



# White Paper

## Complex Procurement in Oracle EBS R12

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In the world of outsourced and off-shored services how does Oracle eBusiness Suite (EBS) release 12 handle procurement of complex services? Oracle has released an integrated solution for complex services procurement that enables complex work contracts and payment terms to be used. Oracle now has an integrated solution to automate acquisition of complex projects, commodities and services. Oracle has developed a new solution that is part of the Advanced Procurement Suite that integrates the process of requesting, sourcing, contract collaboration and finally settlement with suppliers to fully automate the acquisition of complex services, commodities or projects.

### **Oracle Complex Procurement is characterized by the following:**

Procurement of Services: Complex Procurement usually involves high dollar value projects could be for things such as construction of new facilities, IT related projects, etc.

Long Lead Times: In many cases the good or service being procured have a long lead time and or lengthy delivery schedules associated with them. In some the projects could run for months or even years.

Requirement of Progress Payments; Payment of these types of projects require progress payments which will pay a supplier base on the amount of work completed.

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## CAPS Research Study

In a study done by CAPS Research August 31, 2006, CAPS looked at typical spend volume on Service Contracts. In the figure 1 below many types of contracts were identified, the contracts types that had complex payment requirements were

- Fixed Price Contract,
- Time and Materials Contract
- Milestone Deliverable Contract
  
- Spend Volume on Services Contracts

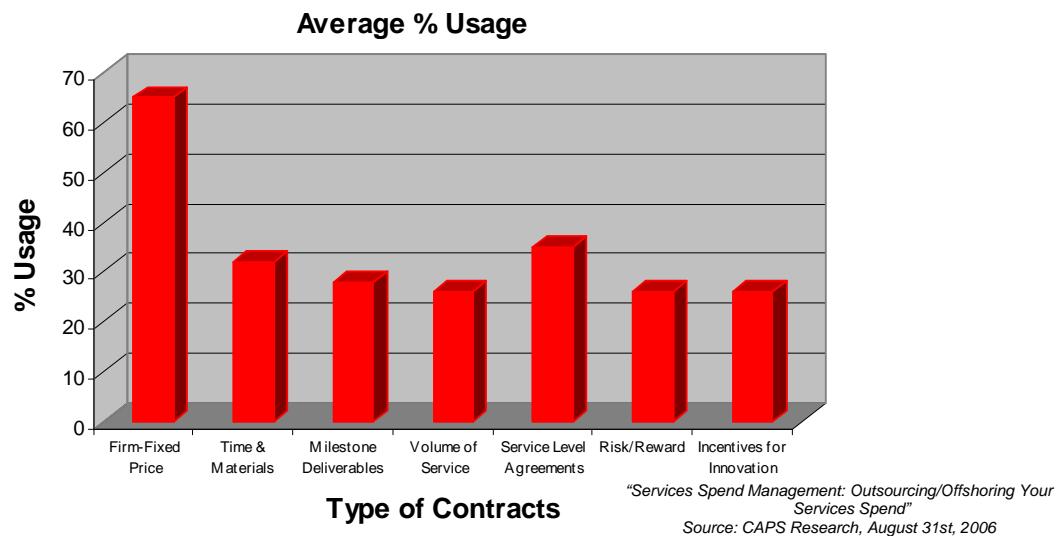


FIG1.

Why did Oracle build the functionality in to R12 EBS? Oracle saw market drivers amongst various markets in which it serves. Requirements where showing up in the Private and Public-sector. Customers such as the Department of Defense the Veterans Affairs Commission and the Office of Naval Research had requirements for such systems. Also in many cases there are regulatory agencies that require complex contracts to be written by suppliers. The world of engineering and construction require such systems, companies such as Bechtel and others are required to have systems that can be used for complex contract administration.



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Let's define some of the terminology commonly used in conjunction with complex services contracts.

