

# Purchase Order Cycle Time: What Is It, How To Calculate It, and How To Improve It



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The cost of doing business isn't only measured in big numbers. The little things add up too. One of the most important 'little things' to optimize is your company's purchase order cycle time (also called PO cycle time).

Improving this makes a substantial impact on both cost savings and value creation.

# What Is PO Cycle Time?

Purchase order (PO) cycle time is a measurement of the total time it takes for a business transaction to go from turning a purchase requisition into a purchase order.

It's an important component of the larger procurement cycle and a key performance indicator (KPI) that can help you measure your procurement team's efficiency.

Tracking the PO cycle time KPI ensures that you always know how long it's taking your team to approve and create POs and sets a benchmark that you can aim to improve over time.

## How Do You Calculate PO Cycle Time?

In order to optimize your PO cycle time, you first must calculate it.

To do that, you must understand the purchase order process and calculate the time from when it begins to when it ends (from requisition to PO submission).

Every company is different, but the general purchase order cycle follows this path:

### 1. **Purchase Requisition Submission**

Before the PO cycle starts, a purchase requisition gets submitted from an internal team.

This requisition details what needs to be purchased, including quantity, ideal vendor, and requested delivery date.

Once the purchase requisition is received from an internal team, the clock starts ticking.

Creating and receiving requisitions is much faster when you use procurement software, rather than paper forms or Word documents.

## 2. **Purchase Requisition Approval**

In order for the requisition to turn into a PO, it must get approved. This involves routing it to the right approvers based on budgets, projects, and departments.

Using purchase order software to automatically route the requisition to the correct approvers can cut down the time it takes to complete this step.

## 3. **Issuing the Purchase Order**

Once the purchase requisition is approved, the procurement team creates a purchase order.

This can be done manually using Word or Excel, or it can be automatically generated based on the existing requisition in the purchase order software—another way that software shaves time off the overall PO cycle.

## 4. **Vendor Approves or Rejects the PO**

Once a vendor signs the PO, it becomes a legally binding contract. Therefore, it's important for the vendor to do their due diligence before accepting the order.

They'll review the quantities, pricing, amount due, delivery date, and terms to ensure everything looks right. If everything lines up, they'll accept the PO and fulfill the order.

## 5. **Purchaser Records the PO**

The last step is 'recording' the PO, which essentially means filing it (if you were still using a paper-based system). If you're using purchasing software, recording and storing the PO can be automated. An audit trail and detailed record of every PO are readily available for future reference.

Having the PO information available will come in handy when the invoice and receipt come in, as it will be easier to match that information to PO to

ensure it's correct.

## Purchase Order Cycle



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To find your average PO cycle time, track how long it takes to complete the cycle from receiving the requisition to recording the PO over a period of time and calculate the average.

If you're using PO software, these recordings are done automatically and all the data you need for finding your average is there.

You will also be able to compare cycle times across departments to see where the bottlenecks are.

You may find wide swings in lead time between POs with new vendors and existing vendors, which is to be expected.

The overall average, however, should be telling and may motivate you to improve.

## What Is a Good PO Cycle Time?

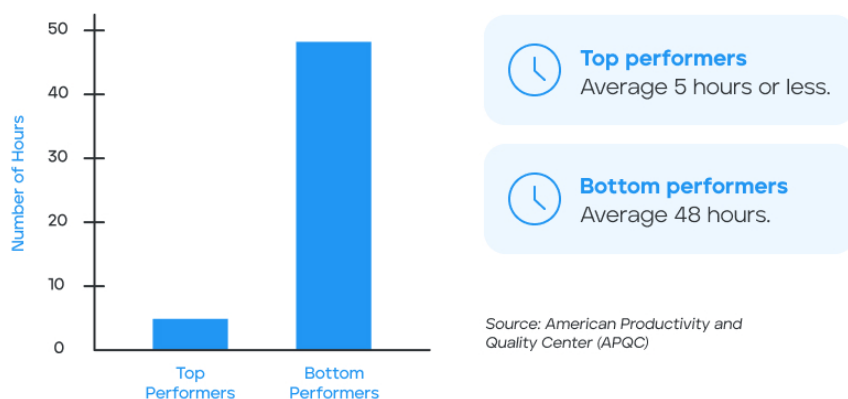
A good PO cycle has been established by the Open Standards Benchmarking from the American Productivity and Quality Center (APQC).

They found that companies qualifying as “top performers” average five hours or less to place a purchase order with their suppliers.

On the flip side, “bottom performers” average two days. This shows you how substantial cost savings can be generated by reducing bottlenecks in your purchase order cycle time.

Ideally, you want to be as lean as possible without sacrificing accuracy. With the right tools, you can actually improve both.

