from a winning bid

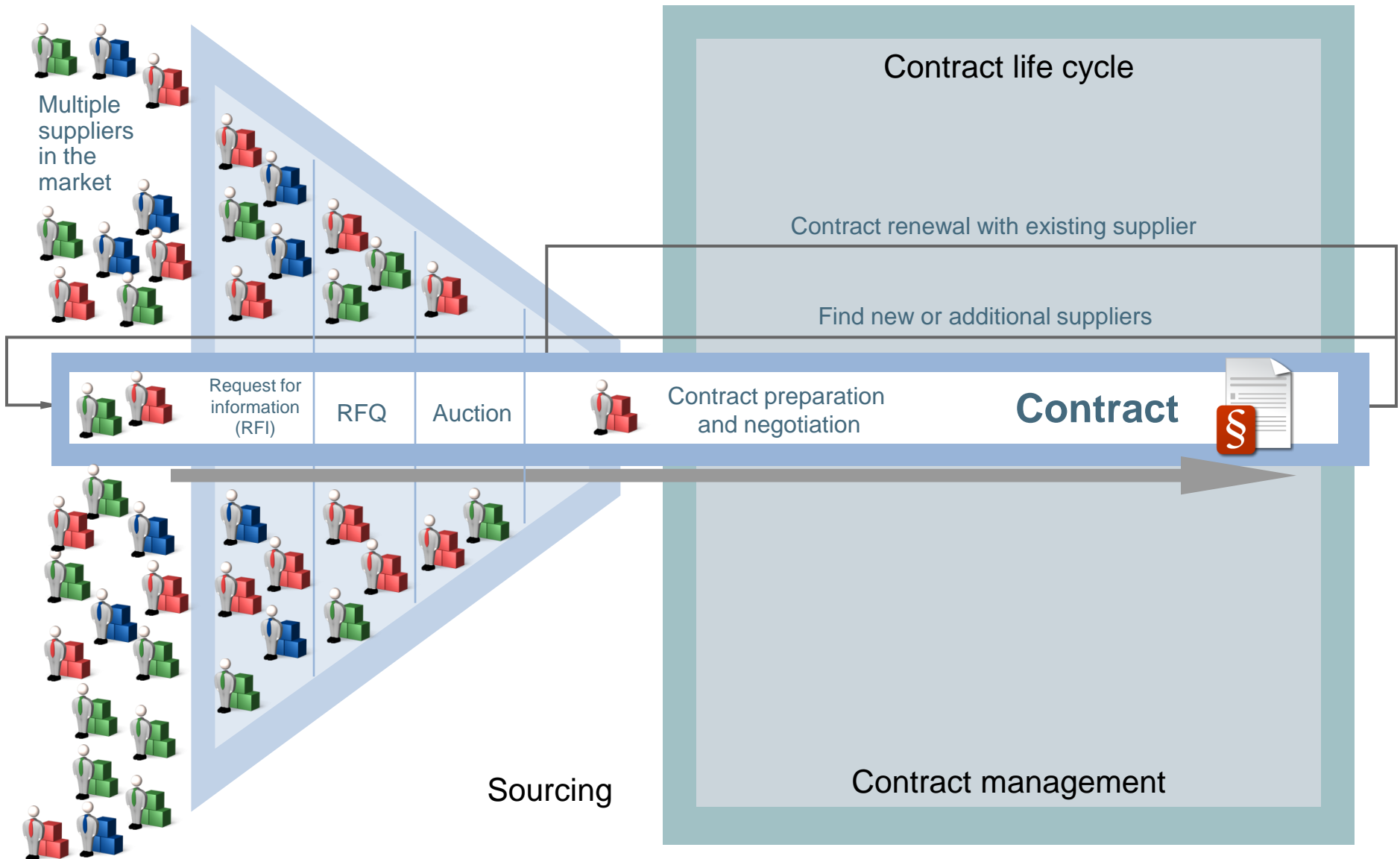


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Contract Negotiation – Link between Sourcing and Contract Management



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Contract execution means following through on a contract by procuring, receiving, and paying for goods and services in accordance with the contract's terms and conditions. Contract execution includes the creation of purchase orders, goods receipt or confirmation, invoicing, and payment.



