

Blanket PO Vs Standard PO: Advantages and Disadvantages



Companies rely on purchase orders to help them get the materials, goods, and services they need to do business. But just as the specific needs and budget of a project, department, or business unit can vary, so, too, do the procurement tools used to meet those needs. While standard purchase orders can be used for many or even most purchases an organization makes, for large, ongoing purchase agreements, using *blanket purchase orders* (BPOs) can help by locking in pricing and terms over a specific period of time.

Used effectively, blanket purchase orders can lower costs and build value for organizations of all sizes. And when it comes to blanket POs vs. standard POs, understanding the advantages and disadvantages will help your procurement team overcome the latter while effectively leveraging the former for maximum return on investment (ROI).

Not All Purchase Orders Are The Same

Every purchase made in modern procurement systems relies on a purchase order—a formal agreement between buyer and seller to secure the purchase of goods or services—generated from a purchase requisition. Generally, these purchase orders fall into four distinct categories: *standard purchase orders*, *planned purchase orders*, *blanket purchase orders*, and *contract purchase orders*.

Each of the different types of purchase orders is used to meet different business needs.

Standard Purchase Orders

- Simplest and most common type of purchase order.
- Used for one-time purchases.
- Firm delivery date, pricing, and terms.

Planned Purchase Orders (PPOs)

- Used for a specific period of time.
- No firm delivery dates; purchases based on schedule documented in purchase order.
- Planned POs can be used with encumbrance accounting to buy against a pre-authorized budget.

Blanket Purchase Orders

- Ideal for long-term purchase agreements; also called *standing purchase orders*.
- Helps procurement teams capture value and savings through economies of scale.
- May be extended year over year to maximize savings and efficiency; compatible with encumbrance accounting.

Contract Purchase Orders

- Long-term agreements with no expiration date.
- Establishes a framework for issuing contract-related POs based on set terms and price.
- Sets detailed terms, pricing, and conditions for purchases made with the specified vendor but uses tentative delivery schedules; lacks detailed information on individual transactions.

While all four types of purchase order have roles to play in modern procurement, deciding between a standard and blanket purchase order to secure optimal ROI and value is a very common challenge faced by procurement departments. Understanding the pros and cons of a blanket purchase order can help teams make the choice with confidence.

Used effectively, blanket purchase orders can lower costs and build value for organizations of all sizes. And understanding their advantages—and disadvantages—will help your procurement team overcome the latter while effectively leveraging the former for maximum return on investment (ROI).

Advantages of Blanket POs

Like contract purchase orders and planned purchase orders, blanket purchase agreements are effectively *recurring purchase orders*; they cover materials, goods, and services your company needs on a regular basis. For example, you might use a BPO to cover raw materials for production, janitorial services, or snacks and drinks for the company break room.

Like a standard purchase order, blanket purchase orders are legal documents binding buyer and seller to a shared commitment. Unlike a regular purchase order, however, blanket purchase orders cover a period of time and will have

multiple invoices charged against the same purchase order to meet consistent and recurring business needs within the established time frame.

While the need is consistent, the particulars of any one order may vary. Using a blanket purchase agreement allows you to establish:

- The period of time covered by the BPO.
- Delivery schedules for recurring orders.
- Personalize quality specifications for purchased goods and services.
- The total amount you've set aside for the goods and services purchased.
- Payment terms with a negotiated, fixed unit price (goods and materials) or recurring periodic price (services).
- Secure bulk discounts and other favorable contract terms with a single vendor who can meet performance and compliance requirements for the entire length of the contract.
- Contingency and cancellation clauses.

For example, let's say you've signed a blanket PO with your company's copier supply and servicing provider. The BPO you create:

- Covers a six-month period.
- Has a total associated budget of \$25,000 for services and materials.
- Establishes unit prices for essential materials such as toner and paper, and hourly rates for services like repair, maintenance, and installation.

Your company saves time, money, and resources by eliminating the need for separate sourcing, approval processes, and paperwork for each purchase made against the BPO.

Blanket POs are easy to set up, and once established, streamline the ordering process significantly, helping to protect business continuity and ensuring both operations and support departments have what they need, when they need it.

Companies can also consolidate both direct and indirect spend related to a specific project or (as in our copier example) routine maintenance and supplies to lock in bulk pricing.

In addition, locking in pricing and terms for the entire period of time covered by the agreement helps reduce risk and insulate budgets against market fluctuations.

Purchasing over time rather than making one massive purchase reduces inventory costs by minimizing storage expenses and protecting against inventory shrinkage.

Finally, blanket purchase orders benefit vendors, too, by simplifying invoicing and providing a single established purchase order number they can bill against over time, reducing their costs and processing times.

Disadvantages of Blanket POs

While they certainly provide demonstrable value and savings, BPOs are not ideal for all purchases. When you're considering a blanket purchase order, plan to address these potential challenges:

Additional Accounting Labor

Blanket POs can increase the workload for your accounting team by obscuring business-critical spend data behind a single number. Struggling to establish accurate need forecasts and set budgets may increase the chances of "budget bloat" (to hedge against potential shortfalls) and make audits more time-consuming and tedious as actual and projected spend must be reconciled.

In addition, accounting distributions related to blanket releases will need to be carefully managed over the life of the BPO when using encumbrance accounting.

Matching Challenges

The convenience of BPOs can make it all too easy for vendors to continue using the associated PO number even after the original blanket PO has been closed due to exceeding its assigned budget or reaching the end of its functional life. This can create extra work in the form of chasing exceptions for teams that aren't using a comprehensive procurement solution such as Planergy, which uses artificial intelligence and automatic three-way matching.

Inadequate or Missing Digital Tools

In order to use blanket purchase orders with optimal efficiency and efficacy, procurement professionals need access to data centralization, management, and analysis tools. By choosing a contemporary and comprehensive procurement solution like Planergy, procurement teams can:

- Improve spend data completeness and transparency by connecting every purchase to its associated PO with detailed and complete transaction information.
- Connect inventory, procurement, and accounting in a consolidated data environment to provide accurate and complete forecasts and set budgets that conform to projections while providing the flexibility to adjust spend as required.
- Establish collaborative relationships with suppliers to streamline workflows on both sides of every transaction and ensure all spend is both visible and accurate—and all purchase orders are properly tracked and matched to their associated shipping documents (where applicable) and invoices.

For Long-Term Agreements, Blanket POs Have You Covered

They're not a one-size-fits-all tool, but blanket purchase orders *can* help your business save money and build value by locking in the best possible pricing and terms over time. By investing in procurement software tools that help you leverage your spend data through detailed analysis, collaborative communication, and strategic planning, you can use blanket POs to build strong, long-term relationships with your suppliers while cutting costs and improving your procurement effectiveness.

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