

# Types of Purchase Orders



Imagine a world where any member of your team could order anything they like using company funds, without regard for quality, quantity, or responsible sourcing. No one tracks the financial information related to the transaction, and negotiations and supplier evaluation are slapdash and irregular—if they're done at all.

No business could survive long in such a world. Fortunately, in *this* world, a simple document—the humble purchase order—brings order to the chaos and helps ensure businesses have the procurement, finance, and planning information they need to operate, grow, and thrive.

## Why Purchase Orders Matter

Purchase orders are the lynchpin of the procurement function for most businesses. The purchase order process allows you to specify the goods and services you'd like to buy, their quality and quantity, and the terms of service, delivery, and payment. Tracking each transaction, as well as your company's overall spend and total financial health, is made possible through the use of these essential documents. They greatly simplify the audit trail, particularly when used as part of a comprehensive procurement software solution, by connecting all relevant documentation for each and every transaction.

Because they're legally binding, purchase orders represent a contract between two parties. So they can also be very useful in ensuring the pricing, terms, and conditions negotiated by seller and vendor are fulfilled—and any incentives for excellence or penalties for exceptions are enforced.

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## Purchase Order Basics

All purchase orders share certain common requirements, and should ideally contain as much detail as possible. That's because once a purchase order is formally accepted by a vendor, it becomes a *legally binding agreement* between the vendor and the purchaser. In general, purchase orders should contain:

- Internal purchase order number for linking the transaction to other relevant documents, communication, and data sets in the system.
- Detailed and complete vendor information
- A detailed description of the type of goods or services to be purchased, and their quantity
- Quality specifications
- Full pricing information as agreed upon between vendor and purchaser
- Delivery terms and conditions
- Payment terms and conditions

While the final form of any purchase order might vary slightly from this list, the important takeaway is this: the more detail, the more value each purchase order generates—and the less needless risk your company must bear.

## Purchase Order Varieties

Different types of purchase orders fulfill specific purposes, depending on the needs of your company and the policies and practices of your purchasing department. Some types of purchase orders may allow for encumbrance, or the setting aside of funds to ensure payment in fulfilling legal requirements or

contract terms.

## Standard Purchase Orders

When you are making a one-time purchase, this is the way to go. It's the most common type of purchase order, and the simplest. Basic purchases, like replenishing office supplies, or paying for one-off items like a new 3D printer for the engineering lab, will use this variety of purchase order. It benefits from automated software by helping combat rogue spending and ensures purchases are made from the best suppliers at the best prices, even for one-off buys.

## Planned Purchase Orders

Partnering with a single supplier as your sole source of specific goods or services requires a planned purchase order. Analyzing usage, purchase, and expenditure data informs your financial planning, and purchases you know must be made within a given period of time. There's no firm delivery date specified, but all other relevant information is included. Delivery schedules are handled on a per-order basis and conform to the general schedule established in the PO.

Both planned purchase orders and scheduled releases—the distribution of funds to authorize payment—can be used with encumbrance accounting. This method is very useful for long-term purchasing agreements requiring a string of purchase orders made against a set amount of reserved funds.

## Blanket Purchase Orders

If you find yourself with a need to purchase a specific good or service, but you're not sure about your precise time frame or quantities required, use a blanket PO. Also known as *standing purchase orders*, blanket orders have a limited shelf life and cover a specific period of time. They're useful in locking down pricing terms with a given vendor before making purchases from them. Placing a *blanket release* against the blanket purchase order will create a binding purchasing agreement, and they can be encumbered as required by the terms of the blanket or standard purchase order.

# Contract Purchase Orders

The “contract” in the name of this purchase order is a hint at its true nature. Rather than a binding legal agreement for a specific purchase, contract purchase orders create a high-level, *long-term* agreement. This legally binding contract spells out in meticulous detail the exact terms, pricing, and conditions of all purchases made from the supplier by your company, but not specific purchases themselves.

These POs have no expiration date, and the framework itself lets you issue standard POs that conform to the terms and conditions established within the contract purchase order. Automation is a boon to this process, as it seamlessly connects financial and legal information and populates fields as required to ensure compliance by both parties for every regular purchase order placed. Encumbrance can be handled more easily as well, since all parties involved will have transparent access to financial and budget data for individual transactions and total spend.

<b>ASPECT</b>	<b>STANDARD</b>	<b>PLANNED</b>	<b>BLANKET</b>	<b>CONTRACT</b>
Established Terms & Conditions	YES	YES	YES	YES
Goods & Services Specified	YES	YES	YES	NO
Pricing Specified	YES	YES	POSSIBLE	NO
Quantities Specified	YES	YES	NO	NO
Account	YES	YES	NO	NO
Established Delivery Schedule	YES	POSSIBLE	NO	NO
Potentially Encumbered	YES	YES	NO	NO
Potentially Encumbered Releases	N/A	YES	YES	N/A

# Purchase Orders Power Productivity and Profitability

Rejecting the chaos of rogue spend and unrecorded financial data is the first step out of the wilderness and into the realm of civilized business. Understanding the types of purchase orders available, and putting them to their best use, can help your company spend smarter, reduce waste, and ensure you receive the goods and services you need to thrive, at the prices and terms you expect—and deserve.

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