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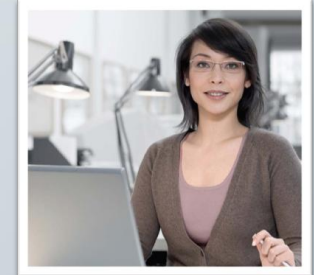


Pressure



- Compliance with negotiated terms and operational contract execution
- Availability of global contracts for local purchase organizations to reduce contract creation time and maintenance
- Global discounts
- Time-consuming contract maintenance

Opportunity



- End-to-end integration of legal contract, operational contract, and contract execution
- Central contracts with distribution to multiple back-end systems running SAP ERP
- Availability of central contract as source of supply in SAP ERP and SAP SRM software
- Contract hierarchies with discounts based on release value
- Online and offline mass change functionality

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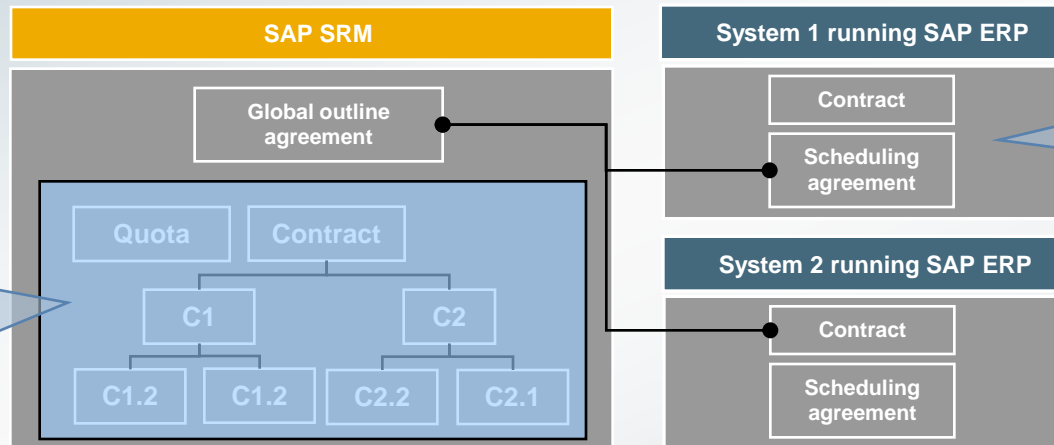


Harmonization of Global Outline Agreement and Local Contract



SAP SRM offered two objects that represented operational contract management functionality

