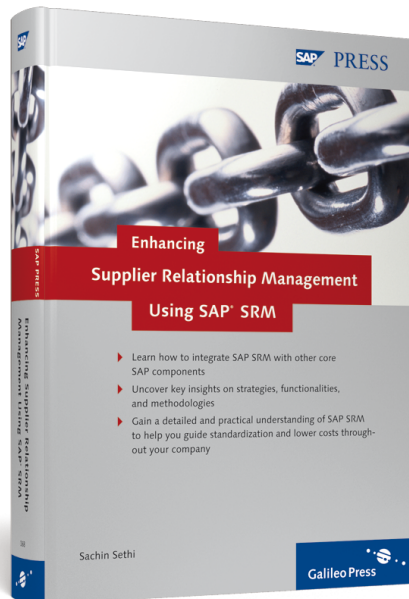


Sachin Sethi

## Enhancing Supplier Relationship Management with SAP® SRM



*To my parents whose incessant sacrifices to "do the right thing" no matter how tough the path always inspires me to make the right choices.*

*To my wife Ekta for her unconditional support, boundless understanding, and infectious energy. Her endless efforts helped me bring this book concept to life.*

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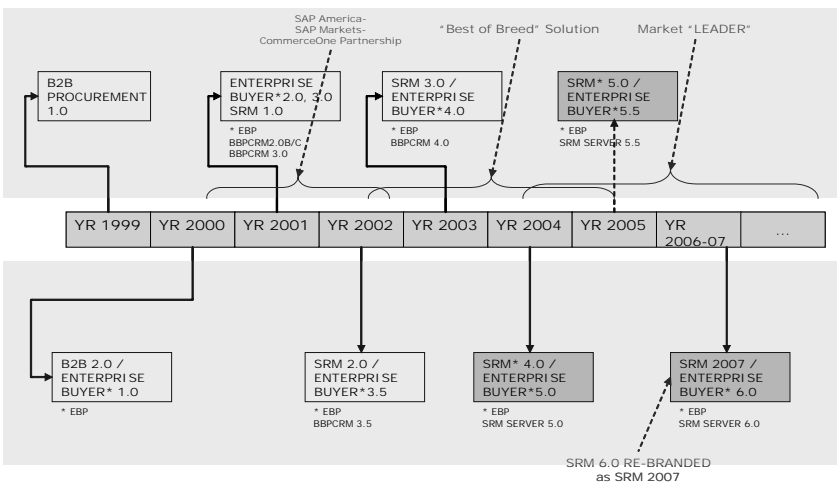
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*“With the SAP Supplier Relationship Management (SAP SRM) solution, we want to enable our customers to unleash the value potential of a holistic and strategic approach to purchasing and supply management by offering a purchasing platform for continuous savings and value generation” — Peter Kirschbauer, General Manager, SAP AG, SAP Applications*

## 2 SAP SRM — An Introduction

### 2.1 Evolution of SAP SRM

SAP introduced its e-procurement solution in 1999. Since then, the solution offering and its acceptance have seen tremendous growth. The SAP SRM solution has been the fastest-growing SAP application in two of the last three years, up to 2006. Customers that were early adopters of this solution remember the solution branding as Business to Business Procurement (BBP) or Enterprise Buyer Professional (EBP). Over the years, the solution has grown from a web-based catalog requisitioning solution aimed at operational excellence to the solution today that offers complete supply management. Figure 2.1 provides a chart that shows the progression of this solution from B2B to SAP SRM.

