

Everything You Need To Know About Blanket Purchase Orders



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What They Are And When To Use Them

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In the world of procurement and supply chain management, purchase orders (POs) are a common occurrence.

They formalize the buying process between a buyer and a seller, specifying types, quantities, and agreed prices for products or services.

There are various types of POs procurement departments use for different scenarios, and one of the most efficient types is the blanket purchase order.

This post will delve into everything you need to know about blanket purchase orders.

What is a Purchase Order?

A PO is a commercial document issued by a buyer to a seller, indicating types, quantities, and agreed prices for products or services. It serves as a legal offer to buy products or services.

Once the seller accepts the PO, it forms a legally binding contract between the buyer and seller.

Different Types of Purchase Orders

There are four main types of purchase orders, each meant to address different business needs:

1. Standard Purchase Order

A standard purchase order, also known as a regular purchase order, is a formal document issued by a buyer to a seller indicating types, quantities, and agreed prices for products or services.

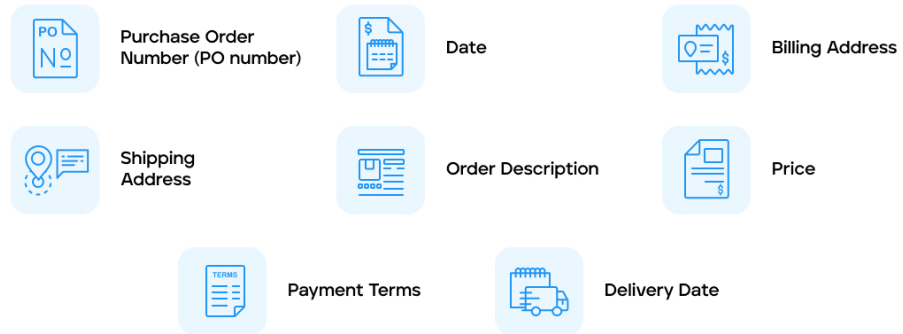
It serves as a legal offer to buy products or services. Once the seller accepts the purchase order, it becomes a legal document, a binding contract, between the buyer and the seller.

The standard purchase order typically includes:

1. **Purchase Order Number (PO number):** This is a unique number that helps track the order.
2. **Date:** The date when the order was placed.
3. **Billing Address:** The address where the invoice needs to be sent.
4. **Shipping Address:** The location where the goods need to be delivered.
5. **Order Description:** Detailed information about the ordered goods or services, including quantity, model, color, etc.
6. **Price:** The agreed-upon cost of each item.

7. **Payment Terms:** These detail when the payment should be made and may also include any discounts for early payments or penalties for late payments.
8. **Delivery Date:** The date when the goods should be delivered or the service should be completed. Delivery times may vary depending on lead times.

■ The Standard Purchase Order Typically Includes



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This is the most widely used and is typically for one-time purchases of a specific quantity of items.

2. Planned Purchase Order

A planned purchase order is a long-term agreement with a supplier that outlines terms and conditions for future transactions.

Unlike standard or blanket purchase orders, a planned purchase order does not specify delivery schedules, quantities, or dates for individual shipments.

Instead, these details are provided later through release orders.

Planned purchase orders are typically used when there is an ongoing need for a product or service but exact quantities and delivery schedules are not known at the time of order creation.

This type of purchase order allows businesses to negotiate pricing and other terms in advance, providing flexibility to adjust quantities and

delivery schedules as needed.

Once the details are confirmed, a release order against the planned purchase order is issued, specifying the quantity required and the delivery date.

This makes the process more efficient by reducing the administrative work involved in issuing individual purchase orders for each transaction.

3. **Blanket Purchase Order**

A BPO is an agreement made between a buyer and a supplier, where the buyer provides the supplier with a standing order to provide goods or services on a recurring basis for a certain period of time.

It may also be referred to as a standing purchase order.

The purpose of a blanket purchase agreement is to create a streamlined process for repetitive purchases from reliable suppliers.

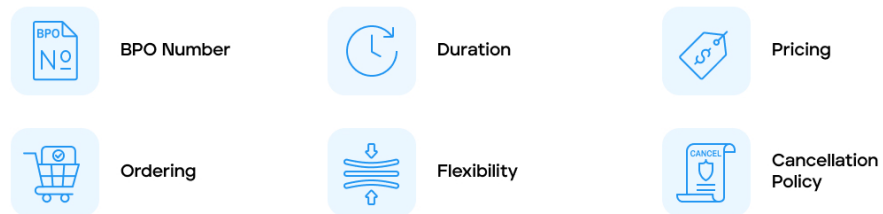
It reduces administrative costs by eliminating the need to process frequent, low-value purchase orders.

