

ALL YOU EVER NEEDED TO KNOW ABOUT PURCHASE ORDERS

What are purchase orders? Why are they important? How do I use them effectively?

This is a critical topic – purchase orders (or POs) and their effective usage are a vital component for any successful business. This PDF is intended to provide both a clear explanation of purchase order processes, as well as highlighting tips for improving these same processes for finance or procurement specialists.

So what are purchase orders?

Purchase orders are documents sent from a buyer to a supplier with a request for an order. The type of item, the quantity and agreed upon price are generally (should be!) printed on the purchase order – the more specific the order, the more details included, the more effective the purchase order will be.

Also, in the event the buyer refuses payment, the seller is protected because the purchase order is a binding contract between both parties.

Furthermore, some commercial lenders will use purchase orders as a reference to provide financial assistance to an organization.



How are purchase orders different from an invoice?

Buyers draft purchase orders. Sellers, on the other hand, prepare invoices after a payment has been received. In some cases buyers are provided an invoice, with a payment due date.

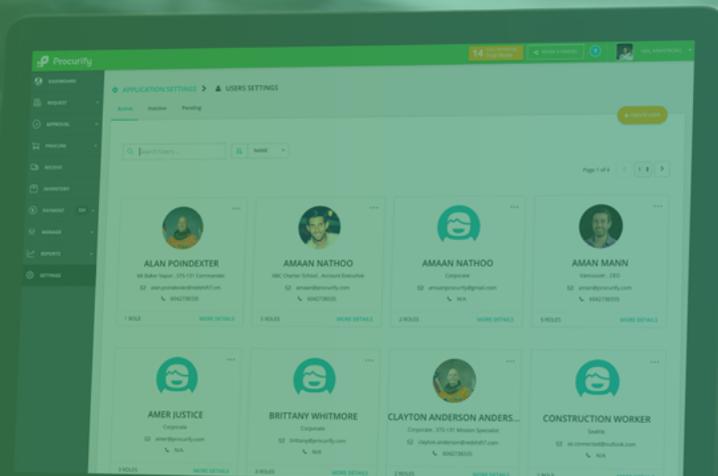
Both the purchase order and the invoice contain similar details. The invoice will generally reference the purchase order number as well. By referencing the purchase order number you can confirm that both documents contain the same information and correspond to each other. The main difference between the two is the technical details found on the purchase order are not included in the invoice.

Example

"John the purchaser has been notified that a department needs a new set of desks. He creates a purchase order with the quantity and specific requirements (size etc.) for the desks.

The company responsible for selling/manufacturing the desks then receives the order. Once they confirm they are able to supply the desks with the required specifications, they approve the PO and take the payment. Once that payment is received, the desks are shipped and an invoice is sent back to John the purchaser.

The invoice confirms the payment was received, or alternatively, the due date of the payment. John then checks the invoice, the purchase order and the shipping slip to ensure that all three matchup."



Why is this important to your business?

Many organizations **unwisely forego** purchase orders because they perceive the paperwork to be a hassle that slows their processes down. Or they simply forego purchase orders because they already have a working relationship with vendors. When businesses start small they tend to have an organic purchasing process. Over time, however, that process changes as companies develop new or better relationships with their sellers. Once a company grows and the purchasing demands become more specific, urgent, and/or complex, communication challenges can arise if a purchase order isn't used or certain details are not correct on the order.

It can be a nightmare for both parties to determine where a request went wrong. Common problems can involve situations where a buyer receives their order and it does not comply with the desired specifications or if there is no purchase order to use as a reference. At that point it's likely that both the payment and an invoice was sent, which puts both parties in a significantly more complicated legal situation.

A purchase order provides legal clarity and concrete instructions for the seller.

A purchase order will also create a concrete paper trail that can be used as a point of reference for when things go wrong.

Why are manual procedures inefficient?

If your organization is currently using a paper-based procurement process, you are likely creating excessive documents. Most companies will process up to seven documents during a single purchasing cycle. The purchasing cycle typically includes requisitions, purchase orders, quotations, order acknowledgements, advice notes, goods-received notes, packing slips, and invoices. That's a lot of documents to produce – and to keep track of for a single purchase.

As much as good record keeping is vital for an effective and efficient purchasing and procurement process, there are problems with paper based records. Paperwork can easily be lost, damaged, or accidentally destroyed. With paper, it's often hard to spot duplicate requests, purchases, or invoices, or missed transactions – all of which can cost your company time and money. Paper also requires an efficient and regularly updated filing system which consumes space and man hours in order to work effectively.

