

# Everything You Need To Know About Purchase Orders



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# What Is A Purchase Order?

An obvious starting point would be to answer the obvious question, what is a purchase order? Purchase orders (POs) are documents sent from you, as the buyer, to a supplier with a request for products or services as an order.

Each PO will include a number for tracking the purchase order throughout the system, as well as the type of item (with identifying SKU if required), quantity, and agreed upon pricing. More specific orders will include more details, but as a general rule, the more information you include, the more effective your PO is.

Here is an example of a purchase order document:

**PLANERGY™**

Boston Office  
One Post Office Square, Suite 3600  
Boston MA, 02109  
USA

**Purchase Order**

PO No: PO00495  
04/26/2017  
PO Status Closed Completed

SUPPLIER	DELIVERY ADDRESS
<b>Taylor Dickens</b> 70 Bowman St. South Windsor, CT 06074 USA  <b>Terms:</b> 30 Days <b>Phone No:</b> 800-123-4567 <b>Email:</b> john@taylorcdickens.com	<b>Boston Office</b> One Post Office Square, Suite 3600 Boston MA, 02109 USA  <b>Phone No:</b> 800-123-4567 <b>Attn:</b> Patrick

DELIVERY DATE	REQUESTED BY	APPROVED BY	DEPARTMENT
04/28/2017	Patrick Smith	John Smith	IT Department

**NOTES**

Description ABC

ITEM NAME	ITEM CODE	QTY	ITEM PRICE	DISC.	TOTAL
Nescafe Gold Blend Coffee 7oz	QD2-00350	1.00	34.99	0.00	34.99
Tettley Tea Round Tea Bags 440/Pk	QD2-TET440	1.00	20.49	0.00	20.49
Niceday Economy Lever Arch File A4 Black	Q81-4857579	15.00	1.90	0.00	28.50
3 Tier Letter Tray	QD2-1523055	3.00	23.89	0.00	71.67
Viking A4 Economy Copier	QD2-9537	5.00	3.59	0.00	17.95
Economy Manilla Envelopes - 500	QD2-2071074	2.00	15.49	0.00	30.98
3 Tier Letter Tray	QD2-1523055	1.00	23.89	0.00	23.89
<b>ORDER TOTAL</b>					<b>\$228.47</b>

# Legal Status Of A Purchase Order

Buyers should always clearly communicate requests to sellers to reduce or eliminate confusion when the seller receives the PO.

If buyers ever refuse payment, the seller remains protected because of the legally binding contract status of the document. For the buyer to have similar protection it is important to have a purchase order confirmation, or acceptance of the order, tracked.

Ensuring you have robust purchase order terms and conditions covering all relevant scenarios, including details like when you can cancel a purchase order, will ensure clear boundaries to maintain good relationships with your key suppliers.

As legal documents some commercial lenders will use POs for reference when providing financial assistance to your organization, this is called purchase order financing.

*A PO, once accepted by the vendor or supplier, is a legally binding contract between the two parties.*

# The Difference Between Purchase Orders and Invoices

Buyers create the purchase orders, and sellers create the invoices. Sellers may send an invoice as a way to collect payment – where there are specific payment terms (net 30, net 60, FOB, etc.) or may send an invoice with a zero balance as a way to record that a payment has been received for the order.

Both purchase orders and invoices contain similar information, such as a billing

address, and shipping address. Invoices typically reference the purchase order number, with the addition of an invoice number to confirm that both documents are related and correspond with one another.

A key difference is the order details and other technical information included in the purchase order generally are not included on the invoice.

## How Do Purchase Orders Work

John, the purchaser, has received word a department within his organization requires a new set of monitors for the computers in the office. He creates the purchase order that details the quantity and specific requirements for the monitors.

The company responsible for selling the monitors receives the order. Once they confirm they're able to supply the order, they approve the PO and take the payment, or send the merchandise with the expectation of payment based on the previously agreed upon payment terms.

Once payment is received, order fulfillment happens and the monitors are shipped with the delivery date and tracking information, and John receives the invoice.

The invoice either confirms the payment that was sent before the merchandise shipped or includes the payment due date if money wasn't sent first. John checks the invoice to make sure it matches the purchase order, then checks the packing slip to make sure all items ordered were received, and payment is only issued for items ordered and received, in a process known as three-way matching.

Purchase Orders are often confused with other types of documents too. It is important to understand the differences between purchase orders and contracts, the differences between purchase orders and work orders, and the differences between purchase orders and sales orders.

# Tracking Purchase Orders

It is important to track purchase orders through the whole procurement process, for goods and services, to ensure you receive the goods or services you order and you only pay once for these items.

A sole trader or small business might start out with purchase order tracking in excel while using a purchase order template form, or even worse in a duplicate or triplicate purchase order book.

The more people involved and the greater the volume of POs being processed multiplies the number of problems that may occur. Implementing purchase order software will cover the need to track all purchase transactions, manage the entire PO process, and a lot more. Ensuring a full audit trail related to every purchase while enforcing purchase order best practices.

An ability to track and easily report on all types of purchase orders, including blanket purchase orders, is a must to get full visibility on spend. It also enables finance departments to streamline the purchase order reconciliation and payable process. Visibility on the entire process, including an automated open purchase order report, will ensure time is saved and nothing is missed when invoicing.