The major features of a blanket purchase order are:

1. **BPO Number:** Similar to a standard PO, each one will have a number associated with it for easier tracking. It is generally tied to the requisition associated with it, too.
2. **Duration:** Blanket POs are commonly issued for a period of one year but can be extended based on the agreement between the buyer and the supplier.
3. **Pricing:** The prices of goods or services are usually fixed in the blanket PO, which helps businesses to budget more effectively.
4. **Ordering:** Under a blanket PO, orders can be placed as frequently as needed until the contract expires or the maximum order limit is reached.
5. **Flexibility:** Blanket POs offer flexibility in terms of quantities and delivery schedules. The exact quantities and delivery dates don't have to be specified upfront.

6. **Cancellation Policy:** This outlines the terms and conditions under which the order can be canceled. The policy may vary widely based on the agreement between the buyer and supplier, but typically includes a notice period, cancellation fee amount, the conditions for cancellation, and the process for cancellation. There may be a limit on the time frame that allows an order to be cancelled.

■ The Major Features of a Blanket Purchase Order



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The primary benefit of a blanket purchase order is that it simplifies the procurement process for recurring orders, reducing administrative time and costs.

However, it's important for companies to monitor their usage to avoid over-ordering or under-ordering.

4. Contract Purchase Order

A contract purchase order is a type of purchase order that serves as a legal agreement between the buyer and the supplier for the provision of goods or services over a specified period.

This type of purchase order is typically used for ongoing, long-term purchases.

Key elements of a contract purchase order include:

1. **Duration:** The contract defines the period during which the supplier agrees to provide the goods or services.
2. **Pricing:** The prices for the goods or services are usually fixed for

the duration of the contract.

3. **Quantity:** The contract may specify a minimum and maximum quantity range for the goods or services to be supplied.
4. **Terms and Conditions:** The contract outlines the responsibilities of both the buyer and the supplier, delivery schedules, payment terms, quality standards, and other details.

Contract purchase orders provide stability for both parties.

The buyer is assured a steady supply of goods or services at a fixed price, and the supplier has a guaranteed customer for a set period.

However, these contracts also require careful management to ensure that all terms and conditions are met.

Different Types of Purchase Orders



Standard
Purchase Order



Planned
Purchase Order



Blanket
Purchase Order



Contract
Purchase Order

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When To Use a Blanket Purchase Order

Blanket orders are only wise to use under certain circumstances:

- When quantities of the same goods or services are needed throughout a time period, typically one year.
- When unit cost can be well-defined and details can be specified.
- When a single vendor is capable of delivering throughout the length of the contract.
- When ordering in quantity facilitates more favorable contract terms, such as bulk discounts.
- When staggered deliveries minimize stocking risk and costs.

Blanket purchase orders should never be written for orders where the price is not guaranteed, the quality of the product is unreliable, or the vendor cannot be trusted.

Advantages of Blanket Purchase Order

Advantages of Blanket Purchase Order



Efficiency



Price Stability



Flexibility



Improved Supplier Relationship



Cost Savings



Budget Management

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• Efficiency

BPOs can significantly streamline the procurement process.

Instead of issuing individual purchase orders each time a product or service is needed, a BPO allows for multiple deliveries over a specified period under the same order.

This reduces the administrative burden and time spent on processing paperwork, making the overall purchasing process more efficient.

• Price Stability

Price volatility can be a major concern in procurement. With a BPO, the price of goods or services is typically fixed for the duration of the long-term contract.

This means that even if market prices fluctuate, the cost to the buyer remains stable.

This level of predictability can be especially valuable in budget planning and financial forecasting.

▪ **Flexibility**

BPOs offer a high degree of flexibility. They allow for adjustments in quantities and delivery schedules based on the buyer's needs.

The exact quantities and delivery dates don't have to be specified upfront, which can be particularly useful when dealing with unpredictable demand or changing business conditions.

▪ **Improved Supplier Relationship**

By committing to a long-term agreement, BPOs can help strengthen the relationship between the buyer and supplier.