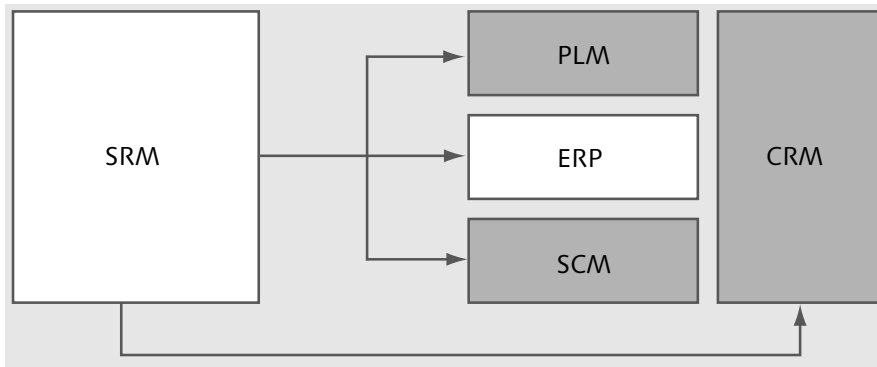


**Figure 2.1** SAP SRM Solution Growth — From B2B–EBP to SRM

In 1999, SAP introduced the B2B Procurement 1.0 solution and has since rebranded the offering from BBP to EBP to the solution available today as Supplier Relationship Management (SRM). The solution release generally available to customers today is SAP SRM 5.0. Recently SAP has announced plans to rebrand the SAP SRM 6.0 release as SRM 2007. Based on current information SRM 2007 (or 6.0) will be generally available towards the third quarter of 2007, until which time it will remain in ramp-up mode with selected customers.

## 2.2 SRM and SAP Enterprise Applications

The SAP SRM solution integrates seamlessly with enterprise resource planning (ERP), product life-cycle management (PLM), and supply chain management (SCM) applications to ensure an effective implementation of cross-application business processes (see Figure 2.2).



**Figure 2.2** SAP SRM Integrates Cross-Enterprise Business Processes

### Note

SRM is a separate solution, independent of the R/3 or ERP solution offered by SAP. It is common for people to forget that SAP SRM is installed and implemented within its own three-tiered architectural landscape, independent from the SAP R/3 or ERP landscape. However, it is still an SAP system; the GUI for SRM is the same as for native SAP R/3, with an IMG for core-configuration. The difference lies in the actual end user interface for SRM. End users only require a Web browser to access all the transactions. Figure 2.3 provides an example.

