

Ordering Policy: Fundamentals, Types and Control of Procurement

The ordering policy comprises all defined rules, principles and procedures by which a company translates requirements into purchase orders. It answers key questions such as: when is an order placed, in what quantity, from which supplier and on what terms? A clearly documented ordering policy creates binding standards in procurement, reduces maverick buying and is the foundation for efficient, audit-compliant procurement.

Key facts

- The ordering policy governs the timing, quantity, supplier selection and approval routes of purchase orders.
- It typically distinguishes between consumption-driven, demand-driven and order-driven planning.
- Key ordering policies are Just-in-Time, reorder-point policy, lot-size policy and framework agreements with call-offs.
- Good ordering policies reduce inventory levels and procurement costs and improve delivery capability.
- Key metrics are order coverage period, inventory turnover, purchase requisition to PO lead time and backorder rate.
- The ordering policy should be reviewed regularly and adjusted in line with market developments and supplier evaluations.

Definition: Ordering Policy

The ordering policy is the normative framework that defines the conditions under which materials and services are ordered. It is part of the procurement strategy and is implemented operationally via planning rules in the ERP system. An effective ordering policy links strategic requirements such as the Supplier Segmentation Matrix or Category Governance with practical planning parameters in day-to-day business.

Distinction from the Procurement Strategy

While the procurement strategy defines overarching objectives such as cost reduction, risk minimisation or supply chain decarbonisation, the ordering policy translates these objectives into concrete rules for action. It answers the question of how an individual requirement is to be handled: quickly, cheaply, securely or sustainably. Both levels should be aligned with each other, otherwise a contradiction arises between strategic intent and operational practice.

Content Components of an Ordering Policy

A complete ordering policy contains at least four building blocks: order timing (when it is triggered), order quantity (how much is procured), supplier selection (from whom is purchased) and approval rules (who authorises). In addition, there are provisions on framework agreements, minimum order quantities,

payment terms and alternative sourcing in the event of supplier failures. In digital systems, these building blocks are often stored as planning policies and applied automatically.

Types and Methods of Ordering Policy

In practice, various ordering policies have become established, used depending on material class, value and criticality. The choice of the appropriate policy often follows the results of a commodity group value driver analysis, which assesses cost, risk and market characteristics. The main approaches can be distinguished as follows.

Reorder-Point Policy (s,q Policy)

With reorder-point policy, an order is placed as soon as the stock level reaches a defined reorder point. The order quantity is fixed, often dimensioned as the economic order quantity. This policy is suitable for C items and standard materials with steady consumption. It is easy to automate, but requires careful planning parameter maintenance, as otherwise changed demand or lead times lead to excess stock or shortages.

Demand- and Order-Driven Planning

With order-driven procurement (Just-in-Time, Just-in-Sequence), procurement only takes place once a concrete customer order exists. This minimises tied-up capital but requires reliable suppliers and short lead times. The demand-driven variant is based on the material requirements plan and is suitable for complex products. Both variants increase the importance of purchase requisition to PO lead time as a measure of internal responsiveness.

Framework Agreement with Call-Offs and Combined Policies

The most common form in industrial purchasing is the framework agreement with periodic call-offs. It combines price and conditions security over an agreed total purchase volume with operational flexibility in call-off quantities. Combined policies link safety stock for critical A items with framework call-offs for standard goods. The agreements themselves should ideally be managed in a Contract Repository so that planners can access valid terms at any time.

Ordering Policy in the Corporate Context: Processes and Governance

An ordering policy only works if it is embedded in processes and systems. It must govern the interfaces with requesters, controlling, quality and logistics and be anchored in clear Category Governance. Only then can it be ensured that all parties work to the same rules.

Approval Rules and Delineation of Responsibilities

An effective ordering policy defines value thresholds and approval levels: small amounts can be released automatically, higher amounts require departmental or executive sign-off. In addition, it regulates which items may only be awarded by strategic procurement and where decentralised purchasing is permitted. Clear delineation of responsibilities prevents maverick buying and ensures compliance with compliance requirements.

