# Best Practices for Purchase Order Management



It's often taken for granted and sometimes vilified as an obstacle, rather than an aid, in strategic procurement. But the purchase order (PO) is the foundation of not just the purchasing process, but success in creating value as well as cost savings through your procurement process as a whole. That's why *purchase order management*—the system you deploy to create, track, manage, and process your purchase orders—is something no procurement pro should take lightly.

Fortunately, taming the sometimes tempestuous purchase order process is readily achieved with a considered approach, proven techniques, and the right technology.

# Purchase Order Management Saves You Time and Money

Folks outside procurement might think of the purchase order as simply an order form for the goods and services they need to perform their own roles within the company. But procurement teams know processing a PO involves approval workflows, tracking the particulars of every transaction across its entire life cycle, and dealing with myriad details related to inventory management and contract management across the supply chain.

It's no surprise, then, that streamlining and optimizing this particular process is seen as not simply "desirable," but essential to maintaining both a healthy procurement function and the sanity of the staff inside it. By reducing the time, labor, and resources devoted to processing your purchase orders (and correcting mistakes), you'll reduce expenses—but more importantly, you'll free your staff to perform higher-value tasks *and* gain insights that can help you further refine your processes for even *more* savings.

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# Essential Best Practices for Purchase Order Management

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benefit from implementing proven strategies and best practices, whether they're tackling purchase order management, researching raw materials sourcing, or trying to break into a new market.

1. ## Make Automation Your Not-So-Secret Weapon

   The first and most important step you can take toward more effective purchase order management is to select and deploy centralized, automation-driven purchase order management system, either as part of an integration with your existing purchasing software or as part of a comprehensive procurement solution deployment. Automation and artificial intelligence provide you with the tools you need to take full advantage of the best practices while simultaneously reducing or even eliminating headaches such as rogue spending and human error that can disrupt your workflow. Your entire procure-to-pay (P2P) process gains efficiency and productivity.

   Slashing what used to take days or weeks to mere hours, cloud-based, collaborative purchase order management software can:

   - Reduce rogue spend and assign appropriate tiers of responsibility in approval workflows
   - Reduce the need for "hands-on" work, including data entry and administrative tasks
   - Reduce (or completely eliminate!) paperwork and wasted material resources
   - Improve transparency and reduce errors
   - Provide valuable data related to all stages of the transaction, from purchase requisition to payment, that can be used for financial planning, audit trails, strategic initiatives, and continuous process

improvement

In a world where less than a fifth of all companies (including small businesses) use an automation-enabled purchase order system to handle P2P, upgrading to artificial-intelligence-based procurement software can give you a clear competitive edge.

## 2. Create a Simple, Connected Purchase Order Process

Keeping things simple (while creating a complete record of everything you do) sounds challenging, but automation makes it much easier. Unlike a manual purchasing system, purchase order software lets you "connect the dots" for every document, email, and chat message related to every single order. You can even manually add paper documents received via fax to the electronic database to provide full spend visibility with complete context. Plus, you'll have automated approval routing, contract management, and three-way-verification. No more time wasted or money lost on delayed approvals, trying to chase down specific payment terms, or frustrated attempts to track purchases manually.

Using purchasing software, your PO process might look like this:

1. **Purchase Requisition and Review.** Your staff peruses a user-friendly, centralized catalog of pre-approved goods and services, each with their own corresponding pre-approved vendors. The team member makes their selection and submits their purchase requisition to the approving party for review automatically, and adds it to the central document library as well.
2. **Purchase Requisition Approval and Submission.** Every request is automatically routed to the proper review and approval permissions. Automatic reminders and embedded flags keep the

approval process moving and every transaction transparently documented, respectively.

3. **Purchase Order Creation.** Auto-populated with information from the purchase requisition, supply chain management system, and contract management system, a purchase order is created. The software submits an online purchase order to the pre-approved vendor, creating a legally binding contract between the company and the supplier that is connected to the transaction and added to the document library for easy reference and further review as needed.

4. **Tracking and Receiving.** The order is tracked during production and shipment, and all relevant updates to its status recorded automatically. When they arrive, the goods are examined and any exceptional circumstances, positive or negative, are noted. The shipping documents are automatically compared to the original purchase order and supplier invoice, generating alerts if errors or exceptions are found.

5. **Payment and PO Close.** Automated three-way cross checking reduces payment times considerably. Accounts payable verify the invoice against the PO and issue payment if no errors are found, then close the purchase order. All related correspondence and documentation are automatically and safely stored in the central document library.

3. # Connect Budgets to Purchases from the Get-Go

Break free from wasted time and resources spent on purchase requisitions for items that aren't in the budget by giving your department managers the power to plan their buy against their budget in the same application. Purchase order software helps every manager gain visibility

into their total spend and plan for the purchases that will meet their needs in two ways:

1. Providing a complete, real-time view of current and projected budgets. Urgent purchases can be made as needed, while those that are less critical can be planned for times when sufficient funds are once again available.
2. Automatically flagging any purchase requisitions that exceed available funds, and notifying the appropriate parties for review and authorize or reject at their discretion.

# Make Purchase Orders Part of Your Procurement Plan

How you manage your purchase orders might not make the front page of the company newsletter, but it can be a real headliner when it comes to building a better bottom line. Simplify, streamline, and leverage technology's power in your purchase management, and you'll be on your way to getting more savings—and value—from every dollar you spend.

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