Purchase Proposal: System-Supported Basis for Demand-Driven Ordering Decisions

A purchase proposal is a proposal automatically generated by the ERP or inventory management system specifying which demand should be ordered, in what quantity and by what date. It is typically generated by the planning logic based on stock levels, open purchase orders, demand messages and planning parameters. For buyers, the purchase proposal is a basis for decision-making that must be reviewed, adjusted and released before it becomes a binding purchase order.

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Key facts at a glance

01 The purchase proposal is a non-binding system proposal and only becomes a legally binding purchase order through review and release.

02 It is based on planning parameters such as planning type, replenishment lead time, lot sizes and safety stock.

03 In practice, part of the proposals is often released automatically, while critical items are reviewed manually.

04 Purchase proposals are closely linked to Material Requirements Planning (MRP) and Safety Stock Calculation.

05 The quality of master data and forecasts is a key determinant of the proposal rejection rate.

06 Typical KPIs are the proposal acceptance rate, inventory levels and schedule adherence of the resulting purchase orders.

Definition: purchase proposal

A purchase proposal is a system-calculated, not yet binding proposal for ordering a material or service. It consolidates demand, proposed quantity, delivery date and frequently also the source of supply.

Distinction from the purchase order

Unlike a purchase order, the purchase proposal is not legally binding and does not trigger a supply contract. Only after professional review, any adjustment of quantity and date, and formal release does the proposal become a purchase order – frequently a call-off order in the case of framework agreements. This separation creates control: the system plans, the buyer decides.

Purchase proposals in the MRP context

In Material Requirements Planning (MRP), purchase proposals arise as a result of demand planning: gross requirements minus warehouse stock and stock on order, plus safety stock. For finished products, proposals can also trigger production orders; in procurement, the focus is on external purchasing proposals.

Methods and approach: from demand to released proposal

The quality of a purchase proposal depends on the planning logic and master data. The process can be divided into clearly separated steps.

Maintaining planning parameters

Central to this are the planning data in the material master: planning type, replenishment lead time, planned lead time, lot-sizing procedure, rounding values and safety stock. The Safety Stock Calculation provides the buffer for forecast and delivery uncertainty. Anyone who does not review these parameters regularly will systematically generate proposals that are too high or too low.

Reviewing and clustering the proposal list

In practice, it has proven effective to cluster proposals according to criteria such as value, criticality and degree of deviation. High-value or critical items are reviewed manually, supplemented for example by supplier rating and supplier scorecard as a source-of-supply evaluation. Routine items with stable demand can run automatically via release rules.

Release and implementation

After review, quantities and dates are confirmed or corrected and the proposal is converted into a purchase order. For strategic goods, this may be preceded by a tender, such as an RFX in procurement with bidder questions; for catalogue-based C parts procurement, the order rate per catalogue also plays a role.

Key KPIs for controlling proposal processing

KPIs show whether the planning logic is robust or whether the procurement department is constantly correcting the system.

Acceptance and change rates

The proposal acceptance rate indicates how many proposals are released unchanged. If it remains persistently low, the master data, forecasts or parameters do not match reality. The frequency of manual changes to dates and quantities is also a meaningful early indicator.

Inventory and service metrics

In addition, stock level development, inventory differences, availability and supplier schedule adherence are relevant. Rising stock combined with a declining delivery service indicates incorrect lot sizes or safety stocks. Rough Cut Capacity Planning (RCCP) helps to check at aggregate level whether the proposed quantities can actually be procured and processed.

Risks and controls for purchase proposals

Proposals accepted without review can build up inventory and liabilities. Targeted controls reduce these risks.

Typical sources of error

Common causes of incorrect proposals are outdated planned lead times, duplicate demand messages, faulty bills of material, missing blocking of discontinued items and forecasts without feedback loops. In practice, the concept and scope of release authorisations are also often unclearly regulated – a compliance risk.

Controls and release strategies

Four-eyes principles above value thresholds, blocking logic for critical materials and regular parameter reviews have proven effective. In bottleneck analysis, the scarcest items are reviewed first; Control of Nonconforming Product indirectly affects the proposal when blocked stock or stock with quality defects is incorrectly planned.