- Progress Payments Schedule....A Progress Payment Schedule is an industry term that represents a schedule of services and work components required to complete a complex services contract. Each of these service components is typically associated with payments. Specifically in Construction Services, the Progress Payment Schedule is also referred to as the Schedule of Values.
- Progress Payments....These are payments released for work partially or fully completed on a Progress Payment Schedule.
- Pay Items...A Pay Item is an Oracle term that refers to a specific work or service component of the Progress Payment Schedule. It describes the work or service that needs to be completed, and the payment amount associated with that work or service. So a Progress Payment Schedule basically consists of several pay items. Pay Items can be of different types – they can be based on rate of work or service being delivered, or based on a lump sum amount for a service, or they can even be based on an event or milestone on the contract.
- Progress Payment Rate ... This is a payment term used on cost reimbursement contracts. On these contracts progress payments released to the Contractor are based on the costs incurred by the contractor during the execution of the contract. The progress payment rate is used on these contracts to compute the reimbursement amount based on the cost incurred by a contractor. The Progress Payment Rate is usually negotiated between the Buying Organization and the Contractor.
- Contract Financing...Contract Financing is often used on Public Sector Contracts. Contract financing is paid based on work performed or cost to date. If the contractually specified performance or cost milestones are met, financing is given to aid in the completion of subsequent work prior to the delivery of the contract line item.
- Advances.. An Advance is a type of financing payment and is usually released before any work or service has been performed on the contract. It is often used to offset some of the upfront costs associated with initiating work on the contract.
- Recoupment.... Recoupment refers to the liquidation of previously released financing payments. This liquidation is done from payments released for the delivery of services.
- Recoupment is quantified in the form of a Recoupment Rate. This term represents a rate (as a percentage) that is applied to Invoices submitted by the Supplier for the delivery of services specified on the contract. This rate determines the fraction of the Invoice Amount used towards recoupment of previous financing payments.
- Retainage...Retainage is often used in the procurement of Construction services by the Client to mitigate the risks of ensuring completion of the contract. Often in large contracts which are at the point of substantial completion, there is often a list of jobs that need to be completed. On these contracts if the balance payment due to the contractor is not large enough to cover the costs of completing the list of jobs, the contractor may not finish them. Retainage is withheld from progress payments to ensure a sufficiently high balance payment

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amount so that the contractor finishes all jobs on the contract. Flowing from that, the Retainage Rate specifies a percentage of the invoice amount billed by the contractor that is withheld from payment. This retainage amount represents a deferred liability due for payment in the future.

## Business Process Flows

Oracle Complex Procurement was designed to follow leading industry best practices. The figures below depict the high level business flow for the procurement of complex services that this solution addresses.

Procurement for complex services often starts off from a request for services, and this can originate from one of several sources – Project Managers in charge of a construction project, engineers in the field, or even architects. See figure 2.