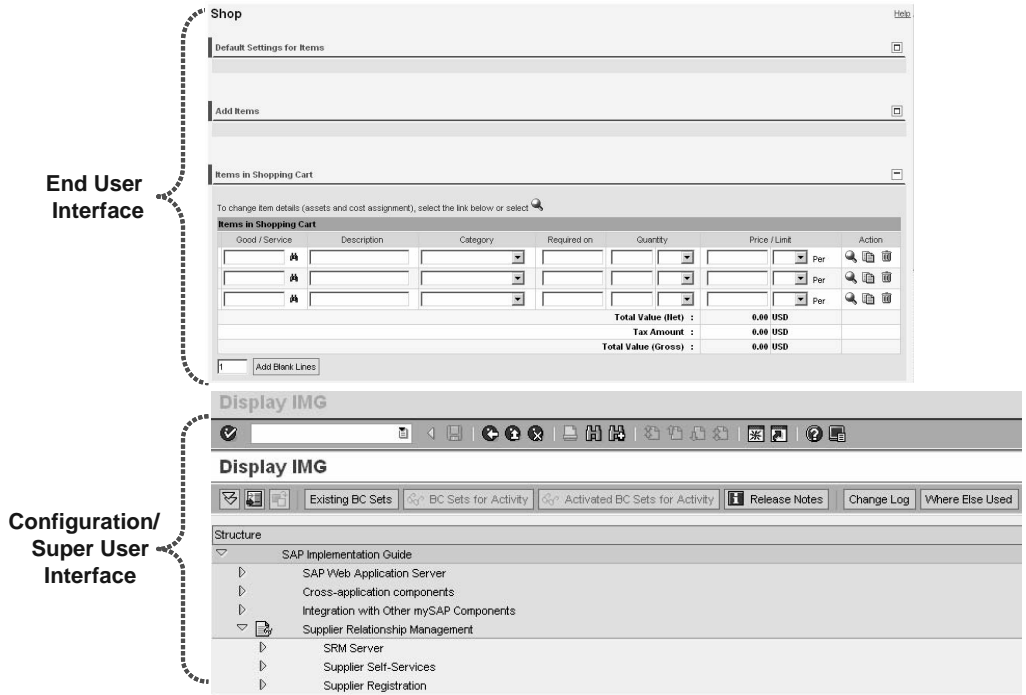


Figure 2.3 SAP SRM User interface — End User and Configurator

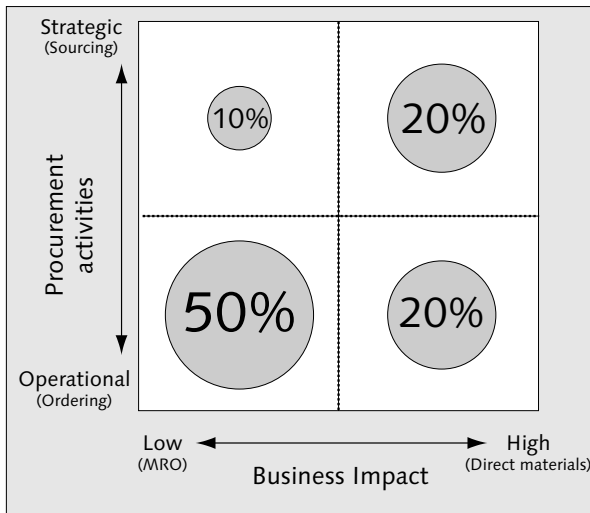
#### Note

Until SAP SRM 5.0 the user interface was based on ITS or BSP technology. From SRM 2007 (or SRM 6.0) onwards SAP will phase out ITS and BSP by introducing a portal user interface for SRM based on Web Dynpro.

## 2.3 Benefits of SAP SRM

Often it's not easy to clearly understand the business benefits within a solution offering or a new business process unless at some level we're able to understand the underlying business challenges within the organization. Once we as users realize and understand the challenges faced, we then can be open to hearing about the solutions. We frequently question why we need to change our current system or business processes. It is advisable for organizations to review the challenges faced by their internal business systems and processes and then review the business benefits offered by SAP SRM.

Figure 2.4 illustrates the business impact of strategic sourcing within organizations. According to a study done by A.T. Kearney, procurement organizations spend as much as 85% of their time on activities such as answering basic supplier inquiries, or processing purchase orders and change orders that do not create added value. With SAP SRM, their purchasing professionals (buyers, contract administrators, etc.) can focus their efforts on building strategic supplier relationships and streamlining the procure-to-pay process.



**Figure 2.4** Operational Procurement Focus vs. Strategic Sourcing Opportunity

### Example

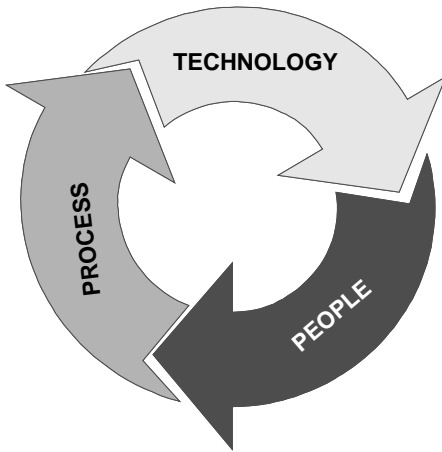
Organizations using SAP SRM empower end users to keep track of their orders using real-time status checking. Requisitioners do not have to call the purchasing department to find out the status of their shopping cart request; they can use the Check Status application in SRM to monitor the status of their order. Using the Biller Direct application, your organization can enable suppliers to view the status of their invoices and view in real time what payments have been disbursed. This reduces drastically the time spent by the purchasing and accounts payable departments in handling end user and supplier calls.

### 2.3.1 Opportunities and Business Benefits Within SAP SRM

Solutions driven solely by technological enhancements only provide a siloed response to the competitive and strategic needs of organizations today. World-class business solutions need to use advancements in technology as a strategic advantage to provide solutions that cater to the unique business processes that exist in organizations.

Organizations that are leaders in their markets and industries are better at using IT to enable business strategy. The SAP SRM solution provides benefits that exist in three realms, which are listed as follows and illustrated in Figure 2.5:

- ▶ Process benefits
- ▶ Technology benefits
- ▶ People benefits



**Figure 2.5** The Three Realms — Process, Technology, and People

### 2.3.2 Process Benefits

SAP SRM is based on SAP best practices that stem from proven business and industry expertise. In addition, with the SAP SRM solution, SAP provides a wide range of pre-configured business scenarios that organizations can quickly deploy and benefit from with improved efficiency in their business processes. Let's examine some process benefits now:

- ▶ Overall reduction in requisitioning, order processing, and supply-management cycle time are a direct result of the streamlined procure-to-pay processes within SAP SRM.
- ▶ Efficiencies in business process eliminate costly process-related errors and increase productivity by implementing adequate internal controls.
- ▶ SAP SRM replaces manual procurement processes with a streamlined requisitioning and approval process. Delays caused by lengthy manual approvals are replaced by faster electronic workflows and online status displays.

