

# White Paper



## Best Practice

**mbas – Seamless Procurement and Inventory Update**

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| White Paper                                      |  | GC/T/0113 V 1.0     |
| mbas-<br>SeamlessProcurementandInventoryUpdation |  | W. E. F. 01/01/2009 |

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## 1. Introduction

Trading industry has been constantly evolving and over the past few years the pace of evolution has increased tremendously. With the advent of new players and ever-increasing competition at each stage of the supply chain the pressure to continuously reduce cost without compromising customer satisfaction has become more pronounced.

For growth oriented enterprises, this challenge is an opportunity to innovate and streamline their end-to-end business processes to optimize operational efficiencies. Innovation can be in terms of introduction of new processes by recognizing and standardizing the unique practices followed by the enterprise. Continually streamlining existing processes helps reduce non-value added activities and thus reduce the overall cost. Seamless integration of the three primary functions in a trading enterprise viz. procurement, inventory and sales & distribution can leverage from a mere a competitor to market leader.

mbas - Industry Trading Solution is an integrated solution facilitating seamless information flow across procurement, inventory and sales departments. It caters to various procurement and sales strategies by accurately updating each inward and outward inventory movement so that an organization can keep an accurate track of its stocks. This reduces prevalent unplanned manual inventory tracings from time to time thus allowing organizations to focus on value-added activities.

This paper presents the prevalent best practices of Trading Industry and displays mbas – Procurement & Inventory modules’ capabilities to handle various purchasing methods and subsequent update of inventory.

## 2. Overview

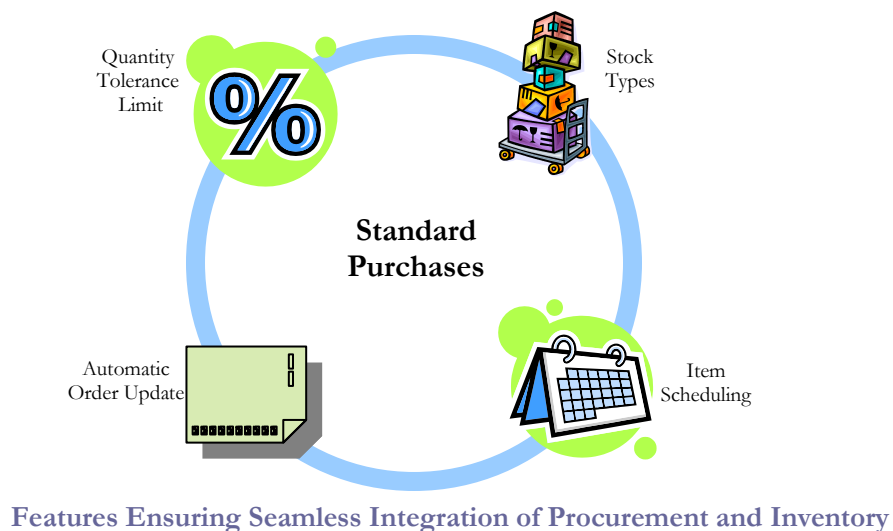
mbas – Procurement & Inventory supports the following business processes:

- Standard purchases
- Purchase returns
- Drop-shipment
- Consignment In

### ***Standard Purchases:***

An organization practicing standard purchasing i.e. Order–GRN (Goods Receipt Note) or Contract–Release Order-GRN is facilitated by seamless integration between mbas – Procurement & Inventory modules through the following features:

- Quantity Tolerance Limit
- Item Scheduling
- Stock Types
- Automatic Order Update



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*Quantity Tolerance Limit:*

In a typical trading environment quantities delivered by vendors vary with respect to actual order quantity. To accommodate this mbas – Order provides a provision to define quantity tolerance line item wise. Therefore a GRN can accept a quantity more or less than the order quantity. This leads to appropriate order closure and also stock is updated as per the actual quantity received. This prevents manual fore closure of orders in case of delivery of less than ordered quantities and creation of balance GRNs for receipt of excess quantities.