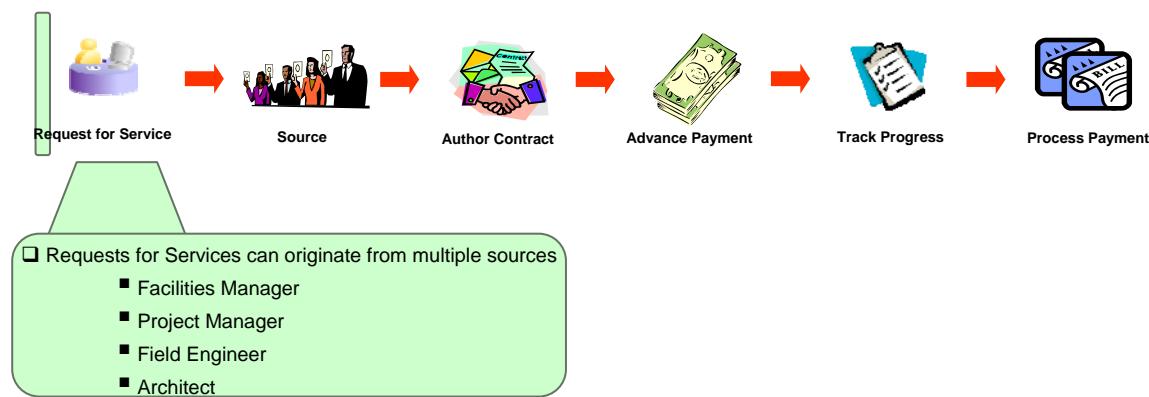


Figure 2

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If the Service Requests have high dollar values, and involve services that require longer lead times to be fulfilled, buying organizations can determine that fulfilling the request will need sourcing & negotiation activity and ultimately a contract with complex payment terms. Sourcing professionals then create a sourcing event and invite bids from multiple suppliers. Since these contracts can be complex, the entire sourcing process may involve multiple rounds of negotiation on various aspects of the contract ..... such as the payment terms of the contract..... Whether there would be provisions for contract financing or advances, and how high the recoupment rate and the retainage rate should be, etc.

Another key aspect that is negotiated is the Progress Payment Schedule, its structure, how the work will be performed, and the amount associated with each pay item.

And finally, the Buyer and the Contractor also negotiate on applicable Clauses and also on Deliverables such as lien waivers, insurance certificates and their due dates. See Figure 3

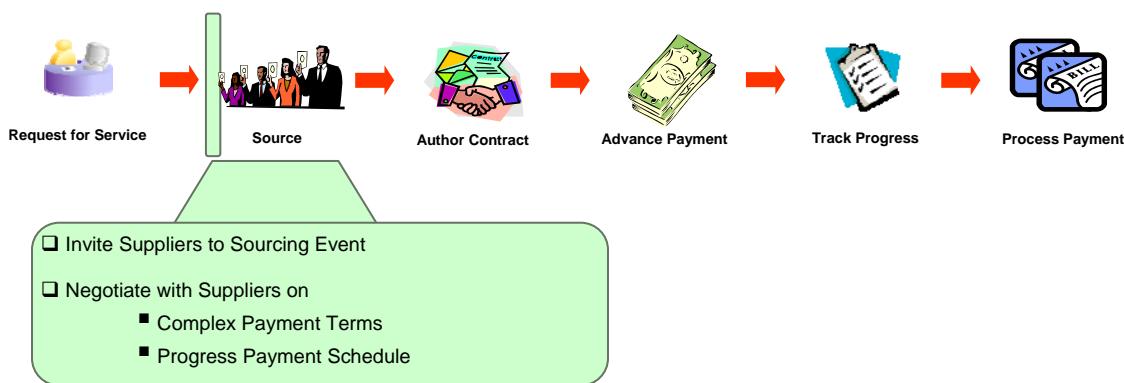


Figure 3

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Once negotiations are complete, the best party is awarded the contract.

The complex payment terms and the progress payment schedule now become a part of the contract and both parties can sign-off on the same. The contract is now ready for execution. See Figure 4

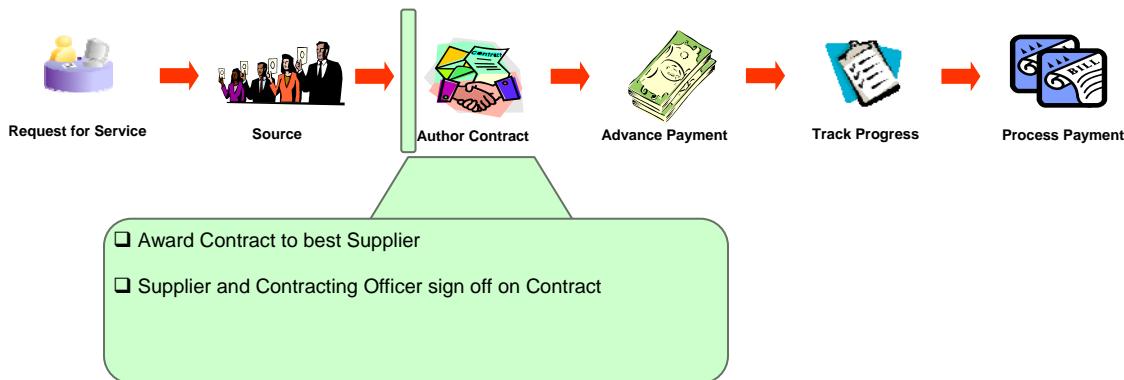


Figure 4.