- ▶ Web-based catalogs provide a quick and easy mechanism for finding negotiated goods and services, comparative prices, and required attributes. Additionally, catalog-based selection ensures compliance with approved vendors.
- ▶ An Internet-based request for proposal (RFQ) and bidding process reduces the source evaluation cycle time.
- ▶ Greater visibility of the historical spending data reduces the source determination time. Purchasing professionals can optimize sourcing decisions based on such criteria as past supplier performance data to determine the best source for goods and services. This helps to continuously enhance the sourcing knowledge within the organization.
- ▶ Synchronization of back-office functions by integrating with corporate finance and ERP systems. SAP SRM offers the capability to integrate with one or many SAP and non-SAP back-end systems.
- ▶ Improved contract compliance and governance are achieved by driving spending towards selected suppliers with negotiated products and prices. Spending analysis within SAP BW matches contracts with purchase transactions to monitor off-contract spending

### 2.3.3 Technology Benefits

SAP SRM provides real-time integration with ERP as the backbone, ensuring real-time data validation across SAP modules like Financial Accounting and HR. Let's take a look at some technology benefits:

- ▶ Web-based requisitioning, bidding, and supplier interaction provide ease of use and increased collaboration across the supply chain.
- ▶ Out-of-box, ready-to-use workflow templates promote reduce implementation efforts.
- ▶ SAP SRM replaces paper approvals with online approvals, reducing the processing time drastically. It also provides greater visibility and awareness with an electronic audit trail.
- ▶ Email integration with standard mail clients such as Microsoft Outlook or Lotus Notes provides greater productivity and user acceptance.
- ▶ Pre-delivered Business packages within SAP Enterprise Portal provide end users with a single interface for all purchasing needs.
- ▶ Better on-demand reporting and improved compliance.

- ▶ Flexible and scalable architecture and implementation scenarios provide organizations the opportunity to configure for their specific business requirements.
- ▶ Integration technologies such as XML and Supplier Networks promote opportunities to standardize supplier adoption.
- ▶ Users only require a Web browser to access the functionality in SAP SRM. This in turn reduces end user maintenance costs with a lower total cost of ownership (TCO).

#### 2.3.4 People Benefits

Benefits for the organization's users are listed here:

- ▶ Streamlined Wizard and *Extended Form* requisition navigation in SAP SRM provide a solution for both casual and power users.
- ▶ Online *check status* provides users with real-time visibility on the status of their requisition and reduces time-consuming follow-up.
- ▶ Professionals within the purchasing organization can focus on strategic supplier relationships and contract negotiations instead of requisition processing.
- ▶ Online supplier catalogs in SAP SRM ensure that users can quickly search for goods and services. This greatly reduces the need for intervention by purchasing professionals for negotiated goods and services ordered from these catalogs.
- ▶ An intuitive Web-based interface provides the similarity of online applications like Office Depot and Grainger, easing change management and training.
- ▶ A single interface to all the procurement functions allows users to focus on their tasks and activities improving productivity. Additionally, Business Packages for SAP SRM provide the ability to direct information to different user group on an individual basis, which increases productivity and enhances user acceptance.

In SAP's recently published *SAP SRM Statement of Direction 2005*, SAP outlines the business benefits of SAP SRM and describes how SAP SRM addresses the business challenges faced by organizations today. Table 2.1 is an excerpt from the document.

Capability	Business Need	Business Benefit
Sourcing	Gain visibility into and actively control more spending categories and manage demand; ensure compliance across business units and supply base	Better sourcing decisions that optimize overall value contribution from suppliers
Procurement	Simplify, standardize, automate, and integrate the procure-to-pay process	Streamlined procure-to-pay process with less administration and more efficiency, resulting in elimination of errors, increased productivity, reduced cycle times, and lower processing costs
Supplier Enablement	Enable the supply base to collaborate and work more effectively	Increased adoption of e-procurement practices through scalable supplier-connectivity capability

**Table 2.1** Some Business Benefits of SRM

Organizations interested in reading the statement of direction can download a copy from SAP's website at [www.sap.com/solutions/business-suite/srm/brochures](http://www.sap.com/solutions/business-suite/srm/brochures).

Now that you are familiar with the key benefits of SAP SRM, let's use the next section to further dissect the SAP SRM solution. In Section 2.4 I will introduce three key concepts, which are:

- ▶ Core supply processes
- ▶ Business scenarios
- ▶ Technology components

Let's proceed with this now.

