

Purchase Order Best Practices for Small Business Owners



Running a successful small business requires long hours and a diverse skill set. An essential part of maintaining your success—and using it to drive your business to new heights—that often gets overlooked is procurement in general, and purchasing in particular. For some small business owners, using a purchase order (PO) for every purchase might seem like overkill, especially when you’re already spread thin and more interested how you can make money rather than documenting every little dime spent. But the truth is, creating and managing a purchase order system is essential if you want to have complete control over your spend.

There’s no one “perfect” purchase order management plan for every small business, but you can absolutely build the best one for your business by applying a few well-established practices and taking the pain out of the purchase order process with help from technology.

Purchase Order Best Practices Protect

Your Profits and Productivity

While it might seem like they add cost and labor to your workflow, purchase orders actually help you rein in costs and protect yourself from needless risk when they're properly managed.

Purchase orders bring several benefits for businesses of all sizes, including:

- Forming a legally binding contract between buyers and vendors, stipulating payment terms, delivery conditions, quality, quantity, and other useful information.
- Creating a single purchase order number that can be used to connect all related transactional data, communications, and other documentation for financial reporting, planning, and auditing purposes.
- Greatly improved spend transparency; both duplicate orders and “rogue spend” are reduced or eliminated through tracking of all expenditures.
- Greater efficiency and productivity through process improvement.

To make the most of the potential power of the purchase order, however, you need to create a clear, straightforward, and effective purchase order management system.

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Critical Purchase Order Best Practices

They may have smaller budgets and fewer links in their supply chain, but just like their larger cousins, small businesses can benefit from documenting and tracking their spend through purchase order management. Embracing some time-tested tactics and powerful (yet affordable) technology, you can fight waste, improve efficiency, and grow your business more effectively with help from purchase orders.

Leave Pen & Paper (and Their Problems) Behind

If you own and operate a small business, you might think of centralized, automation-driven PO System For Small Business as something available only to giant, globe-spanning corporations. But thanks to advances in both artificial intelligence (AI) and automation technology, small businesses can now go digital, too. Whether you're still using an office suite, a fully-realized enterprise resource planning (ERP) system, or some mix of the two, adding a digital purchasing system will provide you with a robust toolkit for procurement.

With automation-driven purchasing software, you can:

- Create electronic purchase orders to cut costs by eliminating paperwork (and paper waste).
 - Streamlining your entire procurement process with digital routing, hierarchies, and alerts for your approval workflows.
 - Slash the need for manual data entry, administrative work, and manual error-chasing.
 - Connect and instantly access all the relevant data created by a transaction at every stage of the process, from the submission of a purchase requisition to purchase order creation to order production, tracking, and delivery and, finally, payment.
 - Reduce human error and risk exposure due to duplicate purchases, invisible spend with unapproved vendors, and invoice fraud.
 - Create and manage centralized databases containing not just transactional data, but communications, financial reporting and planning information, and supplier management information. These databases can be automatically connected to the system to populate purchase requisitions, purchase orders, and other documents with relevant supplier information and contract data without the need for human intervention. This not only reduces human error, but helps buyers take advantage of negotiated pricing and terms as well as special discounts.
1. Automation and AI are the cornerstone of a strategic and effective purchase order management system. They set the stage for

implementation of other process improvements that rely on continuous improvement and efficiency gains they create.

2. **Create a Set of Formal Purchase Order Guidelines**

The clearer and more user-friendly your purchase order system is, the more easily your staff and suppliers will understand and adopt it. Standardization also allows you to observe potential logjams or risk exposures in your processes and correct them as you go along.

Every business will have their own unique set of standards for purchase order management, but most will benefit from including:

- A detailed breakdown of the procure-to-pay (P2P) process, from purchase requisition to payment.
- A detailed hierarchy of access and approvals, including special exceptions (e.g., CFO approval being required on purchases over \$10,000).
- Detailed instructions providing guidance in a variety of likely scenarios, including prioritization of quality, price, and delivery terms with regard to specific projects, departments, and initiatives. If you're using purchasing software, these guidelines can be integrated automatically and provide context to aid in (for example) selection from among pre-approved vendors to get the best price and terms on a given item.

If you choose to use an electronic procurement solution, drafting these guidelines will likely go hand-in-hand with training for the software. This will allow you to firmly associate the two in everyone's minds and make sure everyone is on board with the required procedures and processes.

3. **Build Buy-Friendly Budget Planning into Your Procurement**

Working with each department, you can incorporate categories for each type of spend (e.g., "Training Classes," "Computers and Accessories," "Cleaning Services," etc.) directly into your purchase order system of

choice. Having budget data available provides realistic and real-time guidance to buyers while also allowing for smarter purchasing decisions such as delaying smaller, but not urgent, purchases for a future quarter in order to direct funds to a more critical larger purchase in this one.

Define thresholds for different categories of spend, and, if you're using eProcurement software, connect them to your approval workflows. Automatic alerts will notify the proper parties when spend falls outside the pre-defined limits. This has the twin benefits of both minimizing unnecessary delays and allowing for review, rather than automatic rejection, of essential one-off expenditures.

Big or Small, Every Business Benefits from Proper PO Management

Even the smallest business can enjoy big-time savings and productivity improvements when they use intelligent purchase order management. Don't lose time, money, and resources to an endless paper trail rife with human error and risk—let the power of machine learning and process improvement help you build a PO system that supports your company's success and growth through safer, smarter spend.

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