## ■ Average Purchase Order Cycle Time



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*According to the American Productivity and Quality Center (APQC), top-performing procurement teams average five hours for their PO cycle time. Bottom performers average two days.*

## What Are The Benefits of a Shorter Purchase Order Cycle Time?

Reducing your PO cycle time generates several benefits, all of which roll up to your bottom line either by cost savings or increased efficiency.

Spending less time creating and approving purchase orders helps you in the following ways:

- Reduced labor time for PO processing.
- Lower overall cost of the procurement function.
- Reducing the average cost to make a purchase.
- Increased ability to take advantage of discounts offered only for a limited time.
- Better relationships with suppliers as POs are not only received faster but can be paid faster as well (if you use procurement software).
- More time for procurement staff to focus on extracting real value rather than busy work.

## What Are The Benefits of a Shorter Purchase Order Cycle Time?



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## How Do I Reduce My Purchase Order Cycle Time?

Reducing your PO cycle time can be achieved in a number of ways.

Because internal process improvements are entirely within your control, you don't need to rely on suppliers or external factors to create improvement.

To help you achieve the fastest and most efficient PO cycle time without reducing the quality of your procurement team's work, here are four areas you can focus on.

# **Automate the PO Cycle with Procurement**

1.

## **Software**

As a business grows, its procurement cycle becomes increasingly complex. The process consumes more resources, time, and talent.

Transferring that workflow to a procurement software solution takes advantage of the benefits that automation offers: trimming time, expenses, and stress from the procurement process.

Automation through procurement software reduces human error and increases efficiency as fewer assets are required to complete a task.

Staff can dedicate their time and talents to more valuable tasks as repetitive and manual data entry tasks are no longer required.

Software also connects all users within a controlled hierarchy of access, review, approval, and payment.

When a PO is submitted, it automatically routes it to the right people for approval. This significantly reduces PO cycle time and errors.

Instead of chasing down approvals, teams are able to use their work hours more effectively.

According to the APQC, companies using automated software complete their PO cycle 11 hours faster than those using manual processes.

Those 11 hours saved per PO using purchase order automation can be used to generate value through higher value tasks such as supplier relationship management (which can further reduce PO cycle time, see below).

Procurement software also connects all transactional data with related documentation. Every PO is automatically tied to its corresponding invoice, shipping documents, correspondence, and vendor information (including contract terms, incentives, and penalties).

This makes errors rare and easy to correct if they occur, and greatly simplifies the auditing process.

## 2. **Improve Supplier Relationships and Performance**

Procurement software can also help improve supply chain management. Software can be leveraged to build productive and mutually-beneficial supplier relationships in two ways: supplier reduction and prioritizing preferred suppliers.

### 1. **Supplier Consolidation**

Supplier reduction aims to ensure you have critical needs met by a smaller number of suppliers but also have contingency plans in place.

Supplier consolidation is a balancing act of ensuring you have backups and avoid the possibility of over-reliance on a single vendor.

### 2. **Prioritize Preferred Suppliers**

Prioritizing preferred vendors helps you complete the PO cycle faster because it will take less time to get your internal team to sign off.

These are suppliers with a good reputation or even a pre-existing contract in place.

You can even set up a guided buying system to help teams choose these suppliers from a list.

You can streamline your PO cycle time by choosing from a smaller pool of preferred vendors with the best terms already negotiated, rather than trying to make a decision on the right supplier every time you make a new purchase.

## 3. **Review Your PO Policy To Reduce Unneeded Steps**

Over time, procurement teams can add unnecessary steps to their

approval workflows.

These may have made sense in the past, but perhaps they are no longer relevant, especially if you've switched from manual workflows to automated processes.

Reviewing your purchase order policy regularly and updating where required will ensure operational efficiencies are not lost to bureaucracy.

You may be able to set certain spending thresholds where individuals can approve their own orders up to a certain total amount for the month or year.

More detailed approvals can be reserved for higher-value orders, or specific scenarios where oversight is necessary.

Getting rid of unnecessary approvals can make a big impact on reducing PO cycle times.

## ■ How To Reduce Purchase Order Cycle Time?



Automate Using  
Procurement Software



Improve Supplier  
Relationships and  
Performance



Review PO Policy To  
Reduce Unneeded Steps

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# Reducing PO Cycle Time Helps You Save on Every Purchase

While it's not the only KPI that matters for your procurement function, PO cycle time is a crucial area to look at when considering how to reduce waste and lower costs.

If you have an exceedingly long PO cycle time, it's a reflection of inefficient processes that need to be fixed—and a large potential savings opportunity.

Adding automation and supply chain management through procurement software will reduce your PO cycle and provide the tools you need to make procurement a key value driver for your business.

By reducing the time it takes to create and approve a PO, you'll save money and time on every purchase.

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