## 2.4 Dissecting my SAP SRM

There are a few terms and concepts that we need to define in order for you to properly understand the makeup of SRM. SAP constantly changes the SRM framework and often introduces new concepts for arranging the constituents SRM. Fundamentally there three key concepts to understand: core supply processes, business scenarios within each core process, and underlying technology components that enable the business processes.

It should be noted that for the implementation of each business scenario, one or more SAP components or third-party applications might be required. For example, the Supplier Enablement business scenario is powered by a number of underlying technology components, such as, Supplier Self Services (SUS), Biller Direct, Enterprise Portal, Inventory Collaboration Hub (ICH), to name a few.

### 2.4.1 Core Supply Processes

SAP defines three core supply processes that collectively make up the SAP SRM solution, which are:

- ▶ Operational procurement
- ▶ Strategic sourcing
- ▶ Supplier enablement

Chapters 3, 4, and 5 are dedicated to each one of these core supply processes.

### 2.4.2 Operational Procurement

Each core supply process has multiple business scenarios that I'll describe here:

#### ▶ **Self-Service Procurement**

Indirect procurement enables your employees to create and manage their own requirement requests. This relieves your purchasing department of a huge administrative burden while making the procurement process both faster and more responsive.

#### ▶ **Plan-driven Procurement (direct procurement)**

This automates and streamlines ordering processes for regularly needed core materials. Because SAP SRM is integrated with planning, design, and order-processing systems, you can link your procurement processes to a plan-driven strategy that gets you the materials you need for core business processes exactly when you need them. Plan-Driven Procurement integrates seamlessly with back-end systems such as enterprise planning and production. The scenario allows you to integrate operational procurement with your existing supply-chain management solution.

#### ▶ **Service Procurement**

E-procurement has produced great opportunities for saving costs in the purchasing process. However, companies generally fail to extend cost saving measures to services, even though services amount to more than 50%

of annual purchasing volumes. The Service Procurement business scenario within SAP SRM covers a wide range of services such as temporary labor, consulting, maintenance, and facility management.

### 2.4.3 Strategic Sourcing

It is estimated that sourcing accounts for up to 75 % of the total opportunity for procurement savings within an enterprise. The following business scenarios enable the strategic sourcing capabilities within SAP SRM to fulfill supply needs, negotiate supplier contracts, and evaluate supplier performance:

► **Catalog Content Management**

This scenario provides a solution for creating, maintaining, and managing catalog content within your e-procurement application. This concept will be discussed in detail in Chapter 6.

► **Strategic Sourcing and Contract Management**

This application in SAP Enterprise Buyer provides professional purchasers with a wide range of actions and information to help them source their requirements. As a purchaser, you can use the interface to process the requirements and determine the best source of supply. Once you have done this, you can create a purchase order or contract directly from the sourcing application or SAP Bidding Engine. Save it either locally or in the back-end system, depending on the technical scenario you are using (Classic, Extended Classic or Standalone).

► **Spend Analysis**

This is a decision-support application that enables you as a purchaser to analyze your total spending across system and organizational boundaries. You can perform the analyses per supplier, per product or per product category.

### 2.4.4 Supplier Enablement

Supplier Enablement provides a quick and easy process for suppliers and customers to collaborate along the supplier relationship lifecycle. Supplier organizations can connect to a customer-hosted portal to communicate across a number of supplier related activities. Let's examine them here:

► **Supplier Self-Registration**

With this application, organizations can provide a simple Web-based self-registration process for potential suppliers. The main aim for this process is to allow strategic purchasers to identify new suppliers for doing busi-

ness; accepted suppliers can then participate in strategic sourcing events such as bidding and auction events.

► **Design Collaboration**

This scenario allows organizations to involve suppliers beginning with the product design stage which enables collaboration on design objects like specifications and bills of materials. Organizations using the product life-cycle (PLM) application can use C-folders to invite suppliers to participate in the design aspect of acquiring specialty products and services.

► **Order Collaboration**

Organizations can use the supplier self services (SUS) component to exchange business documents with their suppliers. Purchase orders, purchase order acknowledgements, invoices are examples of some of the business documents that can be exchanged with suppliers using a Web-based application hosted by the customer. Suppliers only require a Web browser to log in to the application and receive purchase orders and can collaborate on all procurement-related activities.

► **Collaborative Replenishment**

Collaborative replenishment optimizes the supply-chain performance by enabling suppliers to access customer inventory data and making them responsible for maintaining the inventory levels required by customers through exception-based replenishment.