This can lead to improved communication, better understanding of each other's needs and expectations, and potentially better service or unit pricing terms.

▪ **Cost Savings**

Consolidating orders with one supplier often allows companies to negotiate better prices, leading to cost savings.

By committing to a larger total volume of purchases over time, a company may be able to leverage this into lower per-unit costs.

▪ **Budget Management**

With the price pre-negotiated and fixed in a BPO, it becomes easier to forecast expenses and manage budgets.

Companies can plan their finances with more certainty, knowing the exact cost of the goods or services they will be procuring over the BPO period.

Blanket purchase orders can give procurement departments leverage to

significantly lower purchasing cost for commonly used goods and services.

Disadvantages of a Blanket Purchase Order

• Risk of Over-Ordering or Under-Ordering

One of the main risks with BPOs is the potential for over-ordering or under-ordering.

Due to the flexible nature of BPOs, there can be a tendency to order more than needed “just in case”, leading to unnecessary inventory costs.

Conversely, under-ordering can result in stockouts, which can disrupt operations and lead to missed sales.

• Supplier Dependence

While having a long-term agreement with a supplier can have its advantages, it also creates a certain level of dependence.

If the supplier experiences issues such as financial instability, production problems, or quality issues, it can significantly impact the buyer.

It's essential to choose reliable suppliers when setting up BPOs.

• Lack of Competitive Pricing and Price Fluctuation

Locking into a BPO with a single supplier may result in missing out on competitive pricing from other suppliers.

Market prices can fluctuate, and better deals may become available.

However, with a BPO, the buyer is committed to the agreed-upon price for the duration of the contract.

• **Contract Management Complexity**

BPOs require ongoing management to ensure that all terms and conditions are being met.

This includes monitoring delivery schedules, checking product quality, tracking costs, and managing the relationship with the supplier.

These tasks can add complexity and administrative overhead.

• **Reduced Flexibility with Other Suppliers**

Committing to one supplier for a specific good or service might limit a company's flexibility to work with other suppliers.

This could potentially prevent the company from taking advantage of innovative products, services, or processes offered by other suppliers in the market.

• **Forecasting Challenges**

Forecasting need is the most challenging aspect of drawing up a blanket purchase order. Data analysis can provide accurate quantities needed by the business over the defined time period.

Knowing what is needed informs the supplier what quantity to stock in time to deliver according to contract terms.

During contract negotiations, the company may leave room for adjustments as goods and services are delivered and put to use.

Agreements of this type are often extended year over year as companies and vendors build working relationships.

Accurate forecasting is critical to optimizing the budget and minimizing stocking costs for the company.

The vendor, in turn, realizes the benefit of a guaranteed long-term order with adequate time to prepare the goods for delivery.

■ Disadvantages of a Blanket Purchase Order



Risk of Over-Ordering
or Under-Ordering



Supplier Dependence



Lack of Competitive
Pricing and Price
Fluctuation



Contract Management
Complexity



Reduced Flexibility
with Other Suppliers



Forecasting
Challenges

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Difference Between a PO and Blanket Purchase Order

The key difference between a PO and a blanket purchase order lies in their usage.

A standard PO is used for a one-time purchase, while a blanket PO is used for recurring purchases over an extended period.

Difference Between a Contract and a Blanket Purchase Order

A contract is a legal agreement where the terms and conditions are defined, but the goods and services aren't specified.

A blanket PO, on the other hand, is an agreement to provide specified goods or services at a predetermined price over a set period, but not necessarily at a set price.

Difference Between Blanket Purchase Order and Framework Order in SAP

In SAP, a framework order is similar to a blanket purchase order. Both are used for ordering materials or services at predetermined prices over a certain period.

The primary difference is that a framework order in SAP is a type of contract, whereas a blanket purchase order is a type of purchase order.

How Can Software Help You Better Manage Purchase Orders?

Purchase Order software can automate the entire PO process, making it more efficient.

It can help businesses track their orders in real time, improve inventory management, streamline the approval process, track action with audits, improve spend management, create and send purchase orders, improve vendor management, and analyze vendor performance.

With a purchase agreement in place and terms defined, a trusted vendor will deliver goods and services, when needed and without additional administrative work.

The BPO and incoming invoices should be monitored to ensure the total does not exceed the limits of the agreement.

The most efficient and least error-prone method of monitoring is automated three-way matching to verify receipt of goods against the order and PO with comprehensive purchase order software.

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