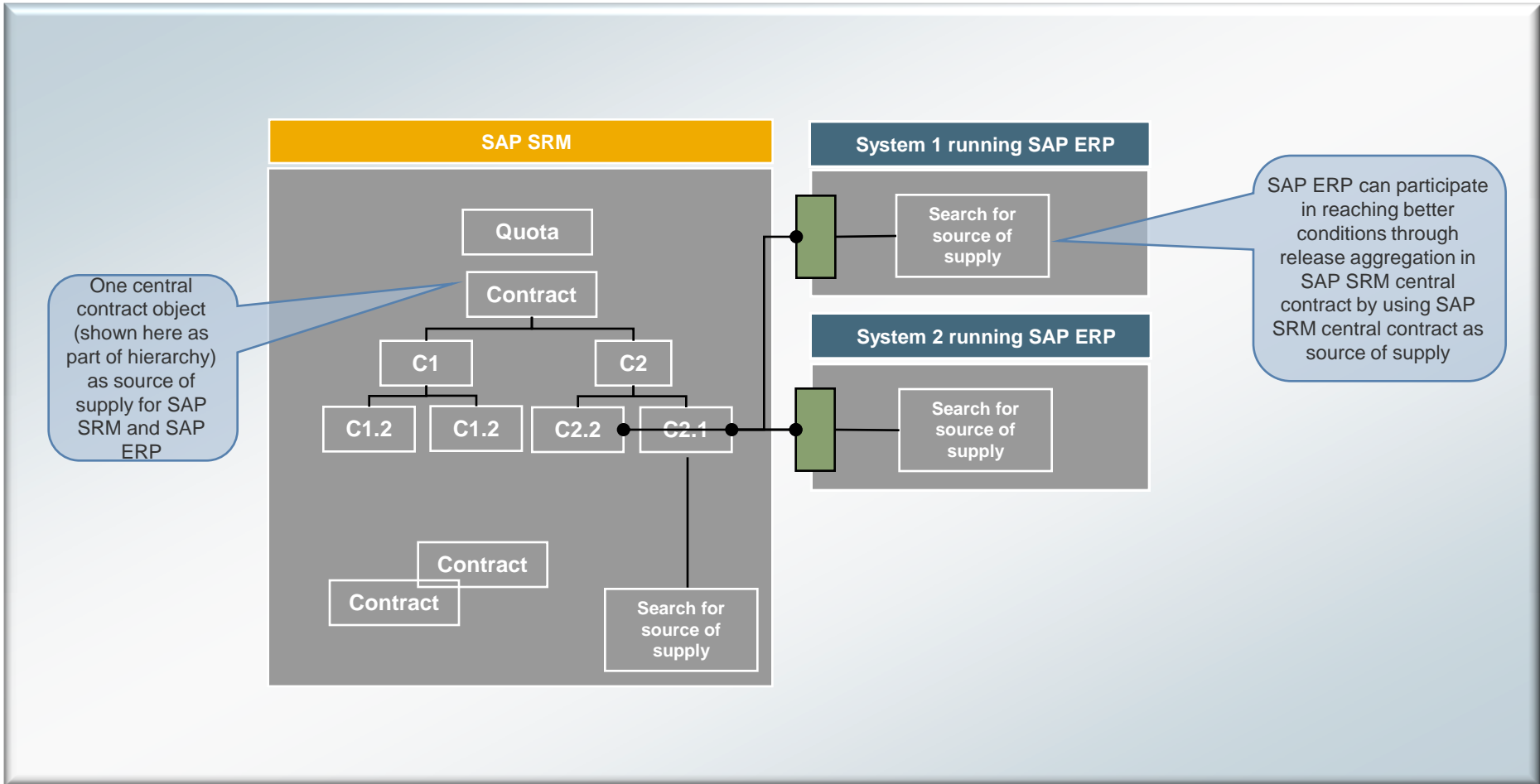
- Global outline agreement
- Local SAP SRM contract



SAP SRM contracts and quota arrangements as sources of supply are available only in SAP SRM

Global outline agreements in SAP SRM are distributed to systems running SAP ERP and SAP ERP contracts, or scheduling agreements are created

Harmonization of Global Outline Agreement and Local Contract



Harmonization of Global Outline Agreement and Local Contract



Use functional advantages of local contract

- Contract hierarchies
- Release-based rebates
- Exchange rate thresholds
- Negotiation process through bidding engine

Use central contract centrally as source of supply

- Central contract is used for source of supply in systems running SAP SRM, as well through distribution in systems running SAP ERP.
- Consolidate call-offs in SAP SRM and all connected back-end systems are used for reaching better conditions by aggregating call-off values.



What's New in SAP SRM 7.0 – Operational Contract Enhancements



Operational contract enhancements

- Payment terms on item level
- Currency on distribution level
- Push contract to catalog determination on item level or for the entire contract on header level
- Multiple alert thresholds on contract level
 - Expiration date
 - Target value/released value
 - Target quantity/released quantity



Business benefits

- More flexible control on contract line item and possible reduction of contracts in the system
- More flexible control for the contract creator, reduction of maintenance time, and fewer errors
- More flexible reporting and alerts based on contract document level, instead of generic alerting threshold across all contract documents

What's New in SAP SRM 7.0 – Operational Contract Enhancements



Operational contract enhancements

- Enhanced and improved contract distribution for central contract through sophisticated and efficient grouping of contract line items across different locations of the same back-end system

Instead of creating multiple contract documents for each location of one back-end system, items are grouped together into one back-end contract.

- Exchange rate thresholds for central contracts



Business benefits

- More sophisticated and efficient managing of the contract distribution and therefore reduction in creation and maintenance time
- Reduction of back-end contract documents through bundling of items across different locations
- Risk mitigation between your company and the supplier regarding currency fluctuations; enhanced control for single contracts

Contract execution in SAP SRM provides:

- Powerful contract distribution of central contracts in multiple systems running SAP ERP
- Availability as source of supply in systems running SAP ERP or SAP SRM
- A flow-on benefit, which is the ability to use the central contract as source of supply in systems running SAP SRM and SAP ERP in parallel, providing the opportunity to attain better purchasing conditions through release aggregation
- Easy-to-use mass change functionality for central contracts to ensure easy and rapid contract updates