*Item Scheduling:*

mbas – Item scheduling feature in purchase order (PO) allows a purchase manager to order the delivery of an item on multiple dates in the same PO. A GRN with reference to such an order can be recorded based on schedules. This allows maintenance of schedule statuses leading to simplified order tracking. Moreover, this reduces the total no. of orders raised thus reducing overall time spent on administrative tasks.

*Stock Types:*

mbas – Procurement supports creation of multiple types of purchase orders/contracts for procurement of various kinds of material. It facilitates recording each inward movement of material from vendor in the GRN. At the time of GRN recording, with reference to an order it allows capturing of the following parameters such as:

Stock Type: It allows capturing of stock’s quality and its subsequent behavior. The following types of stock types are available for standard purchases:

- Unrestricted – This is selected if received stock is satisfactory and ready to be further issued
- Rejected – If an item is quality checked then an automatic quality cycle is triggered as soon as it is received. Any unacceptable stock after quality check is assigned as ‘Rejected’

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- Blocked – This is selected if incoming stock needs to be restricted from further usage
- Damaged – This is selected if incoming stock is found to be damaged on arrival. The same is not allowed to be issued further

Lot Number: mbas supports procurement of items with lot no. At the time of GRN recording the user can capture the lot no. Subsequently the inventory will be maintained and updated lot-wise. Any further movement of this item will be lot-wise.

Manufacturing Date: mbas supports capturing of Mfg. Date at the time of recording GRN. Subsequently the inventory will be maintained and updated Mfg Date - wise. Any further movement of this item will also be Mfg Date – wise.

Expiry Date: mbas supports capturing of Expiry Date at the time of recording GRN. Subsequently the inventory will be maintained and updated Mfg Date - wise. Any further movement of this item will also be Expiry Date – wise.

Grade: mbas supports capturing of an item’s Grade details at the time of recording GRN. Subsequently the inventory will be maintained and updated Grade - wise. Any further movement of this item will also be Grade – wise.

Serial No.: mbas supports capturing of an item’s Serial No. at the time of recording GRN. Subsequently the inventory will be maintained and updated Serial No.-wise. Any further movement of this item will also be Serial No.-wise.

*Automatic Order Update:*

An order’s status can be tracked through balance and executed quantity fields in it, maintained for each line item. When a GRN in mbas is recorded with reference to an Order and subsequently approved, it automatically updates the above quantities. Once the balance

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quantity reaches zero the line item status gets closed. On closure of all the line items the entire order is closed.

***Purchase Returns:***

mbas – Return Management allows seamless flow of information between procurement and inventory modules enabling easy execution of purchase returns. It supports the following processes:

- On-Receipt Rejections
- Shop-Floor Returns
- Unreferenced Returns

*On-Receipt Rejections:*

A purchasing department on receiving items from vendors may find a few or all the items faulty. mbas – Inventory Management supports such a scenario by recording the details as accepted and rejected quantities at the time of GRN. Thus the stock and the order are updated according to the accepted quantity only. Moreover an automatic Debit Note is generated for the rejected quantities

*Shop-Floor Returns:*

Defects can be identified at any phase of the product life cycle. mbas – Purchase Return allows for return of items if any defects are identified after GRN. If these faulty items can be tracked to the GRN then a purchase return can be raised with reference to this GRN. On raising a purchase return the stocks are updated accordingly.

*Unreferenced Returns:*

Typically when items are stored in inventory for a long time organizations may loose the track against which GRN they might have been recorded. mbas – Purchase Return accommodates for such a situation through returns without reference. The stocks are updated as soon as the return is raised.

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### ***Drop-Shipment:***

A lot of traders across the globe are practicing this advanced supply chain management technique to reduce inventory to minimum. mbas supports complete end-to-end drop-shipment cycle through integration of sales, procurement, inventory and finance modules. This section will be limited only to the procurement and inventory integration aspects of drop-shipment due to the scope of the paper.

