Why It’s Important to Confirm Purchase Orders



The purchase order confirmation is the end of supplier negotiations. At this point, you as the buyer, and the supplier as the vendor have agreed upon the price and delivery date for the purchase order you’ve sent. Generally, vendors will provide confirmation numbers of some kind to indicate the purchase order has been received. If this is not the case, however, you’ll need to make sure you follow-up to receive a confirmation on the purchase order.

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Purchase orders are legally binding contracts between the purchaser and the buyer, but that legal protection does not kick in until the purchase order confirmation takes place. If the purchase order is not confirmed and accepted by the supplier, it is not a contract.

Without taking the time to confirm all your POs, it’s impossible to know whether or not a supplier actually received the order and is in the process of fulfillment. You can go through the purchase order process as many times as you need to in order to complete your purchasing requirements, but none of that matters

without purchase order confirmation. You could get lucky and receive the right amount of goods and on time, or you could go without because the supplier completely missed the order.

Vendors will approve, reject, or submit purchase orders for discussion before confirming. Vendors will review the quantities, unit prices, the total amount due, and payment terms and conditions. In most cases, the vendor will approve the PO (confirming it) either via email or purchase order software. When this happens, you'll receive a confirmation number by email that you can reference in the event that there is an issue with the order, or you need to check on the order status.

At that point, they will begin preparing the goods and services ordered for delivery by the expected date. However, if they do not have certain items in stock, or they have another concern about the order, such as conflicts with the terms and conditions outlined in the vendor contract, they will flag the order and send it back to the purchaser to resolve the issues. In this case, the order is not confirmed.

The Purchase Order Acknowledgement (POA)

The POA is a document from the vendor that has multiple functions. These include:

- Acknowledging receipt of the purchase order
- Communicates intent to fulfill the order
- Reports any errors on the order, such as pricing or part numbers
- In the case of drop shipments where items go directly from the supplier to the end consumer, it will provide the retailer with delivery status information to share with the customer.

As a company, it's important to ensure your vendors provide POAs as part of their process. This way you'll know whether you need to place an order with another vendor to cover the difference when a vendor doesn't have the requested amount, or if you just want to proceed with what they have available.

When you and your vendor are both using automated and integrated Electronic Data Interchange (EDI) system, the information exchange can occur automatically without any need to email, fax, or manually enter orders into your system.

Implementing automation throughout the procurement process – not just at the invoice processing stages – makes things even more efficient and productive. Neglecting to use automated information exchanges leaves plenty of room for error – potentially costly error.

Handling Purchase Order Confirmations

Tools and Procedures

Implement tools that make it easy for you to find and resolve discrepancies, including backorders. Develop policies and procedures for handling confirmations. For example, reviewing confirmations every day reduces the cost of finding and fixing discrepancies on the backend. These policies will also determine who has the decision-making authority to manage discrepancies, accept or deny changes and substitutions and reject changes, if necessary.

Manage by Exception

Managing confirmations on the front end, by exception, streamlines all that comes afterward. Everything that matches will flow right through the system for faster processing, especially in accounts payable. This enables your staff to reduce invoice processing times and costs, keeping suppliers happy, and possibly even allowing you to capture early payment discounts. You'll also be able to quickly identify items where discrepancies are flagged and resolve the issues accordingly.

Phone Orders

When it comes to phone orders, you'll need a process to manage those too. If you can't create an electronic purchase order because you have to call in the order, you'll want to get a confirmation number from the vendor at the end of the call. You'll also want to have the vendor send some kind of electronic confirmation, either with EDI or email. Save confirmation numbers and all documents for documentation, audits, and control. You can also ask the vendor to allow electronic purchase orders because it saves time and provides a better audit trail for everyone.

Evaluate Vendor Performance

Begin with their ability to confirm orders electronically. Track overall statistics regarding the percentage of on-time delivery, price accuracy, backorder rates, and percentage of order fulfillment.

Evaluate Your Own Performance

Set benchmarks for your current discrepancy rates, fill rates, and on-time order deliveries. Track the data for three to six months to see if you're improving. If you're remedying inaccurate pricing and product data as you're finding it, the discrepancy rate should decline.

The best rule is do not proceed as though a purchase order will be filled as ordered and delivered as expected until you have received a POA or some other form of purchase order confirmation.

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