

# Purchase Order Policy Best Practices



From the initial purchase requisition to the payment of the final invoice, every purchase order your company creates represents an investment in your success—and an opportunity to earn an optimal return on that investment. However, without an effective purchase order policy in place, you might find yourself losing value and facing increased costs.

Fortunately, developing an efficient and effective purchasing process and implementing a complementary purchasing policy is easier than you might think. With a thorough understanding of the key elements, making investment in the right technology, and by following best practices, your procurement organization can craft a purchase order policy that helps you keep costs low, optimize the efficiency of your workflows, and ensure your purchasing procedures generate maximum value and return.

## The Benefits of an Effective Purchase Order Policy

Playing fast and loose with the rules might work out for movie heroes and gamblers, but in business, it's usually best to set parameters to ensure everyone's

on the same page. Developing and implementing an effective purchase order policy will likely be a core component of a larger initiative to develop and implement an organization-wide procurement policy.

Competitively successful companies formalize their procurement processes and codify their purchasing procedures to gain a number of benefits, including:

## **Clear Employee Guidelines and Standardization**

In the past, small businesses and startups might not have paid as close attention to the need for a purchase order policy as their larger, more established competitors. With fewer employees and less spending power, these companies might have relied on unwritten agreements between a small number of very busy staff members to keep procurement cost-effective and relatively transparent.

But digital transformation has greatly increased both the operational capabilities available to every business *and* the need to leverage those capabilities for companies who want to compete effectively in a complex global marketplace. Today, every company benefits from finding ways to improve spend management and making sure they have clear, enforceable and efficient purchase order policies in place.

Why? One of the most important is providing staff with a documented set of purchasing policies and procedures. Standardized practices:

- Improve speed and accuracy, minimizing the risk of human error and costly delays while providing clear guidance and instructions for various purchasing scenarios, including:
  - **Potential conflicts of interest**, e.g. purchasing from relatives, accepting gifts from suppliers, etc.
  - **Contract-specific spend requirements** based on pricing, purchase size, project or destination, delivery date, payment terms, etc.
  - **Contingency plans for obtaining approvals when the primary approver is absent or otherwise unavailable.**
  - **Ensuring purchase transactions follow the requirements to establish a legally binding contract with suppliers.**
- Combat common procurement woes such as unauthorized purchases,

- maverick spend, and invoice fraud; and
- Make it easier to implement further improvements, such as process automation, in optimizing the purchase order process.

## **Defining the Role of Purchasing**

A purchasing policy makes clear the role procurement will play within the organization. Ideally, this serves as an opportunity to center procurement as a value creation center for the company working not just with accounts payable to obtain and pay for goods with maximum ROI and minimal expense, but developing strong, strategic supplier relationships while providing spend data-based actionable insights that drive better forecasting, strategic sourcing, and overall decision-making.

## **Providing Clear Guidelines for Supplier Engagement**

It's not just internal stakeholders who benefit from a well-written and effectively enforced purchase order policy. Vendors also benefit from such a policy, as it provides them with clear guidance on how to engage with your organization to secure your custom and delineates the rules for acceptable behaviors and limitations (including gifts, ethical sourcing and business practices, etc.) during negotiations, transactions, shared initiatives, etc.

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## **Best Practices for Creating an Effective Purchase Order Policy**

Following a few simple best practices can help your procurement team craft a successful purchasing policy.

# 1. Prioritize Simplicity.

A concise (yet clear) document, written in easy-to-understand language with minimal jargon, will not only make it easier for folks to absorb and retain your procurement policies, but increase the odds they'll take the time to go through them in the first place.

Be sure to provide clear examples when discussing common purchasing scenarios and their related procurement processes.

For example, a No PO, No Pay Policy makes it clear all purchase transactions *must* have an accompanying approved purchase order to be honored. For staff, providing an example of a rejected transaction reinforces the importance of both honoring negotiated terms and conditions and helps encourage compliance with regard to making sure the PO is accepted as a legally binding contract. For suppliers, this example makes clear your expectations before any money changes hands, and also provides a clear explanation of how the purchase order forms a contract between both parties.

In maintaining the spirit of simplicity, you may also want to develop a separate policy for blanket purchase orders (BPOs). These POs have prior approval, stretch over a long period of time rather than a single transaction, and rely on a single BPO number for all purchases, so having a separate policy in place helps avoid confusion for both your team and suppliers.

