

Purchasing Contracts Overview: Creation and Use

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Purchasing Contracts Overview: Creation and Use

This is a great getting-started overview, and covers the various aspects of contract creation, usage, and statistical reporting. This article discusses how the use of a Procurement Contract lowers data management overheads without any attendant decrease in functionality. It also discusses the ways in which Contracts can be used in conjunction with Source Lists to ensure that the precise source of supply at the exact price desired is referenced on any issued Release Order. Purchasing Contracts can be your next step toward streamlining your procurement organization.

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The initial contract create screen is displayed in Figure 1..

The screenshot shows the SAP 'Create Contract : Initial Screen' with the following fields and sections:

- Vendor:** A text field with a dropdown arrow.
- Agreement type:** A text field.
- Agreement date:** A date field with a calendar icon.
- Agreement:** A text field.
- Organizational data:**
 - Purch. organization:** A text field.
 - Purchasing group:** A text field.
- Default data for items:**
 - Item category:** A text field.
 - Acc. assignment cat.:** A text field.
 - Plant:** A text field.
 - Storage location:** A text field.
 - Material group:** A text field.
 - Req. tracking number:** A text field.
 - Vendor sub-range:** A text field.
 - Acknowledgment reqd

Figure 1: Contract Creation Initial Screen

Purchasing Organization

If the intent is to use the Contract to apply the pricing arrangements (and other terms and conditions) for material supplied by a Vendor to ONE Purchasing Organization, then that is all that need be entered here.

That is, simply reference your single purchasing Organization in this field. Any orders created for the plant or company code linked to that Purchasing Organization will seek this contract as a potential source of supply.

However, if the details of the contract are to relate to plants or company codes assigned to MORE THAN ONE Purchasing Organization, a "Reference Purchasing Organization" must be created, and then entered here.

Reference Purchasing Organization

In cases where an entity wishes to avail itself of purchasing benefits of scale, a reference purchasing organization is often used. It allows pricing and other contract data to be applied enterprise wide. This has the dual benefit of greatly reducing data maintenance activities at all of the sites issuing release orders against that contract, as well as reducing any errors that may arise as a result of data duplication. As only a single record needs to be maintained rather than many multiple identical instances of that information, contracts created in this way are known as Central Contracts.



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Follow these steps to set up a Purchasing Organization:

- Create the new reference purchasing organization by following the configuration path: *Enterprise Definition* → *Materials Management* → *Maintain Purchasing Organization*.
- The reference purchasing organization can be linked to a company code and to plants if desired. In my experience, it is not usually linked to either. This is because the applicable plants and company codes are usually derived from the “standard” Purchasing Organizations to which this is going to be linked.
- This linkage of reference Purchasing Orgs to standard Purchasing Orgs is achieved by following the path *Enterprise Structure* → *Assignment* → *Materials Management* → *Assign Purchasing Organization to Reference Purchasing Organization*.

Now that this creation and linkage is complete, the contract can be created for the reference Purchasing org.

Any plant or company code linked to any of the standard purchasing orgs that were linked to that newly created reference purchasing organization can avail themselves of the terms and conditions of the contract.

Again, this has a wonderful effect on data maintenance because a single data object can now contain information that is used by the entire enterprise!

NOTE:

Vendor - Prior to setting up contracts for a Reference Purchasing org, any vendor for which you plan to set up a contract of this nature must be extended to that new central reference Organization. Although a simple enough task in itself, omitting this renders usage of the Central Contract impossible in SAP for that Vendor.

Plant - If the contract is to be used for a single plant then simply enter the relevant value in this field and be sure to have entered the standard Purchasing Organization. If this contract is to be used as a Central Contract it is essential that NO plant is entered on this screen.

Agreement type

In the standard system, the options delivered for this field contains two values: MK- Quantity Contract and WK- Value Contract.

Which of these is selected will control whether you reach the contract expiration/limit based on the cumulative monetary value of all of the orders referencing that contract (known as release orders) or whether it will be based on the cumulative quantity of goods ordered in reference to that contract. Each release order depletes the target value or quantity of the contract.

It is important to note that in both cases the Contract usage itself is limited by an expiration date. After this date, the contract cannot be referenced regardless of the extent to which it has been depleted.

Each contract line item price record can also be limited to a certain validity period. Although doing so uses standard pricing condition maintenance methods not described in this article, it is worthwhile mentioning here as it does provide a mechanism to expire an individual line item during the lifetime of the contract.