If there are provisions on the contract for advance financing, the supplier can request payment for these before work starts. See Figure 5

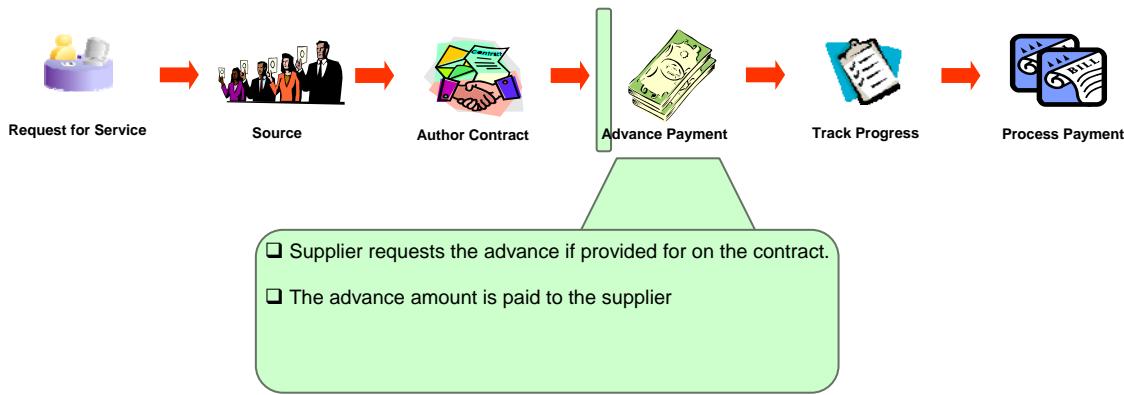


Figure 5

The contractor now performs work on the progress payment schedule & periodically reports progress and requests payment either in the form of a Work Confirmation or an Invoice. These documents state the amount of work completed on different components of the progress payment schedule, and usually need to be approved by designated individuals like Engineers, Project Managers or Architects on the client's side, before any payment can be released.

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Once the work confirmation is approved, the contract is updated with the progress made. If the work is accrued, this information is also updated on the Project which allows the Project Manager to view actual and commitments for this specific portion of work along with the rest of the work against the Project.

If progress is reported via an invoice, the contract is updated with the progress billed when the invoice is matched in Accounts Payable. If the work is not accrued, Projects will pull the details from the accounted and validated invoice. See figure 6.

