



Procurement Management System implementation for LUKOIL Mid-East Ltd.

Sector: Oil and gas

Region: Iraq

Client: LUKOIL

Task: To achieve maximum efficiency the following objectives were set:

1. To ensure a reliable "backbone" of the system creating a supplier database: only suppliers having enough qualification can perform supply.
2. To speak a common language with the supplier community: the classification of goods, works, services and suppliers must be based on one universally accepted classifier. For this the oil & gas industry FPAL (First Point Assessment) classifier was selected. It is used for the categorization of purchased goods and services, as well as for the classification of suppliers.
3. Select the precise niche in which the system may be helpful. E.g. a multi-billion tender for the signing of a general contract for the engineering, procurement and construction (EPC contract) is not a task for SAP SRM. But SRM is a really convenient and efficient tool for sourcing (supplier source selection) in the case of routine and small purchases.
4. Guarantee data confidentiality, which is especially important for competitive tendering. Suppliers must be sure that no one will see their offers before the opening date.
5. Involve the representatives of supplier companies in system creation as soon as possible. Before that the system prototype was shown to suppliers and their comments and offers that allow facilitating suppliers' work in the system were collected.
6. Minimize or exclude paper procedures. Parallel paper and electronic process execution transforms the system into a burden, not an assistant.
7. Organically integrate SRM into the existing

information environment of the company, do so that information on ERP purchasing need were input into the system and the SRM work result (contract) returned to ERP.

8. Ensure system operation stability and reliability.

Result:

The following may be referred to the key SAP SRM implementation results:

1. Reduction of time expenses on routine purchasing due to the standardization of the purchasing process and transfer to an electronic document flow.
2. Reduction of effort expenses on routine purchases and releasing high-qualification personnel for the organization of complex purchasing.
3. Increasing the competitiveness and transparency of purchases by ensuring equal terms for tender participants and constant increase in the number of potential tender participants due to the growing number of companies gaining access to SRM.
4. Storage of information on every purchasing stage in the system.
5. Self-registration of suppliers in the LME database through the company site.

The system implementation lets Iraqi suppliers study the best global practices and obtain practical experience in the area of electronic purchases which may be used while working with other large foreign companies implementing projects in the territory of Iraq.

Key benefits achieved:

1. The number of suppliers increased by 50%
2. The purchasing process time was reduced by 15%
3. The number of documentation errors committed during the purchase process was reduced by 20%
4. The routine and small purchase effort was reduced by 15%.

Therefore, suppliers were successfully re-oriented at strategic purchases and market work due to the extension of the supplier base and reduction of time and effort expenses on routine and small purchases, the competitiveness of purchases was increased by involving a greater number of suppliers, the purchase

process transparency and manageability was increased by procedures unification, the data confidentiality and the storage of records on actions performed in the system by purchase process participants were ensured.

Partners:

SAP

Review:

"Thanks to the "SAP suppliers relationships management" solution the process of our current purchases has become more efficient and transparent. In addition, we managed to increase our base of suppliers and reduce the purchasing cycle duration.

Working in the software environment, we managed to simplify the whole process "from purchasing to payment". Now a reduced administrative component and increased efficiency are typical of it.

The SRM use increased the purchasing competitiveness by involving a greater number of suppliers and accelerated the purchasing process due to the cancellation of "paper" work".

Procurement and Contracting Organization Director of Lukoil Mid-East Ltd., Ivan Beltyukov

* The project was implemented by the Parma-Telecom company (ITPS Group)

** The material is available in Russian version only