

## **What You Need to Know About Using Purchase Orders**

### **You should be using a purchase order for every purchase.**

The best way to eliminate the possibility of miscommunication is through the use of your purchase order. This purchase order should be designed to clearly indicate **all terms** under which you are purchasing the item. This should include price, terms, delivery, timing, quantity, and anything else that affects this purchase.

Indicate that acceptance of the order constitutes acceptance of your terms and that no changes or added charges will be paid for, or accepted, unless agreed to in writing by both parties. This also holds true for changes the supplier needs to make regarding anything about the order. You will not be held liable for them unless you have agreed to them in writing.

In this day and age of the fax machine, email, and overnight mail, there will be no excuse for not handling things in this manner. Have you ever heard "I never said that" or "I never approved that" or how about "I did not mean that"? Making these conditions a printed part of your purchase order form will help insure that you never do.

I would also strongly suggest that somewhere on your purchase order it be indicated as part of the PO form that these are the terms under which you are ordering and they supersede any terms or customs of the supplier.

The purchase order not only protects your interests and eliminates misunderstandings, but it also serves as a reference to be used by accounts payable in processing and paying the invoice for this order.

These terms should be a standard printed part of your purchase order. Why a printed part and not just hand written when needed? Simple. The person filling out the purchase order might forget to add them. Even if they remember, they may not think these conditions are needed for a particular order. The supplier could claim they were added later and that the copy they had did not contain them. In this case they will have, of course, lost their copy. By adding them as a permanent part of your purchase order you are taking a strong proactive step. Finally, adding them by hand takes time and time is money. Think total cost control.

If your supplier balks at this perhaps you are dealing with the wrong supplier. Remember, this policy also protects the supplier against any miscommunication.

**Have one source for the issuance of purchase orders and a second source to review the efforts of the primary source.**

You must control the purchase order. Consider a purchase order a blank check; you must control them just like you control and guard the company checkbook. If you do not, you may regret it. A misused purchase order could cost you a great deal of money. You may find yourself paying for unauthorized items, unneeded purchases, and purchases made for an employee's own use. You will also find many more mistakes occur when one person is responsible for checking all their own work.

Let me give you a firsthand example. A few years ago a company I worked with received a rather large order for three products from a mid-western bank. Not only did we view the order as large, but it had come from a bank that had a history with us of small orders.

To put it in perspective, this bank normally ordered two or three products from us each year with the average order being 2,500 pieces of each item. This order came into us for 25,000 each of three items. We could have processed the order immediately, but since we felt a mistake may have been made we called the buyer and asked if they wanted 2,500 of each item or 25,000.

The buyer confirmed it was 25,000 of each item and we had a confirming purchase order. Since we are not in business to turn orders away we sent the order through but we also sent a personal letter to the buyer at the bank acknowledging the order at 25,000 of each item and thanking the buyer for the order.

Well, as I am sure you suspect, shortly after the products were delivered we received a call from a panic stricken officer at the bank indicating we must have made a mistake. The officer told us it would take them ten years to use all the products we delivered.

I advised the officer that we had suspected the order might have been incorrect so we had contacted the buyer to verify the quantity and then had confirmed the order in writing back to the bank. We also had a signed purchase order. We had done all we could have short of refusing the order or going over the buyer's head to verify the bank's intent. Since the order was custom produced, there was little we could do about it.

It turns out that the buyer was going to be let go by the bank and she knew it. As a result, she began ordering many items, from many companies, that the bank did not need and huge quantities of other items that they did use, but could never use in the quantity she ordered. She felt she was being screwed by the bank and she did the same thing to them.

The bank had no recourse.

Look at all the things they had done wrong. They continued to let a buyer stay on the job after they had made a decision to terminate her. They assumed she would not find out before they took official action. Even if she had not found out, they had a buyer in the position that was doing an unsatisfactory job. After all, that is why they had decided to terminate her. They had no real

purchase order controls. If they had, she would never have been able to order the type and quantities of products she was able to order. They let her issue her own purchase orders. They had no double signature requirements for purchases over a preset amount.

In many ways, the bank was inviting this type of employee abuse. Worse than that, they still have not modified the purchase order procedures they had in place at that time. They feel this was an isolated incident and one that will not happen again. Making a mistake once is one thing but making the same mistake again is stupid!

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