

Can You Cancel a PO Sent to a Supplier?



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Despite the best of intentions, not every purchase your business makes with a purchase order (PO) will go as planned. Maybe the goods are delayed. Perhaps budgetary woes have created a payment issue. Perhaps the original order incorrect, and needs to be adjusted. Mistakes are made, and needs evolve. Whatever the reason, understanding your rights and obligations with regard to a purchase order cancellation is an unfortunate necessity for the modern businessperson.

Thankfully, with a little preparation, excellent communication between yourself and your suppliers, and a thorough grasp of proper purchase order composition, you can make the cancelling process as painless as possible. Minimize your legal and financial headaches before you buy, and you'll be able to cancel a purchase order without putting your company at risk.

Purchase Order Cancellation and the Law

Companies, like individuals, enjoy a certain range of rights under the laws of their

nations. Consumer protections exist to prevent predatory businesses from taking advantage of buyers (both individuals and businesses) for their own benefit. In the European Union, for example, businesses must disclose certain information, and meet certain requirements (including the right to cancel an order under certain conditions, and refunds for orders that cannot be filled) in order to do business legally.

In addition, many suppliers have specific cancellation policies in place, determined by purchase order status. These will be the “default” barring other arrangements specified in your purchase order. For example, a vendor might not accept a cancellation request if an order has already been delivered. Or, if they do accept such a request after goods have been received, they will only require you to pay a restocking charge—or deduct one from your refund.

Because it represents a legally binding agreement once it’s accepted by the supplier, a purchase order creates obligations you must meet as well as rights you can assert. When circumstances force you to cancel purchase orders (or modify them) once they’ve already been submitted, it’s possible your company could face litigation if it violates the agreed-upon terms set down in the purchase order itself.

NOTE: *Always consult your attorney or lawyer on all legal matters. The advice offered here should not be taken as legal advice.*

As Murphy’s Law so often reminds us, whatever can go wrong will inevitably do so, sometimes in spectacular fashion. Purchase orders are no exception, and that’s why it’s so important to take the time to cover, in as much detail as possible, all contingencies when drafting the terms and conditions of your purchase order.

Protecting Yourself Before You Buy

As Murphy’s Law so often reminds us, whatever can go wrong will inevitably do so, sometimes in spectacular fashion. Purchase orders are no exception, and that’s why it’s so important to take the time to cover, in as much detail as possible, all contingencies when drafting the terms and conditions of your purchase order. Drafting strong terms and conditions will give you a solid jumping-off point for further refinement, depending on the goals and policies of

the suppliers you work with across your supply chain.

Consider these potential issues when composing the terms and conditions of your purchase orders:

Modification of Existing Orders

- Is there a timeframe for modification to submitted purchase orders? If so, what limitations, terms, and potential penalties, if any, are imposed by making changes both within and beyond the timeframe specified?
- How are increases/decreases handled for item type, item price, and item quantity? What steps and documentation are necessary to modify ship date, delivery date, etc. in the event an order has increased or decreased priority?
- Does the new quantity or item type require a change of scope? If so, can the original PO be modified, or does procurement services need to cancel the PO, create a new one, and update both internal records and the request made to the seller?
- Will the buyer need to re-source the goods being purchased if the new order is unacceptable to the current supplier? What contingencies are in place to prevent additional delays should this occur?

Backorders

- In the event goods aren't available, or are delayed, what remedies are offered to the buyer, e.g. discounts, later payments, substitution of higher-quality goods, etc.?
- Can the buyer cancel a submitted purchase order without penalty should goods prove unavailable at the time specified in the PO terms and conditions?

Insurance Coverage

- What insurance coverage is provided by the supplier to cover defects in manufacturing quality, *force majeure*, and other extraordinary circumstances?
- Which insurance policies should be purchased or added to existing policies by the buyer?

- In the event of breach of contract, is there an agreement to limit liability for either party (e.g., total expenses, cost of goods only, etc.)?

Nonpayment

- In the event of nonpayment, what timeframe exists to allow for late payment? What penalties will be levied by the vendor in the event of non-payment?
- What remedies are offered to the seller? Can the goods be reclaimed? If so, is there a penalty incurred (e.g., a restocking fee?) by the buyer?
- What remedies will be pursued, up to and including litigation? Do both parties agree to pursue less expensive and troublesome solutions such as arbitration in lieu of litigation, excepting specific and extraordinary circumstances?

Violation of Contract Terms

- What timeframe (if any) is granted to the party violating the agreement to correct such violations?
- Does violating the contract negate specific portions of the contract, or the entire agreement?
- Can the agreement be amended by mutual agreement to accommodate changes created by such a breach?

Legal Jurisdiction

- Which country's laws hold jurisdiction over the parties in the purchase agreement?
- Can either party petition for a change of legal venue? If so, what remedies are afforded the other party in the event they do not traditionally operate under the laws of that venue?

Internal Process Compliance

- What workflows are in place to ensure all the information on each purchase order, regardless of type, has been reviewed and verified to ensure total accuracy and completeness?
- What workflows are in place to standardize and streamline purchase

order cancellations and modifications?

- How is the legal team incorporated into the purchase order creation workflow to ensure all copy, including terms and conditions, are compliant with internal policies, industry standards, and the law?
- Is the purchase order number properly documented and connected to all related documentation and correspondence for financial, planning, payment, and auditing purposes?

Incorporating purchase order software into your procurement services workflow can help eliminate most of the drudgery, as well as the risk of costly omissions and inaccuracies, when drafting a purchase order. Cloud-based, centralized data management means every purchase order is optimized for its corresponding product, supplier, and project, automatically incorporating both legal-approved boilerplate and supplier-specific information that ensures you get the best possible pricing and terms while enjoying maximum legal protection.

Communication is Key

While drafting a rock-solid PO is a good start, the real secret to successful, efficient, and productive procurement lies in communication and relationship management. Miscommunications are at the heart of most misunderstandings, and without a well-developed professional rapport with your suppliers, you might not get a chance to explain and correct a mistake until you're in court.

Like document management and strategic sourcing, communication and supply chain management benefit greatly from the use of automated, AI-driven purchase order software, particularly if it's part of a larger procurement solution. Real-time, cloud-based document access and sharing, as well as continual updates, instant, on-demand modifications to workflows, and intuitive communication tools make it easy to build, maintain, and grow strong, mutually beneficial supplier relationships that give you room to maneuver and support one another's goals.

Preparation and Planning Protect the Purchaser

Whether it's a typo on an order line, a change in budgetary priorities, or a modified purchase order request, the modification and/or cancellation of purchase orders will pop up sooner or later for most businesses. But it doesn't have to be a fatal, or even costly, event. Make sure your terms and conditions are thoughtfully

composed, compliant, and complete, and you're halfway there. Establish and maintain strong supplier relationships with good communication, and you'll have a partner who's ready to help, rather than a potential opponent looking to litigate.

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