## 2.5 SAP Components

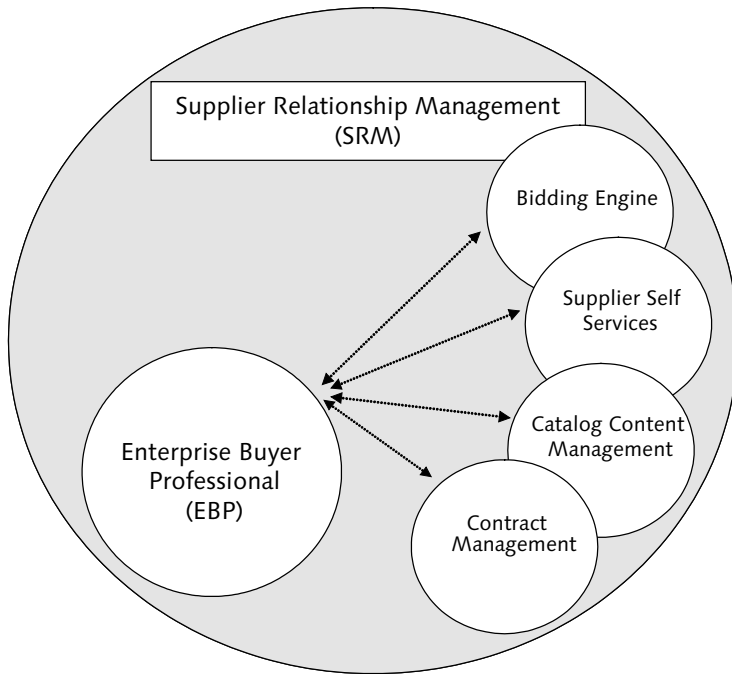
SAP components are the underlying technologies that enable the SAP business scenarios. The key SAP components are listed below and described in some detail in the remainder of Section 2.5:

- SAP Enterprise Buyer (SAP EBP)
- SAP Bidding Engine
- SAP Supplier Self-Services (SAP SUS)
- SAP Catalog Content Management (SAP CCM) or SRM-MDM Catalog
- SAP Business Information Warehouse (SAP BW)
- SAP Exchange Infrastructure (SAP XI)
- SAP Enterprise Portal (SAP EP)

Let's explore these in more detail now.

### 2.5.1 SAP Enterprise Buyer (SAP EBP)

SAP EBP promotes *self-service* procurement. It is a Web-based solution that provides the complete procurement process for the procurement of both direct and indirect goods and services. The process begins with the creation of a *shopping cart* and ends with the entry of an *invoice*. SAP EBP is the execution hub for the majority of processes within SAP SRM, as shown in Figure 2.6.



**Figure 2.6** Enterprise Buyer — Execution Engine in SAP SRM

Most organizations initiate their supplier-relationship management journey with implementing the EBP component in SAP SRM. Once implemented, EBP acts as a catalyst for all the other components. For example, the SAP CCM component is not used by itself; instead, users creating shopping carts or purchasing professionals creating purchase orders in EBP use catalogs to quickly search for and order products and services.

### 2.5.2 SAP Bidding Engine

The Bidding Engine is an Internet solution that provides organizations the ability to strategically source and obtain optimal prices for goods and services. Tools such as RFX, Auctions, Reverse Auctions, and Bid Evaluation

enable organizations to create and process bid invitations and Auctions to source products and services. Suppliers access the bid invitations using a Web browser where they can submit bids and access all the details of the bid.

As an example of how organizations might use the Bidding Engine capabilities is as follows, let's say your company wants to replace all the existing computers because they're getting outdated and wants to purchase state-of-the-art laptops for all 5,000 users in the organizations.

This type of a purchase could cost an organization anywhere from \$75,000 – \$100,000 just in equipment purchase, apart from the services and maintenance cost. Organizations could use the SAP Bidding Engine to invite a select group of suppliers such as Dell Corporation, IBM Corporation or HP. to a Bidding Event where they would get competitive bids electronically. Your company can then evaluate the bids received in an electronic manner based on a number of different criteria and select the most suitable supplier to contract the purchase.

