

# APAC Procurement Business Module

## Blanket Purchase Order Procedure Training Document



### Local Group Companies

Submit Date, 18-Nov-04  
<Confidential>





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## Blanket Purchase Order: Advantages

With certain procurement transactions, the costs of procurement are disproportionately high in relation to the value of the material or service involved. This is frequently the case of office supplies (such as pencils and notepads) and services of relatively minor importance (such as small repairs, cleaning work, and courier service), for example.

In such cases, it makes sense to streamline the procurement process. Procurement costs – which in the case of standard procurement processes can be quite high – are significantly reduced if a so-called blanket purchase order is created instead of a standard PO. Such a single long-term purchase order can be used to procure a variety of materials or services whose modest value does not justify the high processing cost of issuing a series of individual POs.

The main advantage of using blanket POs is thus the associated reduction in order processing costs. Transaction costs are lower with blanket POs because:

- The blanket PO is valid for a longer period.
- There is no goods receipt or service entry.
- It is not necessary to create PO items for individual procurement transactions.

When creating a blanket PO, the document type *FO* should be used since this document type causes the header fields *Validity From* and *Validity End* to become mandatory entry fields.

The item category *B* must be entered in the PO item overview. The entry of this item category causes the *Limit* tab page to appear on the item detail screen. There, an overall limit and an expected value can be well maintained.

The **overall limit** represents the maximum value for which invoices referencing the PO item can be posted without the system issuing messages. If the overall limit is exceeded when an invoice is posted, the system issues a warning or error message, depending on the settings in Customizing.

The **expected value** is the anticipated end value of the order placed with the vendor. If the release procedure is put in place/activated for purchasing documents, this value can serve as the basis for assigning this blanket PO to a release strategy. Controlling establishes the PO commitment from this value. *The system does not check whether the expected value is exceeded when an invoice is posted with reference to a blanket order.*

In the standard system, the account assignment category **U** (unknown) is allowed for PO items of item category **B**. It is not, therefore, necessary to specify the account assignment until the time of invoice entry.

Noted that the permissible account assignment categories can be defined in conjunction with the blanket purchase orders in Customizing.

When creating a blanket purchase order, neither an order quantity nor a net price is required to be entered. As soon as the expected value is specified during the creation of the blanket PO, it is automatically adopted as the net price.

## Business Process Procedure

### 1.1. Access transaction by

<b>Via Menu</b>	Logistics → Materials Management → Purchasing → Purchase Order → Create → Vendor/Supplying Plant Known
<b>Via Transaction Code</b>	ME21N