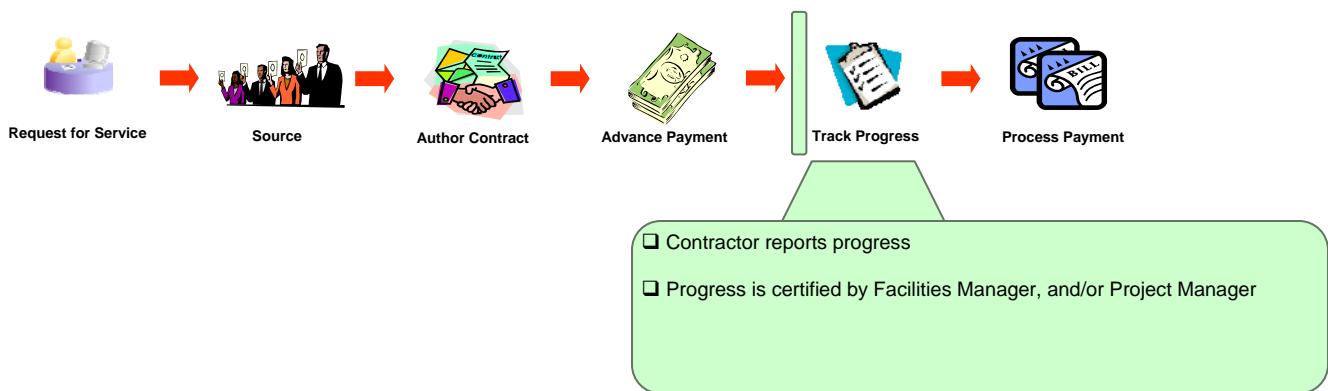


Figure 6

Once an invoice is received or generated, the Complex Payment Terms specified on the contract are used to calculate the payment due to the contractor. Previous financing payments, if any, can be recouped, and applicable retainage can be withheld before a payment is made.

Alternatively, if the contractor's invoice is for contract financing payments, these can be released and tracked as such on the contract so that they can be recouped subsequently from invoices for services deliveries. See Figure 7.

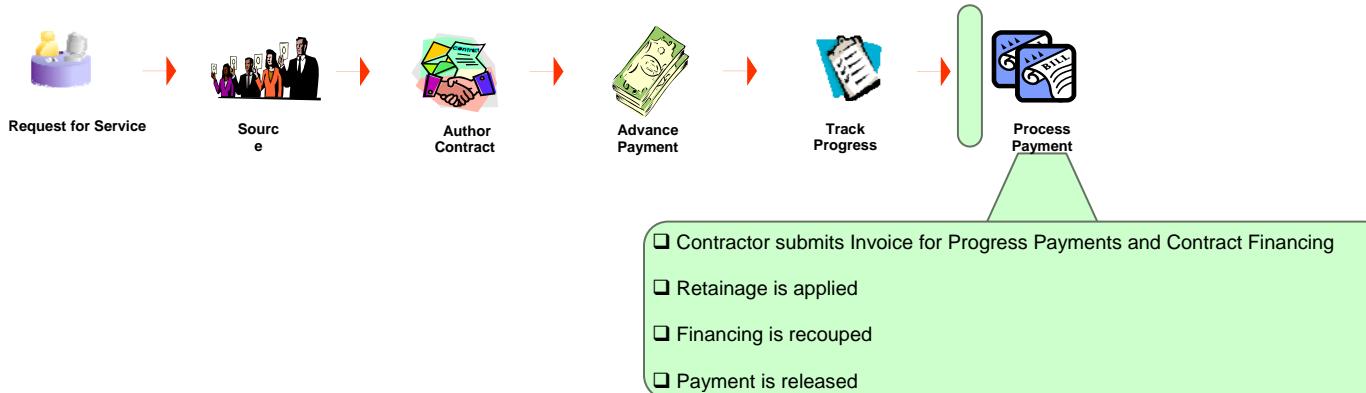


Figure 7.



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## Oracle R12 Complex Procurement Major Features

- Source and Negotiate Payment Terms & Progress Payment Schedule  
Use Oracle sourcing to negotiate contracts
- Incorporate Payment Terms & Progress Payment Schedule into Contract  
Complex terms and conditions can now be placed in the contract
- Track & Report Progress based on Schedule  
A schedule can be setup and process of that schedule can be tracked and reported on for payment purposes
- Track commitment costs against the Project  
Project commitments can be tracked in detail against the contract
- Release Progress Payments  
Fully integrated with Accounts Payable payments can be released as needed
- Release and Recoup Advances  
Advanced are accounted for and recouped during the project lifecycle
- Apply Retainage on Invoices  
Retained amounts can be offset on invoices
- Release Retained Funds  
Retained funds can be release periodically during the contract.

