Managing complex services in SAP and Ariba from a client perspective

Ariba Live 2016
Agenda

► Overview and main message
► Plan to play design overview
► Supplier qualification
► Contract management
► Managing procurement and invoicing
► Key points to take home
► Q&A
Overview and main message

Client and project profile:
A leading oil and gas company with operations focused on discovering and developing unconventional natural gas and oil fields onshore launched an enterprise-wide transformation to improve financial accountability and operational efficiency.

SAP and Ariba were chosen to enable the processes, with a fit-for-purpose solution design to drive success.

► SAP core functionality will be used to enable base plan to play, record to report, ownership to cash, and hire to retire processes.
► Ariba was chosen to enable key supply chain and procurement processes, including supplier screening and risk evaluation, contracting, sourcing, onboarding and indirect procurement.

We have identified three critical areas in our design for discussion including:
► Supplier qualification and onboarding
► Contract management, including commercial agreements for complex services
► Enable contract pricing compliance
Plan to pay design overview
Plan to pay value stream: enable transformation and be a critical value driver for the organization

Our designs address to improve

Project planning and management
- Select project
- Create authorization for expenditure
- Approve authorization for expenditure
- Manage Project
- Supplement
- Close AFE
- Analyze and improve

Sourcing and category management
- Define strategy
- Evaluate supplier
- Select and negotiate
- Monitor compliance
- Measure performance
- Life cycle management

Procure to pay
- Identify need
- Order goods and services
- Receive orders
- Receive invoice
- Pay invoice
- Calculate tax
- Reconcile

Inventory management and logistics
- Establish master data
- Define strategy
- Maintain materials
- Increase JIB efficiency
- Transfer
- Manage logistics

1. Consistent post appraisal for all projects
2. Leverage spend and decrease costs
3. Identify and manage requirements
4. Monitor suppliers and contractors
5. Visibility and control into commitments
6. Provide capital efficiency

Our designs address to improve
Our design includes using Ariba, SAP and Dolphin to support end-to-end activities

- **Third party (Risk Management)**
  - **Supplier Qualification [Ariba Supplier Info Perf Mgmt (SIPM)]**
  - **Strategic sourcing [Ariba sourcing]**
  - **Contract management [Ariba contracts]**
  - **Indirect procurement [Ariba procure-to-order]**
    - Approved requisitions
  - **Direct procurement [SAP ECC]**
  - **Invoice management [Dolphin and SAP]**
  - **Network/portal [Oildex, Tauila]**
  - **Invoices (from suppliers)**
  - **Payment [SAP]**

- **Reporting/business intelligence/warehouse [SAP]**
  - **SAP ECC or Ariba procure to order (by Spend Category)**
    - **SAP Ariba**
  - **Dolphin/SAP**

**Ariba** – Indirect requisitioning and approval workflows
**SAP ECC** – Direct POs and PO transmission
**Dolphin** – Invoicing
Procurement of complex services oil and gas business scenario: drilling a new well

Procurement of new well pain points in oil and gas
► Lack of advance knowledge on when a well will be developed
► Handshake deals that are not recorded
► Most key activities (site prep, drilling, cementing) performed by contractors
► Use of paper receipts (field tickets) more acceptable than a receipt system

EY’s approach:
► Contracts authored in Ariba with pricing terms integrated into SAP
► SAP contracts used for price validations of the invoice with suppliers of complex services (drilling and completions)
► Blanket purchase orders to secure commitments with suppliers in advance drill schedule
► Planned service purchase orders for specific wells
Procurement of complex services oil and gas approach: drilling a new well

Blanket purchase order

► Pricing terms in Ariba integrated into SAP, set up as outline agreements
► Purchase order for a specific supplier in asset area (service and asset area combination)
► Contains a limit value (not to exceed) at the short text-material service group level
► Reduces risk by using approved suppliers and reference to contracts
► Covers an asset area, is not specific to a well
► Supply chain creates these orders annually, in advance of a producing well

Planned service order

► Planned as part of the fracturing service schedule (pressure pumping, rigs, pad construction)
► Similar to blanket order account assignment already known (work breakdown structure element).
► Purchase orders are created once (authorization for expenditure template is approved
► Limits orders with planned (not to exceed) monetary value for a given material service group combination
Supplier qualification
Risk management starts with supplier qualification

- Standardized qualification criteria and supplier data management
- Provides a total view of supplier risk
- Enables supply chain, category management to control supplier base