Supplier-side safeguards

Before high levels of automation, sources of supply should be verified: supplier approval, agreed inspection stages and documentation such as a Certificate of Conformity ensure that rapidly recurring orders do not conceal quality risks.

Current developments: automation and data quality

Purchase proposals are becoming increasingly intelligent and automated – this is changing the buyer's role from calculator to controller.

Touchless planning

Many companies fully automate routine proposals and only review exceptions. This requires cleansed

master data, clear exception criteria and a supplier portal for digitally coordinating dates and quantities with suppliers. Forecast Management provides more reliable demand forecasts than pure consumption-based back-calculation.

Sustainability and regulatory aspects

For imports from the emissions-protected area, the data basis is becoming increasingly important: information on the Supply Chain Carbon Footprint (SCF) and CBAM-relevant data must be available at the point of procurement decision. Recyclate shares from a recyclability assessment may also in future be incorporated into proposal logics as a criterion for selecting the source of supply.

Typical metrics

Metric	Typical value
Proposal acceptance rate	typically > 90% *Proportion of proposals released unchanged; low values indicate master data or forecasting problems*
Delivery service (on-time delivery)	> 95% *Customary target value from the internal customer's perspective*
Inventory coverage of C parts	in practice 30–90 days *Depending on value classes and replenishment lead time*
Manual change rate	< 20% *Proportion of changed proposals; persistently higher values indicate system deficiencies*

Practical example

A medium-sized mechanical engineering company with around 12,000 items generated several thousand purchase proposals per week, many of which contained unrealistic dates due to outdated planned lead times. The buyers corrected these manually – resulting in high processing costs and rising inventory levels.

- Completely revise planned lead times and lot sizes for A and B items
- Define exception rules: proposals deviating by more than 15 per cent only with release approval
- Integrate supplier rating into the proposal review and introduce a supplier portal for C parts
- Establish a monthly KPI review of acceptance rate, inventory and schedule adherence

Conclusion

The purchase proposal is the central link between demand planning and binding procurement. Its usefulness stands or falls with the quality of the planning parameters, demand forecasts and master data. Anyone who automates proposals indiscriminately risks inventory build-up and missed deadlines; anyone who reviews everything manually sacrifices efficiency. A differentiated approach based on value and criticality with clear release rules has proven effective. In this way, the purchase proposal evolves from a dutiful system output into a genuine steering instrument for procurement.

Frequently asked questions

? What is a purchase proposal in an ERP system?

A purchase proposal is a non-binding proposal automatically calculated by the system for procuring a material, including quantity, delivery date and source of supply. It is generated from stock levels, open purchase orders and demand messages. Only after review and release does it become a binding purchase order.

? How is a purchase proposal created?

The planning logic determines net requirements: gross requirements minus warehouse stock and stock on order, plus safety stock. Planning parameters such as replenishment lead time and lot size determine quantity and date. The result appears in the proposal list for further processing.

? Must a purchase proposal always be reviewed?

Legally no, as it is non-binding – but from a commercial perspective it is strongly recommended. In practice, many companies release routine proposals automatically and only review high-value, critical or significantly deviating items. The review strategy should be documented and anchored in release rules.

? What is the difference between a purchase proposal and a call-off order?

The purchase proposal is an internal system proposal created before the purchase order, whereas a call-off order is a binding order placed under an existing framework agreement. A purchase proposal can become a call-off order if the contract and source of supply have already been fixed.

? How can the quality of purchase proposals be measured?

Typical KPIs are the proposal acceptance rate, the frequency of manual changes, stock level development and delivery service. A low acceptance rate indicates incorrect master data or forecasts. Regular parameter reviews address the root causes rather than just the symptoms.

? How much automation of purchase proposals is sensible?

A differentiated approach has proven effective: stable, low-value C parts can largely be released automatically, whereas A parts and critical materials require manual review. This requires clean master data, clear exception criteria and a functioning source-of-supply evaluation.

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