## Oracle R12 Complex Procurement Benefits

- Streamline and Automate Procurement of the Complex Services Spend Category  
Complex procurement workflow enables a streamlining business process and automation of the procure to pay process for this spend category.
- Ensure Compliance with 360° Visibility to all aspects of the Contract Lifecycle  
Oracle is uniquely positioned to giving organizations visibility over the entire contract lifecycle.
- Reduce Acquisition Costs through Seamless Collaboration with Key Stakeholders  
Ensure you receive the best possible contract outcome and lowest acquisition costs by give you the ability to collaborate with key stakeholders both internal and external
- Minimize Acquisition Risks by using Negotiated Payment Terms  
Low risk is a key in today's business climate, having Account Payable be a integral part of this process ensures they best possible project outcome
- Ensure Fiscal Compliance  
Organizations now have the information they need to live up to the standards of its contracts

## Implementations considerations for Complex Procurement

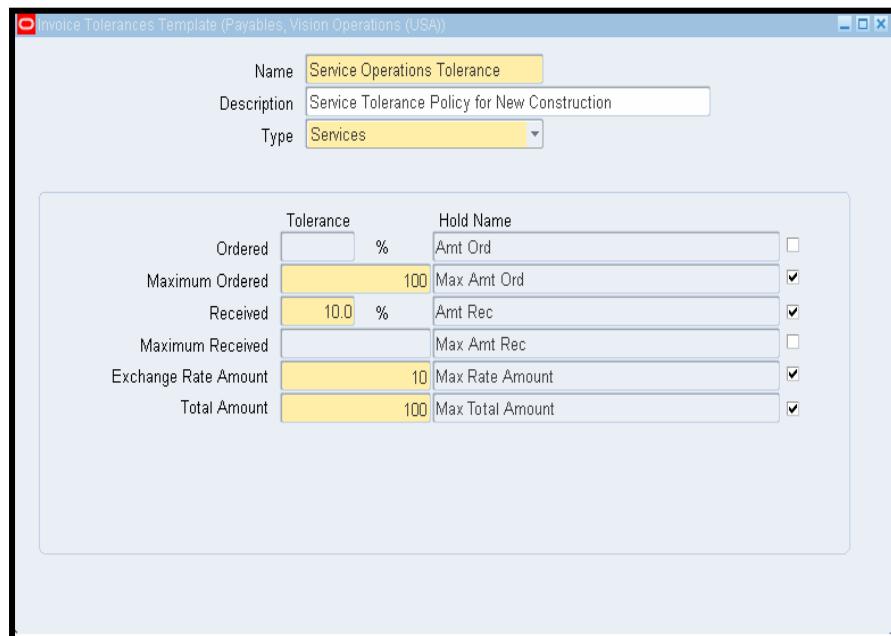
There are some system options that need to be set for complex procurement to work properly. The most important are the financial options within purchasing and payables. Let's take a detailed look at those profile options in Oracle EBS in this section. In the financial options various document styles can be added to and changed, order tolerances and invoice tolerances can also be changed.

The profile option POR: Amount Based Services Line Type needs to be setup. This specifies how services are to be quantified and ordered on the transaction document. In order to use the Complex Services functionality, the value for this profile option should be set to 'Fixed Price Services', which means that services will be ordered as a lump sum amount.

The setup for the Retainage Account for the Operating Unit can be found within the accounting tab on the Financials Options form. Users can define one retainage account for the Operating Unit to account for funds withheld from suppliers doing business with the organization.

The setup of tolerances for the Payables' invoice. Use the Invoice Tolerances Template window to define the matching tolerances policy for variances between the amount being invoiced and the amount planned on the Services Procurement Contract or the work to date represented by the approved work confirmations. You can define both percentage-based and amount-based tolerances. You can define many tolerance templates for goods or services then assign the most appropriate templates to the supplier sites. This allows you to manage your tolerances values centrally yet assign your policies at the trading partner location.