Contract execution in SAP SRM enables:

- Centralized creation and usage of contracts in materials management software in SAP ERP through the distribution of the central contract in SAP SRM
- A flow-on benefit of the central contract, which is the ability to use the central contract as source of supply in systems running SAP SRM and SAP ERP in parallel, providing the opportunity to attain better purchasing conditions through release aggregation
- Sophisticated integration between contract and catalog
- Integration to records management
- Flexible pricing and complex discounts
- Contract hierarchies with release-based discounts
- Online and offline operational contract mass change functionality
- Powerful authorization concept for contracts
- Offline approval functionality through e-mail
- Contract release notification to strategic purchasers
- Various alerts with flexible configuration of receiver and content
- Exchange rate thresholds on the contract level to control and mitigate currency fluctuation risk
- Introduction of revision level
- Mass change of contracts out of response and award

- Basic contract
- Prioritization of vendors in vendor list
- TREX full text search through attachments, internal texts, and supplier texts
- Integration with the Collaboration Folders (cFolders) application
- Novation to support merger
- Tolerances on header and item level
- “Incoterms” on header and item level
- Delivery time on header and item level
- Minimum order quantity and minimum order value on item level

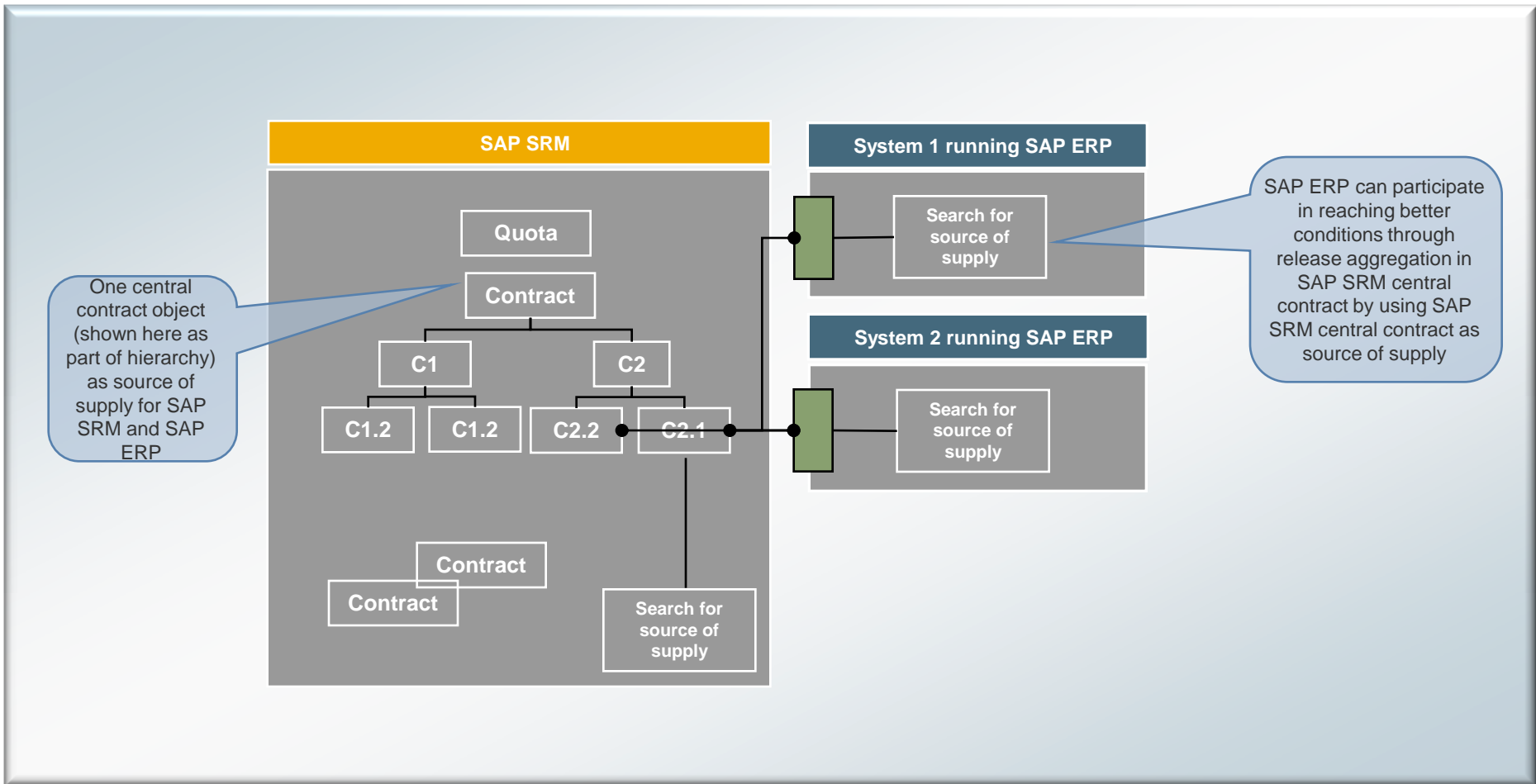


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Contract Execution



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2. Overview – Contract Management Life Cycle
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4. Contract Execution
- **Contract Monitoring**
- Summary



Contract monitoring is the tracking and checking of contract performance and compliance, whether contract execution is performed in SAP SRM or in back-end systems running SAP ERP. Contract monitoring also sends alerts about expiring and overexceeded contracts.



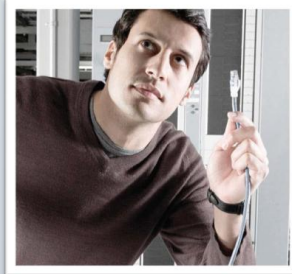
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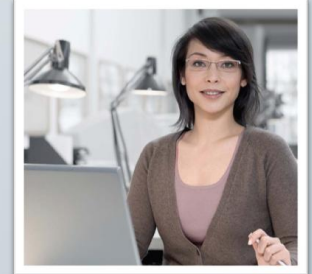
Pressure

- Controlling maverick spending and receiving alerts for expiring contracts and when reaching target value or quantity
- Monitoring releases against contracts at an individual or aggregated level



Opportunity

- End-to-end integration between operational contracts and contract execution is achieved through purchase order releases
- Central contract stores release values and quantities – individually and in aggregated form for SAP SRM releases and SAP ERP releases referencing the appropriate contract