Digital transformation is a key goal for many organizations and procurement transformation is a key part of that larger goal. An online PO system will track electronic purchase orders through the entire process. You don't need a dedicated purchasing department to feel the benefits of digitization.

## Why Purchase Orders Are Important for

## Your Business

There are many organizations that don't use purchase orders because they feel like the paperwork is just a roadblock or unnecessary step in the process because they have steady working relationships with vendors.

When small businesses are still in the startup phase, business owners tend to have a fairly organic purchasing process that's simple and straightforward. But, as the company grows, and more hands are involved from start to finish, the process changes as the relationships with vendors grow and evolve with time.

At a certain point in company growth, purchasing demands become more complex, urgent, or specific, meaning communication can become difficult and leave plenty of room for error if purchase orders are not used, or lack a certain level of detail.

If a buyer receives their order without a PO number for reference, it can be a hassle to figure out where the request went awry. And at that point, it's likely that both an invoice and payment was sent - adding more complexity to the legal situation between the two parties.

The purchase order serves as a legally binding document offering legal protection, providing clear instructions to the vendor and an audit trail that's available for reference when things go wrong.

## Why You Need to Automate the Purchase Order Process

If your business is currently using a paper-based system, chances are you're creating too many documents. Many companies will process up to seven documents over the course of the purchasing cycle, including

requisitions, purchase orders, quotes, order acknowledgments, goods received notes, packing slips, and invoices.

That's a lot to keep track of, and when you consider you have to keep track of all of this for every single purchase, relying on paper becomes a bit overwhelming. Better purchase order management is needed.

Good record keeping is essential for purchasing and procurement, but paper-based records can easily be lost, damaged, or destroyed. It's more difficult to find duplicate requests and purchases, invoices, and missing transactions, which cost your company both time and money.

Paper-based systems also require using an efficient filing system that's regularly updated. This filing system will take up considerable space in an office, only growing over time, and take up man hours to maintain and keep running smoothly.

Automating your purchase order process with a purchase order software such as Planergy digitizes the entire procurement process by using electronic purchase orders and other documents.

All the important documents are tracked in a centralized system with an audit trail to tell you who takes what actions on the document. Plus, you can upload other documents to vendors and purchase orders, such as prior contracts, additional terms, and payment schedules, to keep track of all your vendor information and other details with ease.

With purchase order automation everything's stored in a single system, the accounts payable department benefits as well, since it becomes easier for them to convert orders into invoices for payment, for easier payment processing.



# How to Integrate Purchase Orders into Your Business

Begin by evaluating how your business currently handles purchasing and then consider how you'd like to control what your team can buy and how they'd process the entire purchase process. After that you will be able to create a purchase order system that is suitable to your company's needs.

## Purchase Requisitions and Purchase Orders

If your organization isn't currently using purchase orders, it's likely that you're not managing the process your employees follow when they want to buy something. By switching to an electronic purchasing system, you'll be able to create a formal purchasing process that controls who is able to buy what and how much money they can spend without further approval.

For purchase orders with a higher value effective purchase order control should be set in place with purchase order approval workflows to ensure the right people sign off before the commitment is made.

Ultimately, the increased control and visibility into your company's spending habits will give you the ability to make data-driven decisions for the betterment of the organization.

Start by using requisitions, that allow your team to make a formal request for the materials or things they need to do their job. You may already be doing this - simply asking your team to email their manager with the request, then having the manager make the purchase.

Instead, creating a standardized purchase order request form and requiring all employees to use it, ensures receiving requisitions isn't a waste of anyone's time.

It has all the information people need to approve the requisition and automatically attaches it to the corresponding purchase order when the requisition is approved.

## **Budgets**

Once your staff starts using the standardized purchase requisition, you'll be able to create budgets based on the average monthly spend and track what it is your team is buying. With this data, you can start looking at how the supplies are used and start finding savings opportunities.

People you designate as approvers will be responsible for maintaining the budget, and if people go over the budget, the approver may not be able to approve any purchase requisitions that aren't absolutely necessary for immediate needs. Real-time expenditure vs budget information will ensure the approval process for PO creation is better controlled.

## **Volume Discounts**

Once staff members start submitting requisitions, approvers can easily spot purchasing patterns. This allows them to submit bulk orders and request volume discounts, if available. When requests are created digitally, processing time is significantly reduced, since the most frequently requested items can be added to a catalog from the best supplier for the best possible price.

## **Moving from Requisition to Purchase Order**

After purchase requisitions are a standard process in your business, you move on to creating purchase orders from those requisitions. You'll need to contact suppliers to let them know you'll now be submitting a formal purchase order before sending payment. Suppliers likely won't complain about this as it has significant benefits to both parties.

When your approvers have requests that need to be fulfilled, the purchaser will complete the necessary purchase order form and send them to the vendor. The vendor will then communicate any concerns or issues they have with the purchase if there are any. If not, they will ship the order and invoice once they've received payment.

With an e-procurement system, it's easy to convert a requisition to a purchase order. The requisition number is attached to the purchase order number, so you can track the purchase from request to receiving and payment. Once the approver marks the requisition approved, it can automatically be converted to a purchase order with the vendor the requestor selected.

Integrating requisitions and purchase orders may take some time to adjust and standardize. But, doing so increases your ability to track expenses and remove hassles associated with purchasing. Visibility into your company's spending habits is critical to sustaining company growth, and this process is one of the ways you can achieve it.

## What's your goal today?

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