The navigation path is in Oracle Payables under the 'Setup: Invoice' menu item. See Figure 8.





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Figure 8.

Set up suppliers in the Suppliers page to record information about individuals and companies from whom you purchase goods and services.

Tax registrations and profiles are defined for the supplier. Additionally, the buying Organization can specify Payables accounting defaults, the Invoice Match Option that will default to the purchase order, Invoice Tolerance Templates for Goods and Services, and a unique Retainage Rate for each Supplier Site.

You can maintain the retainage rate based on past performance and the contractor's history. See Figure 9. So when a contract is created with this supplier site, the retainage rate defined here will default onto the contract. This again shows the automatic feature of Oracle EBS.

The navigation path for this page in Oracle Purchasing is to go to the Buyers Work Center, Supplier Tab.

A screenshot of the Oracle Supply Base Suppliers page. The left sidebar shows a navigation menu with 'Suppliers' selected. The main area displays a 'Confirmation' message: 'Changes to Invoice Management have been saved'. Below this is a form for 'Update Allied Construction - 2000194: Invoice Management'. The form includes fields for 'Invoice Currency' (Euro), 'Invoice Amount Limit', 'Invoice Match Option', 'Hold from Payment' (checkboxes for All Invoices, Unmatched Invoices, Unvalidated Invoices), 'Invoice Payment Terms' (Payment Currency Euro, Payment Priority 99, Terms Immediate, Terms Date Basis Invoice, Pay Date Basis Due), 'Pay Group' (Standard Supplier Pay), and checkboxes for Always Take Discount, Exclude Freight From Discount, and Create Interest Invoice. At the bottom, there are tabs for 'Supplier Sites', 'Invoicing', 'Payment', 'Terms' (which is active), and 'Supplier Preferences'. A 'Create' button is visible. The footer contains links for 'About this Page', 'Privacy Statement', 'Suppliers', 'Home', 'Logout', 'Preferences', and 'Diagnostics', along with a copyright notice: 'Copyright (c) 2006, Oracle. All rights reserved'.

Figure 9.



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Auto-Approval Tolerances can be specified for Supplier initiated Change Requests on the Progress Payment Schedule. Buyers can specify a tolerance based on a percentage or dollar amount of pay item quantity and pay item amount. If the requested change falls within the limits defined by this band, it is automatically approved and the contract is updated. See Figure 10.

The navigation path for this page in Oracle Purchasing is to go to the 'Setup: Tolerances and Routings' menu item and 'Supplier Change Order' within that.

The screenshot shows the Oracle Purchasing interface for setting up supplier change order tolerances. At the top, there's a header bar with 'ORACLE Purchasing' and links for 'Diagnostics', 'Home', 'Logout', and 'Preferences'. Below the header, a sub-header says 'Supplier Change Order'. A dropdown menu 'Operating Unit' is set to 'Vision Operations' with a 'Go' button. There are 'Cancel' and 'Save' buttons at the top right.

The main content area has two sections:

- Buyer Auto-Acceptance Tolerances:** This section contains a table with columns 'Attribute', 'Measure', 'Maximum Increment', and 'Maximum Decrement'. The rows are:

Attribute	Measure	Maximum Increment	Maximum Decrement
Document Amount %		0	0
Document Amount USD		0.00	0.00
Unit Price %	%	0	0
Line Amount %	%	0	0
Line Amount USD	USD	0.00	0.00
Schedule Quantity %		0	0
Schedule Amount %	%	0	0
Schedule Amount USD	USD	0.00	0.00
Pay Item Quantity %		10	0
Pay Item Amount %	%	100	0
Pay Item Amount USD	USD	500.00	0.00
Promised Date	Days	0	0
- Routing:** This section asks to select attributes for routing requests to approvers. It includes three checked checkboxes:
  - Promised Date
  - Schedule Quantity
  - Price (for lines from a non-catalog requisition)

At the bottom, there are 'Cancel' and 'Save' buttons. The footer includes links for 'About this Page', 'Privacy Statement', 'Diagnostics', 'Home', 'Logout', and 'Preferences', along with a copyright notice: 'Copyright (c) 2006, Oracle. All rights reserved.'

