

Increase use of Purchase Orders

Introduction

Companies often give lip service to the idea of increasing the use of purchase orders. 3c InSight believes that companies with accounts payable shared service centers (SSC) must increase the use of purchase orders to make the most efficient use of the SSC. Below are two metrics to track the use of purchase orders and an explanation of why improving the metric is valuable.

Reduce Business Process Costs – Authorize Expenditures

% of non-purchase order invoices less than \$1,000

Median performers - 67%

Top performers - 27%

Top performing companies utilize high levels of requisitions and purchase orders to:

- ensure that expenditures are formally authorized before either goods or services are received
- minimize maverick spending
- leverage blanket PO's
- combine multiple requisitions into one PO to gain volume and shipping discounts

Monitoring the percent of invoices less than \$1,000 allows a company to evaluate how well their requisition and purchase order processes are working.

Shorten the AP month-end close cycle time

% of vendor invoices with a purchase order (based on # of invoices)

Median performers – 20%

Top performers – 94%

Companies with centralized AP processing rely upon decentralized personnel to place proper accounting codes on invoices (if a PO is used, the PO already contains the accounting codes which transfer to the invoice when matched). The payables sub-ledger often needs to remain open for days after the month-end close date while accounting codes are entered and verified on non-PO invoices.

The calculation of payables accruals can be substantially automated with PO accruals.

We recommend using 2-way match for indirect expenditures, such as office supplies, and 3-way match for direct purchases.

Summary

Increasing the use of PO's will not only save money, it will simplify the procure to pay process and also shorten the AP sub-ledger monthly close cycle time. Self service requisitioning and approval workflows are the key tools to counteract resistance by impacted field personnel.