Integration with Master Data and Systems

Ordering policies live in systems: ERP, e-procurement and planning tools interpret planning parameters

automatically. This requires clean material and supplier master data, maintained through Master Data Governance and continuous duplicate checks. The commodity code and VAT ID validation are also part of the data quality requirements, as errors here lead to delays and costs for import orders. In addition, data analytics in procurement and a data lake provide insights into actual ordering patterns and deviations.

Supplier Selection as Part of the Ordering Policy

The ordering policy defines which qualification criteria suppliers must meet for which commodity groups. These include financial stability, quality, capacity, sustainability and delivery reliability. A systematic supplier evaluation provides the basis for making ordering decisions objectively. The Supplier Segmentation Matrix helps to distinguish between strategic partners with co-development approaches and purely transactional suppliers.

Key KPIs for Controlling the Ordering Policy

Without measurable metrics, the effectiveness of an ordering policy cannot be assessed. The relevant KPIs measure availability, tied-up capital, process speed and compliance. They should be evaluated regularly as part of a comprehensive commodity group value driver analysis, and the ordering policy adjusted accordingly.

Availability and Inventory Metrics

Key figures are the material requirements coverage ratio, the backorder rate and the safety stock as a buffer against supply failures. On the other side are inventory turnover and order coverage period as indicators of tied-up capital. In practice the rule applies: high security costs inventory, low inventory increases the risk of supply failure. The optimal balance must be set per material, not uniformly across all commodity groups.

Process and Efficiency Metrics

The purchase requisition to PO lead time measures how quickly an internal requirement is converted into a purchase order; typical target values in practice are a few days, or in the case of automated policies, a matter of hours. Also relevant: the proportion of automated purchase orders, the proportion of orders placed under framework agreements, the maverick buying rate and adherence to the optimal order quantity. These metrics show whether the ordering policy is actually being practised or only exists on paper.

Risks and Controls in Ordering Policy

Misconfigured or outdated ordering policies lead to supply failures, excessive inventory and compliance breaches. Controls and contingency mechanisms are therefore mandatory components. Supply chain disruptions in particular reveal whether the chosen policy is robust.

Typical Risks

Frequent sources of error are planning parameters that have not been updated for too long, unclear approval rules, missing alternative sourcing options with sole suppliers and insufficient transparency on open purchase orders. Total losses with critical suppliers or customs changes can also render a once-chosen policy unusable. In crises, the risk of ad-hoc orders outside the rules increases, leading to price surcharges and quality problems.

Control Mechanisms and Business Continuity

Effective controls include regular reviews of planning parameters, sample checks of adherence to approval rules and monitoring of supplier risks. Defined alternative sourcing for critical items, verified qualification criteria for substitute suppliers and clear escalation paths in the event of supply failures are part of Business Continuity. In addition, the ordering policy should be aligned with Contract Manufacturing options so that alternative manufacturing partners can be used in the event of bottlenecks.

Current Developments: Digitalisation and Sustainability

The ordering policy is changing due to digitalisation, sustainability requirements and more volatile procurement markets. Buyers must design rules more dynamically and integrate new criteria into the policy. Two developments are particularly prominent.

Automated and Data-Driven Ordering Policies

Modern systems calculate reorder point and order quantity dynamically based on current demand and lead time data. Data analytics in procurement and data lake architectures make it possible to identify patterns and adjust parameters automatically. Total Landed Cost (TLC) is increasingly used as a decision criterion to assess not only the purchase price but also transport, customs, handling and risk. As a result, ordering policy is shifting from static rules towards continuous optimisation.