E-procurement software, such as Procurify, digitizes the entire procurement process as a simple solution to a complex problem.

How do I integrate purchase orders into my business?

You're going to have to take a step back and observe how your current business handles purchasing and, subsequently, envision how you'd like to control what employees can buy and how they process these transactions.

Integrating requisitions and PO's

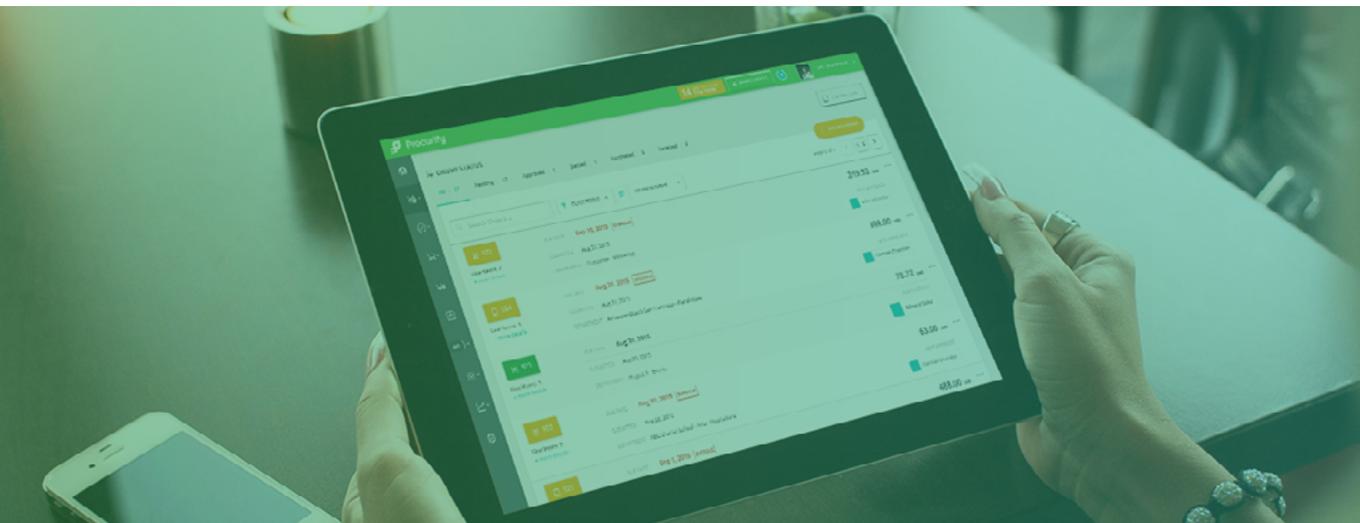
Assuming your organization doesn't currently use purchase orders, it's also likely that you're not managing the requests your employees make when they want to purchase something. Using purchase orders, especially through an e-procurement system, will allow for the most control and visibility into where your employees are spending the company's money.

Purchase Requisitions

Requisitions are requests your employees make for materials or items they need to do their job. Many organizations simply allow their employees to email a manager their request, and then have that person make the necessary purchases. Adding requisitions creates two important benefits – the ability to manage a budget for employee spending and the opportunity to take advantage of volume discounts on large orders. Most organizations will allocate a budget to a purchase once a requisition has been submitted.

You will need to create a standardized requisition document, which all employees must then use. That standardized procedure ensures that receiving requisitions does not waste your employee’s time. **E-Procurement systems such as Procurify, automatically create digital requisitions, which can be sent to the appropriate purchaser automatically.**





Budgets

As employees begin to draft requisitions, you'll be able to create an average monthly spend and track what your employees are purchasing. This means you can **start analyzing** how they use supplies and identify opportunities for savings. An approver will be the person managing the budget. If employees go over budget, the approver may not approve all the requisitions that are not immediately necessary.

Volume Discounts

Once employees begin submitting requisitions, the approver can more easily identify purchasing patterns. The approver can then submit bulk orders and request discounts if they are available. If the requests are created digitally, it can significantly reduce processing time because frequently requested items can be added to a catalogue from the best supplier at the best price.

