

INVU:

Opinion Article

The Purchase Order Process



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A new survey of finance personnel from 200 public and private sector SMBs reveals that, even when purchase order processing systems are in place, often the rigour they are designed to enforce is not followed through. Ian Smith, Finance Director and General Manager at Invu, which commissioned the research, believes this means businesses could be missing out on all sorts of efficiency savings as well as everyday spending intelligence.

Taking Stock

Our recent survey of 200 financial controllers in small and mid-sized businesses, turned up some surprise findings, one being how many organisations had formal purchasing departments and structures in place. This was true for 55% of smaller operations (with fewer than 50 staff), rising to nearly 80% among mid-sized companies (those with 50-250 staff). Although the trigger for having a formal purchasing department was often to handle goods for resale, where such departments existed they were also being used for internal purchasing by 93% of survey participants.

However, it is the gulf between where these organisations could be, and where most of them are in everyday practice, that has proved significant. The majority of businesses taking part in the survey applied rigour only partially – controls which were undermined by more haphazard processes at other points in the purchase order management cycle. Typically this has resulted in unnecessary additional layers of manual administration and a lack of visibility across spending. It has also created bottlenecks in Finance departments, where all of the information has been centralised. This has left budget-holders and functional decision-makers overly dependent on Finance teams and disempowered from making informed decisions about new purchasing.

Due Diligence

For small public and not-for-profit organisations, attempts at formal purchase order processing appear relatively advanced from the research – presumably because of the need to be seen to perform due diligence processes in line with Government targets on securing the best value for money. By comparison, small private companies were the least likely to have a formal purchasing function for internally-consumed goods and services – by extension probably because they are not bound by the same external requirements.

"Where a hybrid approach was allowed to purchase requisitions, 43% of organisations recognised the inadequacies in their PO practices now and almost two-thirds (64%) indicated 'urgent' plans to address purchase order management inefficiencies in the immediate or near future."

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Even where businesses do have formal systems in place for purchase order processing, too often the loop isn't closed – in that purchase requisitioning is inconsistent, even chaotic, and receipts of goods and services are not being tallied with POs until the invoice comes in, by which time the spend has been committed.

Seeing is Believing

As well as rendering the business vulnerable to the cost of human error, late-stage PO/receipt matching fails to prompt budget-holders to think about the purchases they are sanctioning and how this will affect their remaining resources for the period. It also makes a mockery of the approvals process.

All too often, there is a lack of uniformity in the way that requests are submitted – it is common to see a mixture of paper-based forms, intranet-based forms, email requests as well as those made in person or by phone. In a small business this informality might seem to be no big deal, but it prevents the organisation from putting requests in context and prevents the user from considering the broader options and implications. Imagine if shoppers emailed Amazon with a rough idea of what they wanted! Instead, they peruse all of the options and choose exactly what they want, having weighed up the relative prices – and what others have bought and recommended. There's no reason why an automated, self-service requisitions environment couldn't enable similar consideration and precision in the purchasing process.

The lack of a consolidated single system for managing purchase requests creates extra work for Finance personnel. In the survey, dealing with follow-up questions about purchase requests was found to be taking respondents the equivalent of one day per month on average. In some cases, Finance staff lost as much as an hour a day to searching for the relevant notes. The sense of urgency around fixing PO inefficiencies suggests recognition that introducing greater visibility across the purchase ordering process could be a valuable first step in fending off this kind of routine query – for example, by allowing staff themselves to look up the status of their purchase requests.

Instilling Confidence in Suppliers

How POs are raised gave rise to the widest range of responses:

Only 9% of respondents said they were systematically raising purchase orders using their ERP system; 23% used a separate PO system, 20% used a Microsoft Office-based system, 15% managed everything manually, and 20% didn't use POs at all.

Few organisations participating in the survey had a joined-up purchase requisition-to-order system and it is this missing element that is restricting their ability to streamline processes, and introduce greater intelligence and discernment into the purchasing process.

The types of controls enabled by a modern, purpose-built PO processing system can make a huge difference. For example, if it is possible to treat each line item individually (irrespective of how it will be handled on the PO or on the invoice), this can help avoid situations where each request has to be approved by umpteen different budget-holders. Scenarios like these can result in lots of exceptions, just because internal processes have been handcuffed to what's come to be seen as the 'evil' PO.

Boosting Budget-holder Accountability

A system favouring self-service – and which has been designed from the outset to be understood and used intuitively by staff throughout the business (on tablets as well as desktop PCs) – will empower staff to take greater responsibility for their spending. They become more engaged, and can see and appreciate more of the wrap-around process. This is especially true if they can instantly see the impact of any new spending on their annual budget before they commit to buying.

All of this could start to promote subtle changes in behaviour – as staff are weaned off old habits of estimating budgets based on “last year’s plus 5%”, and give more consideration to what they need to be spending and where better deals can be found. Once able to break things down, purchasers will find they start to perform spend analysis as an ongoing discipline rather than a one-off project.

Instilling Confidence in Suppliers

Whether the ‘business’ is a public sector organisation needing to provide evidence that it has shopped around for the best quote, or a private company needing to look more professional to its suppliers, ‘make do’ solutions from spreadsheets and other cobbled-together manual processes no longer cut it. They don’t look good, and they don’t support data mining or the level of governance that growing companies aspire to.

Efficiency, precision and effective decision-support depend on getting things right – right at the start. If there is too much ceremony at both ends of the purchase process, it is a sign that something is awry – that processes and systems are too fragmented, and excessive controls have been inserted at too many points as an attempt to fill in the gaps. The goal should be to move controls up to the front of the process, and to encapsulate the PO lifecycle in a fit-for-purpose system which is reliable and can be interrogated, audited and measured.

It’s surprisingly easy to do, and the rewards are considerable.

About Invu:

Invu develops Electronic Document Management (eDM), Accounts Payable (AP) and Purchasing solutions for a range of sectors, particularly those which are highly document dependent or where compliance is important. Invu’s comprehensive product suite encompasses document and content management, purchasing, workflow, document automation and collaboration solutions.