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1. Definition of Contract Management
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6. Summary



Contract Monitoring – Positioning and Business Value

Contract monitoring in SAP SRM enables:

- Seamless integration among operational contract, contract execution, and contract monitoring
- Monitoring contract usage and contract compliance across multiple instances of SAP ERP and SAP SRM
- Monitoring compliance through alerts on target value and target quantity against released value and released quantity
- Monitoring expiration of contract through reception of configurable alerts



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1. Definition of Contract Management
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- Outlook and Summary



Contract Monitoring – Central Compliance Control

Central instance of SAP SRM



Central contract



Central reporting
(SAP NetWeaver
Business
Intelligence)

Execution data



Local system 1
running SAP ERP



Local system 2
running SAP ERP



Local system 3
running SAP ERP

Central reports

- Expiring contracts
- Contracts per category
- Release volume per contract
- Invoices per contract
- Contract alerts
- Maverick buying
- Contract hierarchy
- And much more

AGENDA

1. Definition of Contract Management
 2. Overview – Contract Management Life Cycle
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 4. Contract Execution
 5. Contract Monitoring
- **Summary**



Summary – Benefits of Contract Management in SAP SRM



1

Integrated, solid contract management

Customers can realize savings through:

- A centralized approach to purchasing contracts
- Improved contract management
- Integrated, solid contract database
- Complete, central access to contract information
- Central monitoring capabilities for central purchasers
- Identification of maverick buying

2

Reduced project risks

Customers can reduce project risks through:

- Implementation of a proven standard solution
- Service-based upgrade path for customer-specific add-ons

3

Reduced total cost of ownership (TCO)

Customers can reduce TCO through:

- Standard SAP interfaces
- Less dependence on updates of SAP ERP
- Standard services from SAP

1

Benefit from contract features of SAP SRM

Unique features provided by SAP SRM that support contract compliance and reduce process costs and costs caused by maverick buying:

- Contract hierarchies
- Discounts based on released value
- Download and upload of contracts and offline mass-change functionality
- TREC full text search through attachments, internal texts, and supplier texts
- Non-PO invoices against contracts
- Greater transparency through enhanced authorization handling



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