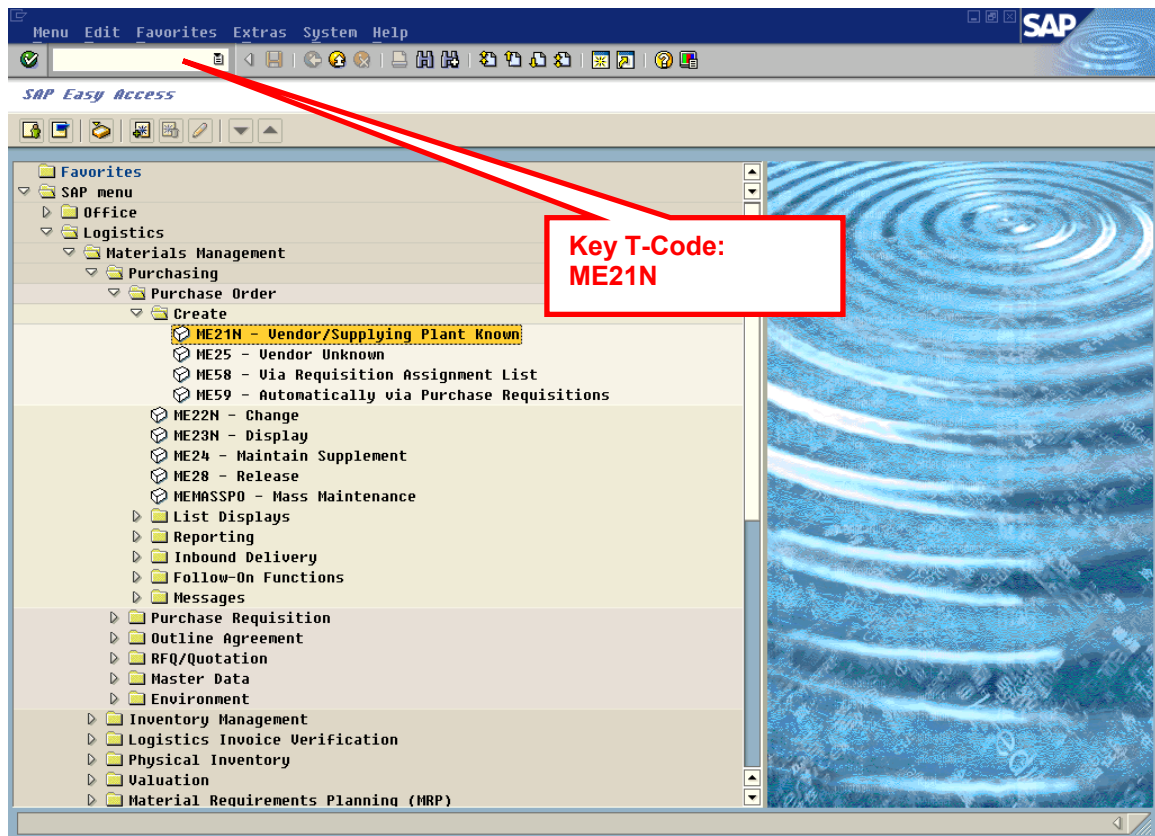


Fig-01

**1.2. On “Create Purchase Order” screen, make the appropriate entry of various relevant fields in the Purchase Order as in the table below:**