### **2.5.3 SAP Supplier Self-Services (SAP SUS)**

Supplier Self-Services, or SUS, is a hosted Internet solution that provides an integrated application for organizations to collaborate with their business partners. A Web browser such as Internet Explorer is all that is required for accessing SAP SUS. This offers smaller and mid-sized suppliers the opportunity to electronically integrate the procurement processes without the need for their own sales systems. SUS provides hosted order-management capabilities, including purchase-order processing, goods-receipt confirmation, invoice entry and the ability to view the payment status.

Organizations can invite strategic suppliers that are smaller in size and those that do not have the capability to exchange business documents electronically using XML or EDI. By enabling smaller suppliers with supplier self-services capabilities, your organization can ensure that documents are delivered to the supplier electronically via a hosted solution. Supplier organizations can assist in order collaboration and can acknowledge the PO receipt and delivery of the goods and services electronically, alleviating the manual efforts required by your purchasing department.

Also, suppliers can enter invoices electronically using SUS, and these can then be sent to the appropriate individuals in your organization for proper approvals using workflow prior to payment. This can reduce the manual efforts for your accounts payable department to enter invoices.

### 2.5.4 SAP Catalog Content Management (CCM)

SAP CCM is a new solution offering as of release SAP SRM 4.0 that enables organizations to manage enterprise and supplier content. Users can search for products and services using a robust search tool with added flexibility to search cross-catalogs, comparisons, and get detailed information on products or services. SAP CCM is a competitive offering to the widely used BugsEye and Emerge products offered by Requisite. SAP support for Requisite products expired in 2005. This means that organizations that have been using the Requisite applications with the previous SRM releases will have to decide whether to implement SAP CCM or enter into a new independent contract with Requisite.

Additionally, your organization might need to evaluate whether it will implement SAP CCM or NetWeaver Master Data Management (MDM), given that SAP has announced the strategic shift in content-management strategy in May 2006. SRM- MDM Catalog will be the strategic content-management offering by SAP beginning in Q4 2006, and all new SRM customers are being advised to implement SRM-MDM catalog instead of SAP CCM. There will be some confusion for customers on the selection of the right catalog solution. Chapter 6 will help clarify this for you.

### 2.5.5 SAP Business Information Warehouse

Business Information Warehouse (sometimes shortened to Business Warehouse or BW) is a packaged, comprehensive business-intelligence (BI) product centered around a data warehouse that is optimized for (but not limited to) the R/3 environment from SAP. SAP BW is an integral component of the SAP suite of applications with an added advantage of being a software package that can be used in both SAP and non-SAP environments.

It is important to note that all analytics in SAP SRM are powered by the business warehouse. This is one reason why SAP's BI solution is integrated as a component within the SAP SRM solution offering; organizations really need to implement to enable analytics in SRM. The positive aspect for organizations is that they can quickly use more than 100 reports and queries that are provided via the standard content in BW for SAP SRM. SAP pre-delivers these reports for SAP SRM that can be used out of the box.

### 2.5.6 SAP Exchange Infrastructure (SAP NetWeaver Exchange Infrastructure)

SAP NetWeaver Exchange Infrastructure (SAP XI) provides open integration technologies that support process-centric collaboration among SAP and non-SAP applications, both within and beyond enterprise boundaries. SAP XI is a middleware solution that organizations can use to exchange data between SAP SRM and business partner systems or electronic marketplaces, over the Internet. SAP XI is used in SAP SRM, to integrate processes between SAP EBP, SAP SUS, and SAP CCM.

Organizations that want to exchange business documents such as purchase orders, acknowledgements, and invoices electronically via XML or EDI with their suppliers need to implement the SAP XI component.

### 2.5.7 SAP Enterprise Portal (SAP NetWeaver Portal)

SAP NetWeaver Portal unifies key information and applications to give users a single view that spans IT siloes and organizational boundaries. With the SAP NetWeaver Portal, you can quickly and effectively integrate SAP solutions, third-party applications, legacy systems, databases, unstructured documents, internal and external Web content, and collaboration tools.

## 2.6 Summary

Thus far, we have talked about supplier relationship management in general and have briefly defined the SAP SRM solution. In this book, we will try to describe in detail the functionality available in SAP SRM. Chapters 3, 4, and 5 focus on SAP supply core processes: operational procurement, strategic sourcing, and supplier enablement respectively.

In Chapter 3, we discuss in detail operational procurement, which is primarily enabled using the EBP component. We will introduce the concept of the shopping cart in SRM, which is similar to a requisition in SAP R/3. In addition, we discuss in detail the business scenarios: Self-Service Procurement, Plan-Driven Procurement, and Services Procurement.

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