From Requisition to Purchase Order

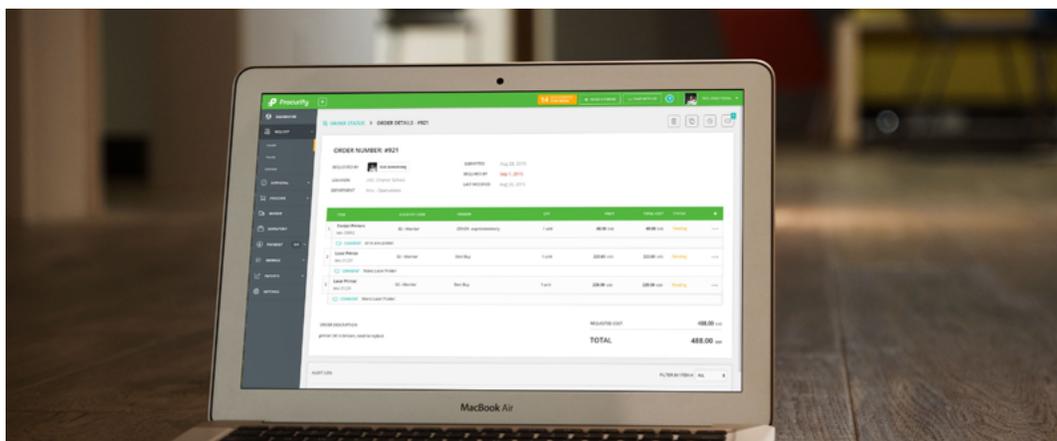
Once requests have become a standard process in your organization, the next step is to create the purchase order process. This is likely as simple as contacting suppliers and informing them that from now on you'll be submitting a purchase order before sending payment for goods. The supplier will likely be happy about this because it will significantly help both parties. Once your approver has purchase requests that need to be fulfilled, they will complete a purchase order and send it off to the seller. The seller will then communicate any concerns or issues with the purchase, otherwise they will ship the order and invoice once payment is received.

Integrating both requisitions and purchase orders will significantly increase your ability to track expenses and remove a lot of headaches associated with employee/company purchasing. Visibility in your company's spending is critical and this process will help you achieve that.

What do PO's look like?

Purchase orders are, typically, **a standard document**. They generally contain company information (name etc.) and shipping details (address), vendor information (name and address), order information (product, price and quantity), as well as additional details to the vendor. Many companies have a standardized purchase order document with stock information to ensure consistency.

With e-procurement systems, purchase orders look a little different. Instead of being a standard document, purchase orders are generated after a purchaser has compiled all the required orders for a certain vendor. General ledger codes are assigned to each purchase order, ensuring easy integration into your accounting procedures.



So how can I get started using Purchase Orders?

Your company finally has a formal purchasing program and now you need a purchase order template that reflects your organization's professionalism, as well as look and feel. It's tempting to just reuse the same purchase order form and make adjustments as you go, but a proper purchase order template is easy to use and includes vital information about your company. It's time-consuming to recreate a purchase order every time you need one done, so why not use a proper purchase order template?

Before we delve into the intricacies of design, let's go back to the basics and re-examine why purchase orders are integral to your company.

The best purchase orders are easy to use and easy to read, containing only information vital to the order. They're also efficient for record keeping.

Below are some of the best purchase order templates on the web:

[Purchase Order Template Gallery ↗](#)

Sometimes basic templates do the job. The templates at Purchase Order Template Gallery are both easy to use and understand. They provide options for more or less complex templates and they don't require much computer knowledge to use.

[Purchase Order Purchase Order Template ↗](#)

Purchase Order Template offers a variety of free, customizable purchase order templates. All you need is Microsoft Excel to put them together, which makes it pretty simple!

[Xero ↗](#)

Xero provides customizable purchase orders that come with a free trial. They also offer accounting options for small businesses to help the whole purchase order process go as smoothly as possible.

Zoho ↗

Zoho Books offers a 14-day free trial and provides purchase orders and tracking options for purchasers.

Procurify ↗

We may be biased, but no list of purchase order templates is complete without a completely paperless and digital option. With Procurify we help you to track purchase requests and approvals through the web or mobile app, and create automatic digital POs that are sent to your purchaser for action.

Of course, you can use any of these as inspiration as you craft a purchase order that works best for your business. No matter which template you choose, having one on hand will certainly speed up the process and ensure you're always getting all the information you need and no integral details are being missed.