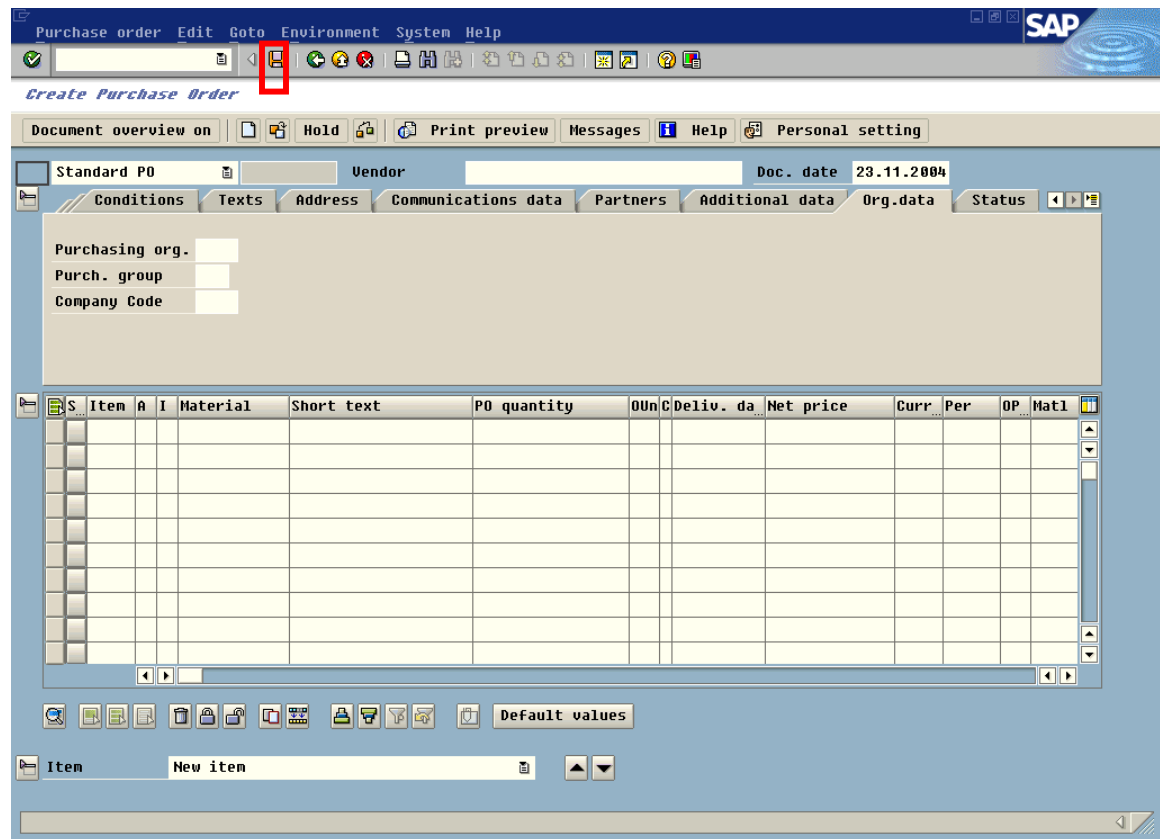



Fig-02

Field Name	Description	R/O/C/D	User Action and Values
			<b>In regard to PO Document Type:</b> As mandatory requirement, the “FO” Document Type should be used for this type of Blanket Order since this document type causes the header fields <i>Validity From</i> and <i>Validity End</i> to become mandatory entry fields.
			<b>In regard to vendor number:</b> Similar to all other types of purchasing document, the vendor number must be maintained which indicates to whom the purchase order is awarded. This will obviously help determine the actual beneficiary for any relevant payments during LIV process thereafter.
			<b>In regard to Purchasing Organization, Purchasing Group and Company Code:</b> Similar to the case of Vendor, these information are also required to be maintained in this Blanket Purchase Order. This enables the identification of the actual ‘owner’ of this purchasing document.

Field Name	Description	R/O/C/D	User Action and Values
			<b><u>In regard to Validity Period of the Blanket Order:</u></b> The entry of these two fields – Validity From and Validity To – helps determine the actual validity period of the blanket order.
			<b><u>In regard to the item category and accounting data:</u></b> By definition, the item category must be set as 'B'. This helps differentiate with other type of Framework Order Purchasing Documents. Furthermore, since the Blanket Order is regarded as the long-term arrangement with the third-party vendor while the actual cost allocation can't be well defined at the time of PO creation, the 'Account Assignment Category' field shall be set as 'U' (Unknown) and the actual accounting data (G/L account and cost center) will be determined during invoice receipt via LIV
			<b><u>In regard to Material number, Quantity, Delivery Date and Net Price:</u></b> In practice, the Blanket Order is purposely used for optimizing purchasing processing costs for low-value and/or highly-consumed items such as office supplies (pencils and notepads) and services of relatively minor importance (small repairs, cleaning work, and courier service) where no material master records are practically maintained, the <b>material number will not be used in Blanket Order</b> . Furthermore, the <b>quantity and net price will also not be required to be entered</b> . Delivery Date shall be of low importance as well and therefore, will be having the <b>nominal value</b> (for statistical purpose only).
			<b><u>In regard to Material Group and Plant Location:</u></b> Since there is not any material number being required for this Blanket Order, the Material Group is required to be maintained. The related PCS (latest version) shall be used in this field entry. In additions, the plant location shall also be maintained to represent to which location the external procurement is agreed being made.
			<b><u>In regard to the "Overall Limit" and "Expected Value":</u></b> Both fields

Field Name	Description	R/O/C/D	User Action and Values
			will have to be maintained.
			After making the appropriate entry, click on  icon to save the Blanket Order

**Legend:** R = Required, O = Optional, C = Conditional, D = Display