

# Purchase Order vs Sales Order



While the terms may seem similar, purchase orders and sales orders are different types of contracts used for very different purposes.

Financial terms can be confusing, and deep understanding of supply chain vocabulary is integral to projecting competence and building trust with suppliers and partners. Every business person in a position to negotiate should be well versed in the key differences between commercial documents.

Mark Twain put it brilliantly. *“The difference between the almost right word and the right word is really a large matter - it’s the difference between the lightning bug and the lightning.”*

## What is a Purchase Order?

Purchase orders (PO) are agreements between an organization and a supplier designed to track and control complex orders over a long time period. Purchase orders cover every detail of numerous transactions from a single supplier, which may include:

- Order number
- Supplier information
- Material code

- Quantity of items
- Negotiated pricing
- Payment terms
- Delivery schedule
- Item specifications
- Time frame and/or total amount

The PO is a commercial document representing a legally binding agreement for the purchaser to take the delivery of the goods as ordered, if the terms of the agreement are met. The purchaser is then expected to meet payment terms outlined in the purchase order.

Small businesses tend to rely on more straightforward purchasing transactions, while large companies negotiate large-scale contracts with trusted suppliers. Purchasing orders give them the opportunity to lock down terms and other pertinent specifications over a period of time, which eliminates the need to renegotiate contract details for each purchase and insulates the company against fluctuating market price influences.

The supplier, in turn, understands what to expect over the long term, allowing them to take advantage of market conditions to buy raw materials when prices are lowest and schedule workers for maximum productivity, as opposed to paying overtime to produce one-off orders with short turnaround. When the supplier sends an invoice referencing the purchase order, he knows when to expect payment and how payment will be delivered. Since the invoice terms are already approved and the items are expected, payment can be facilitated without delay.

## **What is a Sales Order?**

Where a purchase order details items and terms for goods buyers guarantee to purchase, a sales order (SO) is a commercial document generated by the seller. Upon receiving a purchase order, the seller creates a sales order detailing the information necessary for delivery, including:

- PO number
- Quantity of goods
- Item price
- Shipping address

- Billing address
- Payment arrangements
- Delivery date
- Contract terms and conditions

*Today's procurement software automates the PO-to-SO process and eliminates human error, which saves time, reduces costs, and fosters efficiency.*

Sales orders are binding documents important to supply chain management systems. When a buyer sends a purchase order, the seller is responsible for fulfilling the order, which can be complicated when dealing with a large company. Goods may require different delivery dates, different locations, or other detail complexities. The sales order extracts pertinent details for single orders from the PO and ensures that orders are correctly filled. Sales orders are essential to keep seller inventory up to date and on time.

Once the sales order is fulfilled, the accounting department uses the information it contains to generate an invoice for the shipment, which is then sent to the buyer.

## **Differences Between Purchase Orders and Sales Orders**

It's easy to see why people might confuse the two commercial documents. Each contains specific, detailed information about orders for goods and services. The two documents are related within the purchasing process. On the surface, they may appear to be similar. On closer inspection, you'll note some key differences:

- Purchase orders based on negotiated terms are generated by the buyer. When the seller accepts a purchase order, it is a binding contract that defines terms acceptable to both buyer and seller.
- Sales orders are created by the seller using information extracted from the purchase order. In cases where there is a complex order, the sales order refines recurring orders or orders with multiple delivery locations to single orders including only the goods to be delivered to a single location in the same shipment. Multiple sales orders may be connected to a single PO number.

- Buyers create purchase order and deliver to the supplier of goods and services. It may cover many sales orders with different requirements for quantities and delivery instructions.
- The sales order is issued by the seller and sent to the buyer to confirm contract approval and ensure proper delivery of the goods.

## **How Purchase Orders and Sales Orders Work Together**

1. When a large company needs to order goods or services, they put together a detailed purchase order defining a purchase or multiple purchases from a supplier.
2. The purchase order is sent to the supplier, either by digital transfer or using an outdated, less efficient method such as fax or email.
3. The supplier receives the purchase order and enters it into his system, an automatic process using a compatible software system. An automated system verifies the details, checks inventory, and draws up a sales order for in-stock items ready to ship.
4. The sales order is sent to the buyer. This confirms that the supplier received and approved the purchase order, and includes the details and terms of only the goods ready for delivery. Goods not in stock are indicated as backorders with expected delivery date.
5. The buyer checks the sales order against the terms set out in the PO. This is an automatic process in a digital system, and any discrepancies are flagged for inspection. Discrepancies may be due to quantity adjustments, price differences, or delivery dates outside contract terms.
6. Other items covered by the PO that are slated to be delivered on another date or to another company location will be processed under separate sales orders, but attached to the same PO. Digital software keeps track of even the most complex orders, sets alerts for timely payment, and matches sales orders and packing slips with purchase orders.
7. The order is delivered with a detailed delivery slip listing the goods included on the sales order.
8. The packing slip is entered into the buyer's system and confirmation of receipt is sent to the supplier.
9. The supplier generates an invoice, which is sent to the buyer.
10. The buyer's system compares the invoice to the delivery slip and the

- purchase order, and reconciles the order with the overall purchase order.
11. The invoice is paid and the transaction is complete. All records are connected in the system and easily searchable.

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