Sustainability and Compliance Requirements

Sustainability criteria are moving into the ordering policy: CO₂e emissions from procurement are measured, supply chain evidence and compliance with the Corporate Sustainability Reporting Directive (CSRD) shape the selection criteria. Suppliers are increasingly required to provide emissions and origin documentation with the order. Total Landed Cost (TLC) calculations also include CO₂e costs. The ordering policy should anchor these criteria as weightings in supplier selection and as mandatory information in the ordering process.

Resilience as a Policy Objective

Volatility in raw materials, energy and transport requires more flexible policies. Safety stock approaches for critical items are being re-evaluated, multi-sourcing strategies are being pursued as part of Supply Base Optimization, and order volumes are being made more flexible. Rather than purely cost-optimised order quantities, resilience and the overall performance chain are coming into focus, even if this means higher ordering costs in the short term.

Typical metrics

Backorder Rate: typically < 2%

Proportion of items not delivered on time; indicator of delivery capability

Purchase Requisition to PO Lead Time: typically 1–5 days

Time from purchase requisition to purchase order; automated policies are significantly faster

Inventory Turnover: typically 4–12 per year

varies greatly by commodity group; the aim is optimisation, not maximisation

Maverick Buying Rate: typically < 10%

Proportion of purchases made outside approved procurement channels; aim to reduce with a clear ordering policy

Practical Example

A medium-sized mechanical engineering company with around 8,000 active material numbers had previously applied the same ordering policy to all items: reorder-point planning with a flat-rate safety stock. The consequences were high inventory levels for C items and, at the same time, delivery delays for critical A items. Procurement carried out a commodity group value driver analysis and divided the material portfolio into four planning classes, each with its own policy.

- For C items, an automated reorder-point policy with an optimised order quantity and framework agreements was introduced, and the order coverage period decreased noticeably.
- For critical A items, the safety stock was re-dimensioned and an alternative sourcing option with verified qualification criteria was stored for each item.
- Planning parameter maintenance was established as a quarterly standard process; the backorder rate became a fixed reporting KPI.
- Approval rules were digitalised, significantly shortening the purchase requisition to PO lead time and reducing maverick buying.

Conclusion

The ordering policy is the operational backbone of every procurement organisation. It translates strategic requirements into clear rules for timing, quantity, supplier and approval, thereby creating binding standards, transparency and efficiency. However, its value only materialises through clean master data, suitable metrics and regular review. Companies that systematically differentiate their ordering policy by commodity group and automate it digitally combine lower inventory levels with higher delivery capability. Those who additionally integrate sustainability and resilience criteria make procurement fit for the future.

Frequently asked questions

What is an ordering policy in simple terms?

The ordering policy is a set of rules that defines when, in what quantities, from which suppliers and with what approval goods are ordered. It is part of the procurement strategy and is implemented via planning parameters in the ERP system. Its aim is to meet requirements reliably, cost-effectively and in a compliant manner.

What types of ordering policies are there?

The most important types are reorder-point policy with a fixed quantity, demand- or order-driven planning (Just-in-Time), and framework agreements with call-offs. In practice, combinations are frequently used, depending on the value and criticality of the goods. The choice is typically based on a commodity group value driver analysis.

What is the difference between the reorder point and safety stock?

The reorder point is the stock level at which an order is triggered; it covers demand during the replenishment lead time. The safety stock is an additional buffer within this reorder point that absorbs fluctuations in consumption and delivery. Both parameters are interrelated and are dimensioned together in planning parameter maintenance.

How often should the ordering policy be reviewed?

In practice, annual fundamental reviews of the policy itself and quarterly reviews of the planning parameters have proven effective. After major market changes, supplier failures or strategic realignments, an unscheduled adjustment should be made. The results of supplier evaluation and KPI reports provide the basis for decision-making.

Who is responsible for the ordering policy?

Responsibility lies with procurement or procurement management, who define the policy as part of Category Governance. Operational adjustments are carried out by planners or Category Managers. Requesters and specialist departments are involved via defined approval rules and authorisation levels.