## 2. Communicate Proactively

Establishing your purchase order policy is the first step. Ensuring both your organization and suppliers continue to adhere to your purchasing procedures requires a more active hand.

Keep everyone involved in company purchasing regularly updated on your current purchasing policies. If there are significant changes (for example, if you implement a new software system to automate procurement processes), make sure to plan for and provide the necessary training and updates. New employees should receive not only the policy, but whatever training they require at onboarding to jump in with both feet.

You can also provide FAQs (Frequently Asked Questions) to address the most

common concerns and questions expressed by internal and external stakeholders.

Tools such as automated chatbots who can answer questions are also very helpful. So, too, are regularly scheduled feedback sessions to ensure everyone understands the policy, their role within it, and how it supports organizational goals.

### **3. Invest in Software Tools**

A strong purchasing policy can be hamstrung by inefficient processes and poor spend visibility. Information technology is the backbone of digital transformation at all levels, and investing in best-in-class, purpose-built software like PLANERGY helps support both greater efficiency and accuracy across your entire procure-to-pay (P2P) process, and provides tools that simplify policy creation and enforcement.

For team members, process automation improves document lifecycle times, eliminates wasteful errors and delays, and provides automatic population of critical data directly from the contract database, starting with the purchase requisition and connecting every transaction to its corresponding purchase order number. In addition, guided buying tools help eliminate maverick spend and prevent invoice fraud while ensuring *all* spend data is captured for optimal transparency. The more accurate and complete your spend data is, the more useful it will be in providing actionable insights for decision-making.

For vendors, support for punch-out catalogs and vendor portals complements guided buying and helps provide all parties with complete, end-to-end transparency for every purchase. Onboarding vendors into your purchasing system also simplifies the bidding process, provides greater potential for shared initiatives to innovate new products or source new materials for existing ones, and reduces the risk of transactions without a PO number.

## **Sample Purchase Order Policy**

Creating your company's purchase order policy will be a unique process, but starting with a template can make it a lot easier to flesh out the details as you go. Generally speaking, the process for creating a purchase order policy looks something like this:

- **Define the objective of the purchasing policy.** This is simply the purpose of the purchasing policy. Ideally, it will be a simple statement that describes the scope of the policy and the expectations placed upon, and responsibilities assigned to, all participants in the purchasing process.
- **Define the role of purchasing and accounts payable.** Your larger procurement policy will no doubt define the role and purpose of both procurement and accounts payable in great detail. But it's a good idea to include both in your purchase order policy as well.  
Make it clear which responsibilities each department has (e.g., procurement serves as a point of contact for vendors during evaluation, selection, and ordering, while accounts payable is responsible for working with both procurement and suppliers to successfully complete transactions through invoicing and final payment).
- **Detail the supplier onboarding process.** In this section, explain how vendors are evaluated, selected, and then finally onboarded into your procurement system. This will help staff understand how new vendors are found and integrated with your procurement system and workflows, and provide details on what documents and processes are required to successfully complete these processes.  
New suppliers will gain a similar benefit, and help clarify how they should engage with your company when seeking your business. Include details on what to expect during onboarding (including how to connect with your vendor portal system to ensure they're in the system from the start) and what their points of contact will be for various issues or concerns.
- **Clarify contract signing authority.** This area should cover:
  - **When a contract is required.** For example, some companies don't require a contract for purchases under a certain total contract value (TCV). Alternatively, blanket purchase orders will ideally be covered by their own contract rules.
  - **Details on who has contract signing authority for specific scenarios.** This could include spending levels (TCV), project scope/budget, or period of time covered by the purchase. Providing a chart of authorization limits and the associated approver, for example, gives viewers a quick and handy reference.
  - **Legal procedures and requirements.** Working with legal to provide standard phrasing for company contracts helps insulate

your organization against needless risk by improving legal and industrial compliance. In addition, prior approval from the legal team can help speed the contract negotiation and signing processes by eliminating the need for every contract to have exhaustive legal review.