Figure 10



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Change Order Auto-Approval Tolerances can utilize Auto-approval tolerances that can be specified for Buyer initiated changes on a Progress Payment Schedule. A tolerance can be specified based on a percentage of pay item price, quantity and amount. If the requested change falls within the limits defined by this band, it is automatically approved and the contract is updated. See Figure 11.

The navigation path for this page in Oracle Purchasing is to go to the 'Setup: Tolerances and Routings' menu item and 'Change Order' within that.

The screenshot shows the Oracle Purchasing interface for setting up auto-approval tolerances. The main title is 'Change Order'. At the top right are links for 'Diagnostics', 'Home', 'Logout', and 'Preferences'. Below that is an 'Operating Unit' dropdown set to 'Vision Operations' with a 'Go!' button. There are 'Cancel' and 'Save' buttons at the bottom right.

The central area contains two tables of configuration options:

Auto-Approval Tolerances for Agreements		Auto-Approval Tolerances for Orders	
Attribute	Measure Maximum Increment	Attribute	Measure Maximum Increment
Header Amount Agreed %	0	PO Amount %	100
Header Amount Limit %	0	Header Amount Limit %	100
Unit Price %	0	Unit Price %	10
Price Limit %	0	Line Quantity %	100
Line Quantity Agreed %	0	Line Amount %	100
Line Amount Agreed %	0	Schedule Quantity %	100
Price break - Quantity %	0	Schedule Amount %	100
Price break - Price %	0	Pay Item Price %	100
Auto-Approval Tolerances for Releases			
Attribute	Measure Maximum Increment	Attribute	Measure Maximum Increment
Schedule Price %	0	Pay Item Quantity %	100
Schedule Quantity %	0	Pay Item Amount %	100
Schedule Amount %	0	Distribution Quantity %	100
Distribution Quantity %	0	Distribution Amount %	100
Distribution Amount %	0	Contractor Start Date Days	5
Need-By Date Days	0	Contractor End Date Days	5
Promised Date Days	0	Need-By Date Days	5
Promised Date Days	0	Promised Date Days	0

At the bottom of the page are links for 'About this Page', 'Privacy Statement', 'Diagnostics', 'Home', 'Logout', and 'Preferences'. A copyright notice at the very bottom reads 'Copyright (c) 2006, Oracle. All rights reserved.'

Figure 11

Oracle Approvals Management is a common module which provides users an ability to configure rules which determine the approvers within the enterprise for business transactions or activities. The Work Confirmation and Payables Holds Resolution transaction types are new in Release 12.

The Work Confirmation transaction type allows rule configuration for determining the most appropriate person to evaluate, certify and approve the work confirmation. This could be a field engineer, a project manager or even an architect.

The Payables Holds Resolution transaction type allows rule configuration for determining the most appropriate person to research, negotiate, and resolve invoice tolerance holds.

The Payables Invoice Approval transaction type has been enhanced to support line level and document level approvals plus optional rules which allows you to forgo invoice approval if the invoice is matched to a purchase order.



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## In Summary

- **Maximize Preferred Supplier Savings:**
  - Create and enforce better agreements, enforce preferred supplier use in every requisition, and set policies for services spend approval
- **Eliminate Over-Billing and OVERRUNS:**
  - Eliminate over-billing with comprehensive invoice matching and reconciliation, lower processing costs through supplier collaboration, and ensure service delivery and compliance with deliverable tracking
- **Create Visibility into Services Spending:**
  - Oversee the entire services procurement cycle, measure supplier and contingent labor performance, and achieve a complete view of services and goods spending
- **Greatly simplified process for procuring and managing services of all kinds.**