This is supported through the following sub-processes:

- Purchase Order Processing
- Advanced Shipment Notification
- Provisional GRN generation
- Invoicing

#### *Purchase Order Processing:*

mbas - Purchase Order supports raising of drop-ship orders to vendors. The user selects the drop-ship to customer option and then delivery location as the customer's address instead of the organization's address (as in a normal order). As per the customer's requirements all the items can be delivered either to a single delivery location or different delivery locations item-wise or different locations for a single item on different dates.

#### *Advanced Shipment Notification (ASN):*

A vendor on receiving a drop shipment order sends an ASN notifying the dispatch dates of the requirements. Through mbas - ASN this shipping notification is captured. As an industry best practice, an ASN can be recorded always with reference to an order.



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*Provisional GRN:*

Once a notification is approved a provisional GRN is generated automatically. This provisional GRN updates the executed and balance quantities in the drop-ship order. Moreover, as there is no physical receipt of the items therefore inventory stock is not updated.

*Invoicing:*

Later, when the vendor sends an invoice it is captured through the purchase invoice screen with reference to the provisional GRN. Also, Invoice due dates are automatically calculated based on the payment terms ensuring timely payments to the vendors.

***Consignment***

mbas – Consignment Management comprises of two sub-modules viz. Consignment-In and Consignment-Out. This paper is limited to the discussion of Consignment-In cycle only. It primarily comprises of the following sub-processes:

- Order Processing
- Fill- up
- Issue
- Invoicing
- Returns Management

*Order Processing:*

A purchaser (consignee) sends a ‘consignment order’ to a consigner. This order contains the consignee’s requirement for a specified period such as items, quantities and the pricing structure.

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*Fill-up Processing:*

The consigner sends the items as per the consignment order. This is captured through Fill-up. On approval, the consigner's stock gets updated with stock type as 'C-IN' but there is no financial impact. The consignment order also gets updated. This total stock can now be used for any further inventory planning.

*Issue:*

When the consignor actually wants to sell from the 'Fill-up' stock he issues the required items. Issue can happen only from the 'C-IN' stock type. The stock type is automatically changed to 'Unrestricted'. A single 'Issue' screen can be used for issuing items from multiple vendors.

*Invoicing:*

The consignor sends the invoice based on the issues form the 'Fill-up' stock for a specific time period. The consignor's invoice is captured as in the system as consignment invoice. The consigner makes the payment to consignor based on invoice amounts.

*Returns Management*

Returns in consignment cycle are achieved through either 'Pick-up' or 'Consignment Return'. Returns of faulty, damaged or rejected items at the time of 'Fill-up' are returned through 'Pick-up' screen. Any rejections after issue are carried out through 'consignment returns' screen.

*Stock type - Consignment*

Similar to standard purchase cycle stock types in Consignment-In ensure automatic inventory update. These are as follows:

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- C-IN – At the time of Fill-Up an item is automatically assigned stock type as ‘C-IN’ ensuring segregation and identification of consignment stock from other stock types
- C-IN – Rejected – If an item is rejected and returned through Pick-Up it is automatically assigned stock type as C-IN – Rejected

### 3. Benefits

Seamless integration of procurement and inventory modules provides an enterprise numerous benefits. A few of them are listed below:

- Streamlined procurement process
- Simplified order tracking
- Instantaneous inventory update
- Hassle free vendor payments
- Improved supplier relations

### 4. Conclusion

- mbas – Procurement and Inventory modules are seamlessly integrated ensuring efficient purchases.
- mbas – Procurement and Inventory modules support wholesaler’s/distributors in practicing multiple procurement strategies such as standard, consignment and drop-shipment.
- mbas – Procurement and Inventory provides an enterprise to procure according to requirement through schedules and receipts against those schedules.
- mbas – Procurement and Inventory modules support efficient returns management.