- **Establish authority levels for different purchase amounts.** As with contract approvals, a chart with different positions and the amounts for which they have the authority to sign can speed and simplify approvals. For example, contracts with office supply dealers may not require an additional approval at all below a certain spend threshold (e.g., \$50), whereas a department manager's approval might be required for a \$500 purchase, a department head for a \$1,000 purchase, a senior manager's approval required for a \$2,500 purchase, and so on.
- **Establish a hierarchy and define how authority will be delegated when necessary.** Use this area to clarify how delegation of authority is handled. Approval contingencies, for example, must be detailed here, as well as the procedures required to transfer authority or obtain approval authority in emergencies. You can also define the limits of delegation (e.g., delegation can go "up the ladder" for certain scenarios, but never down). This section will likely be much simpler if you've implemented a P2P system with process automation.
- **Define purchasing processes and accepted norms.** This is the section you can use to delineate all your purchasing processes and their associated norms. Be sure to include:
  - The purchase requisition process (including specific request forms).
  - The requisition approval process.
  - Purchase order creation, issuance, and approval processes.
  - Special considerations for blanket purchase orders, unless you've created a separate purchasing policy for BPOs. Whether you're including BPOs in your general purchasing policy or creating a separate one, be sure to define:
    - Who can issue and approve BPOs, and for what purpose and dollar amounts.
    - The maximum period of time covered by BPOs.
    - Detailed approval procedures to help maintain visibility into BPO-based purchases.

- **Define invoice processing procedures and accepted norms.** As with the purchasing process, this section can be used to provide crystal-clear instructions and context, only with a focus on invoicing. Be sure to include:
  - The invoice submission process.
  - Details on invoice matching (including automated three-way matching against the associated invoice and packing slip for those with P2P software) and its importance to receiving payment in a timely manner.
  - Details on how exceptions are handled.
  - A description of payment methods used (e.g., credit card, pCard, automated bank transfer, etc.).
  - A full description of your No PO, No Pay policy if you have one.
- **Delineate rules for competitive bidding.** Use this area to detail your competitive bidding process, from the request for proposal (RFP) through vendor evaluation, approval, and onboarding. Provide potential suppliers with clear bid requirements, including how to integrate with your vendor portal if you have one. For buyers, include parameters for both single-sourcing (a strategic decision to purchase from one preferred vendor among many) and purchasing from a sole source (purchasing from the only available supplier of a particular good or service) scenarios. Be sure to also define who will handle the competitive bid process (e.g., procurement alone, buyers at certain levels, etc.) and purchasing decisions related to these bids.
- **Detail the company's approach to ethical purchasing and how to handle potential conflicts of interest.** Ethical procurement is an increasingly important part of an effective sourcing strategy. Use this area to define your company's ethical stance and the standards with which you expect suppliers to comply. Precisely define what constitutes a conflict of interest, as well as your protocols for addressing them. This includes not only business practices, but areas such as supplier gifts, nepotism, etc.
- **Explain the company's approach to supplier diversity.** Much like ethical procurement, supplier diversity programs are gaining

more and more attention from today's consumers, and constitute an opportunity to both expand your strategic sourcing capabilities and build value through strong supplier relationships and positive public support. In this area, outline your goals for supplier diversity (e.g., the percentage of total purchases made through diverse suppliers) and the categories of diverse suppliers from whom you are especially interested in buying.

For example, small businesses, women-owned businesses, veteran-owned businesses, and minority-owned businesses all provide unique opportunities and can help you support your business goals while strengthening your company's reputation for corporate social responsibility while you're at it.

- **Define record retention procedures.** Working with your legal and tax teams, use this section to provide a detailed explanation of which documents you will retain, for how long, and in what formats. Be sure to break them out by category and provide additional context as necessary (for example, tax and purchasing documents are commonly retained for a minimum of 7 years, whereas personnel files may be retained indefinitely for current staff and 10 years for those who have left the company, based on termination date).

## **Make Sure Your Purchase Order Policy is Built for Optimal Performance**

Knowing the rules of engagement makes the game more satisfying and productive for everyone involved. Take the time to develop your purchase order policies as part of your procurement policy development, and make sure your staff and suppliers have a clear understanding of their obligations, responsibilities, and limitations when doing business with your organization. Your reward will be lower costs, greater value from both smarter purchasing and more efficient business practices, and strong, healthy supplier relationships you can leverage to help make procurement a value superstar for your organization.

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