

Purchase Order Management Must Go Beyond Tracking Orders

Pat Garrehy



For most companies, Purchase Order Management is one of the key components of an ERP system. It's one of the basics of running a successful business — any type of business. You need to know how much Product X you have on hand and what it costs. How much Product X has been ordered but not yet arrived. How many units of Product X am I selling per day/week/month so how much more Product X do I need to purchase? We're dealing with simple arithmetic and a basic ERP can calculate and provide you with answers quite quickly.

And, herein lies the basic problem. Many ERP packages, especially cloud versions, have fallen short, because in the rush to get to the Cloud, they are either severely limited in functionality or they are only replications of a predecessor legacy ERP package supporting one business type. They do not acknowledge that manufacturers require a greater variety of manufacturing methods and services to be supported.

Successful manufacturers need to keep track of inventory from the moment it's ordered from the supplier to the moment it is delivered to their customer. Thus, they need to maintain detailed vendor information, including things such as purchase requisitions for both direct materials and indirect materials and services, matching receipts to vendor invoices, vendor maintenance and receiving control. Yes, manufacturers need help with purchase order control and up to date reporting on all these items. But, in addition, each of these categories is loaded with additional questions that need to be answered, often right now, in order to keep a

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manufacturing company as successful as it can be.

Purchase Requisitions for Direct Materials, as well as Indirect Materials and Services

Regarding direct materials, knowing a part's purchasing parameters, including vendors' lead times, understanding one's own safety stock levels and creating firm planning policies, a manufacturer's ERP, cloud or on-premise, should be able to identify demands that are not being met by scheduled supply orders. The software itself should allow buyers to make requisitions for direct materials either manually or generated by the Material Requirements Planning (MRP) or the Requirements Planning (RP) application. Thus, a material planner or purchasing agent can firm such requisitions before they are converted to purchase orders.

Want to give management an ulcer? Tell them that you've got all the parts and manpower you need to really blow out product today but, unfortunately, you are out of protective gloves and are waiting for a purchase order to get some more. That's why the ERP needs to be able to create purchase requisitions for indirect materials and services via simple manual entry by an employee or via an alert from ERP that the item's inventory is approaching safety stock levels. The ERP engine will base the alert established lead times and conform to minimum and maximum order quantities with approved vendors. With approval, these requests can be instantly converted into a purchase order or even designated as an employee reimbursable expense so someone can get what's needed quickly for today.

Here's the point. The above all happens quickly and efficiently only if buyers can easily associate vendors with purchased parts, delivered and not delivered. With a click of a mouse, buyers want to be able to retrieve all open requisitions for an item and, simultaneously, review the approved vendors. Only with this information at hand can they make the correct decisions on purchase order quantities and due dates. Knowing the lead time and delivery histories of the vendors gives buyers the opportunity to make the right decision for that day. Based on pricing and delivery, Jones gets the deal. However, next month, we won't need products quite so quickly. We can take advantage of Smith's more aggressive pricing but longer lead times.

Controlling the Purchasing Process

Obtaining critical, centralized control over direct material, indirect material and service tracking as well as vendor performance is only the beginning. Now, buyers can make decisions on purchase order quantities and due dates supported by price and delivery history for approved vendors. Why stop there? Doesn't it then make sense to consolidate inventory and non-inventory purchased items and services onto a single purchase order? Shouldn't purchase requisitions be converted to new purchase orders or placed as line items on existing orders? Why can't additional items be added to open orders, providing purchasing flexibility and efficiency? Think about it. Aren't comprehensive purchase revision control management capabilities needed as much as Purchase Order approvals?

The same thinking needs to occur in Receiving. Manufacturers need material

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receiving capabilities that include complete order access/review, receiving history for each item — including quantity ordered — outstanding and due. Likewise, they need to be automatically warned if a transaction will cause an over receipt or if the material arrives early. What about parts that are to be received to an inspection or other inventory locations? Aren't they important?

Bottom line... when reviewing the ERP one's firm is going to use, don't skip over the Purchase Order Management. Yes, most ERP systems do purchasing order management. No, they are not all the same.

Versus many other types of companies, manufacturers need full purchasing reporting and analysis capabilities including purchase requisition, open purchase order, shortage, expedite and vendor performance reports. Why? Only with this information can the buying organization communicate effectively with vendors and make better business decisions on vendor selection, pricing, delivery dates and quantities.

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