**Registration**

- Search and request
  - Field managers
  - Category management supply chain
  - Accounts payable
  - Self-registration by supplier*

**Screening**

- Gather info and quality
  - Supplier questionnaire
  - Request validated

**Evaluation**

- Functional evaluations
  - EH&S
  - Credit
  - Security or legal
  - Passed screen

**Enablement**

- Contracting
  - Supplier MSA
  - Passed evaluation

**Management**

- Master data
  - A/P Supplier relations
  - Pricing terms
  - Service master

*Potential future state

**System**

- Ariba SIPM
- SAP ECC
- Supplier intake(vendor MSA)
Contract management
Contracts enable supply chain to manage suppliers

- Improves value of contracts for the entire contract life cycle by utilizing standard and integration processes
- Gains alignment with business stakeholders involved in material and service contracting
- Provides visibility into contracts with alerts and notifications for contract expirations, limits, etc.

## Contract Life Cycle

<table>
<thead>
<tr>
<th>Contract creation or authoring</th>
<th>Contract negotiation and approval</th>
<th>Execute and sign</th>
<th>Manage contract compliance</th>
<th>Administer contracts</th>
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</thead>
<tbody>
<tr>
<td><strong>Commercial agreement</strong></td>
<td><strong>Price book (established and negotiated) – PIDX Format</strong></td>
<td><strong>Operational contract, price book, outline agreement</strong></td>
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<td><strong>Master service agreement</strong></td>
<td><strong>SOW</strong></td>
<td><strong>Transitions, (invoices) tied to contract:</strong></td>
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<td><strong>Terms and conditions</strong></td>
<td><strong>SLAs</strong></td>
<td><strong>Pricing</strong></td>
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<td><strong>Reference to MSA</strong></td>
<td><strong>Vendor plant relationship</strong></td>
<td><strong>Vendor plant relationship</strong></td>
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<td><strong>Modifications to MSA terms and conditions</strong></td>
<td><strong>SKUs and service master records</strong></td>
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</tbody>
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**System**

- Ariba contracts
- SAP ECC
Contracts flow from Ariba into SAP

Contract authored with pricing terms

Contract with supplier’s pricing

Blanket purchase order for complex service

Invoice against WBS
Phase of well that approved
Managing procurement and invoicing
We established procurement channels

Procurement channels help provide simplicity in operations and an understanding of the best way to work with suppliers.

**Blanket order (call off)**
- For repetitive field call offs over course of building well
- Asset area and quarterly refreshed
- Charge code unknown
- Strategic suppliers, midrange spend, high invoice counts

**Planned service order**
- Similar to a blanket, except charge code is known
- Created just before work commences
- Strategic suppliers, high spend, low invoice counts

**Non-purchase order or finance-only invoice**
- For services that fall outside blanket order and planned service order
- Invoice only
- Tactical suppliers, low spend, high invoice counts

**Discrete purchase order**
- Quantity and specifications must be identified through a requisition
- Ideal for unplanned requests more than a financial or operationally critical threshold
Automated price validation drives process efficiency and reduces leakage

Cost transparency and automated price validation are challenges for service-heavy industries. Dolphin helps support this functionality.

Capture
Enable reliable, accuracy, and timeliness of invoice data into the workflow process.

Process
Expedite invoice processing and efficient exception handling.

Analyze
Provide easily accessible and actionable AP intelligence.

1. Paper invoices, e-invoices, EDI data
2. Validation, Dolphin invoice gateway, Dolphin process tracking system, SAP ERP, AP workflow, Exceptions, Storage
3. Info center, Executive Dashboards, Vendor Portal, Status tracking, Data retrieval, Audit/compliance
Accounts payable process for purchase orders

Invoice can be entered via blanket purchase orders or directly against contracts

- Contract with supplier-specific pricing with supplier’s stock keeping units for services exists.
- Blanket purchase orders have contract number attached, which allows Dolphin (invoicing tool) to perform price validation.
- Work breakdown structure element is entered via the account assignment box because it was unknown on the purchase order.
- A field ticket can be referenced or the service date on the invoice is used to reconcile the actual date of service.
- A specific field location can be entered on the invoice to reflect the field office for which the service was performed.
Key points to take home

► **Adopt, don’t adapt** – design fit-for-purpose controls to mitigate risk

► **Embrace procurement channels** – support operations with predictable and simplified procurement processes

► **Focus on the user experience** – simplify administrative process with automated data capture, contract compliance, price validation and easy-to-find information
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