

# Purchase Order: The Binding Core Function of Operational Procurement

The purchase order is a company's binding, written offer to a supplier to take delivery of goods or services on defined terms. It forms the legal and organisational backbone of the operational procurement process and sets the course for delivery date, price and quality. In practice it is often referred to simply as a purchase order (PO) and is triggered, monitored and invoiced via an ERP system.

## Key facts

- The purchase order is a legally binding offer; the purchase contract is generally only concluded with the supplier's order confirmation.
- It must clearly contain essential details such as item, quantity, price, delivery date and delivery address in order to avoid disputes.
- In most industrial plants, the purchase order runs through an ERP system with a preceding purchase order approval according to defined amount and authorisation limits.
- The triad of purchase order, goods receipt and invoice (match & merge) is the foundation of smooth, auditable payment processes.
- Deviations between the purchase order and the order confirmation are a frequent point of contention and should be systematically monitored.

## Definition: Purchase Order

The purchase order is the binding offer of a buyer to a supplier to acquire specific goods or services on agreed terms. It is the central document of operational procurement and triggers the supplier's obligation to deliver as soon as they accept it – typically by means of an order confirmation. Legally, it is usually an offer within the meaning of sales law; the contract is generally concluded only upon acceptance by the supplier.

### Purchase order, framework agreement and call-off

Call-off orders under framework agreements must be distinguished from single-item orders. Under framework agreements, prices, terms and often quality requirements are agreed long-term; the purchase order then only serves to call off quantities and dates. This form reduces transaction costs and ensures planning reliability for both parties – particularly with high consumption volumes or long procurement lead times.

### Legal character

Whether a contract comes into existence through the purchase order alone depends on the circumstances: if the parties act on the basis of prior business relationships or a framework agreement, a purchase order can also have an immediately binding effect. It is important to clarify the assignment of claims (prohibition of assignment) as well as questions of jurisdiction and applicability, such as the

jurisdiction clause. In individual cases, the interpretation should be legally reviewed.

### **Distinction from other documents**

The purchase order is not identical to the order confirmation, the enquiry or delivery documents such as the packing list. While the enquiry obtains non-binding prices and delivery dates, the purchase order binds the buyer. The packing list accompanies the goods and serves for goods receipt inspection; the invoice, finally, demands payment and is usually matched automatically against the purchase order and goods receipt.

## **Methods and Approach: From Requirement to Purchase Order**

The path to a purchase order typically begins with an identified need – whether due to a minimum stock level falling below threshold in materials management, a production order or a project-related requirement. This is followed by requirements determination, supplier selection and finally the triggering of the purchase order with approval. A structured process ensures that only reviewed and approved requirements are ordered on a binding basis.

### **Requisition and purchase order approval**

Requirement owners enter electronic purchase requisitions (requisitions) into the system. Purchase order approval takes place in several stages based on amount, commodity group and spend volume; sensitive categories such as capital goods or critical raw materials undergo additional review steps. Approval rules prevent a single person from being solely responsible for the requirement, the purchase order and the payment approval – a fundamental control principle.

### **Supplier selection and terms**

Depending on the commodity group and value, supplier selection takes place via a preferred supplier policy, via tenders with a bid matrix, or via catalogues with an underlying catalogue structure. For strategically important goods, value driver analyses of the commodity group and cost splits provide the argumentation basis for price negotiations. Volume rebates in procurement should be firmly calculated and documented before the purchase order is placed.

### **Order processing and changes**

After the purchase order, procurement monitors dates, quantities and open items. Changes to quantity, delivery date or specification go through a formal change management process with numbered purchase order amendments, so that liabilities and delivery commitments remain traceable. For critical parts – for example from tooling procurement or long-lead items – escalation paths and a procurement emergency team are established practice.

## **Key KPIs relating to the Purchase Order**

Purchase orders lend themselves well to measurement – and operational procurement controlling thrives on precisely this. Key metrics relate to process costs, delivery reliability, data quality and compliance. They are frequently evaluated monthly by commodity group and supplier, and in shared service structures also compared across locations.

### **Process and transaction metrics**

Typical key figures are cost per purchase order, the share of automated purchase orders (e.g. via

catalogues or EDI) and the share of maverick buying, i.e. purchase orders outside the agreed process. In practice, the share of unplanned purchases in disorganised organisations is often in the double-digit percentage range – a clear lever for action.

### **Delivery reliability and deviation management**

Supplier on-time delivery (OTIF – on time in full) is measured on the basis of confirmed purchase order data. This includes the number of amended purchase order items, the rate of unconfirmed purchase orders and the average time from purchase requisition to purchase order. These metrics show how reliable the order confirmations are and where follow-up is required.

### **Financial reconciliation**

In the payment process, the hit rate of the three-way match (match & merge rules) determines the degree of automation. Also relevant are commitment reporting views and, in a group context, netting procedures for offsetting receivables and liabilities between group companies.

## **Risks and Controls in Purchase Ordering**

The purchase order is both a success factor and a risk focal point: this is where legal liabilities arise, where prices and conditions are fixed, and where internal and external auditors focus their attention. Typical risks include inadequate approval controls, unclear terms, missing compliance checks and data inconsistencies between purchase order, delivery and invoice.

### **Compliance and foreign trade**

For cross-border purchase orders, export control and sanctions list screening before ordering are mandatory. Material compliance requirements – such as substance bans or declaration obligations – also belong in the purchase order documents so that suppliers can make binding commitments. Delivery terms such as CPT govern the transfer of costs and transport obligations and should be used consistently in line with Incoterms requirements.

### **Contractual and commercial risks**

Without clear provisions on contractual penalties (liquidated damages), warranty and liability, delivery delays often go unchallenged. Equally important are provisions on retention of title, payment terms and jurisdiction. In individual cases, check whether the supplier's standard clauses are silently incorporated into the purchase order – a frequent and costly practical issue (battle of forms).

### **Internal controls and authorisation**

Four-eyes principle, amount authorisations and regular sample audits are standard components of internal control. Automatic spend classification helps to assign purchase orders to the correct commodity group and compliance rule set. Red flags such as purchase orders being split to circumvent approval thresholds should be systematically detected.

## **Current Developments: Digitalisation and Sustainability in Purchase Ordering**

The purchase order is increasingly becoming a digital and sustainability-related data carrier. AI-supported classification, automated approvals and integrated supplier portals are transforming the

process landscape. At the same time, regulatory requirements for transparency along the supply chain are growing.

## Automation and AI

Automatic spend classification, AI-supported invoice processing and chat-based procurement assistants reduce manual effort. Catalogue orders with a consistent catalogue structure enable touchless processes for C-parts. The prerequisites are clean master data and clear match & merge rules.

## Sustainability and regulation

Purchase orders are increasingly enriched with sustainability data: the Product Environmental Footprint (PEF) provides methods for environmental footprint assessment, and the EU Taxonomy influences which procurements are reported as sustainability-relevant. Buyers should clarify with the legal department which disclosures must be mandatorily anchored in purchase orders and framework agreements.

## Supply chain security and volatility

Price and supply chain volatility are leading companies to use hedging instruments such as forwards and swaps for commodity prices and to anchor resilience strategies in their ordering policies. Safety stocks, minimum stock strategies and multi-sourcing ordering rules are gaining in importance. Concluding volume commitments in framework agreements is also increasingly replacing short-term individual orders.

## Typical metrics

### Cost per purchase order: typically EUR 30–100

Benchmark depending on degree of automation; catalogue orders significantly cheaper

### On-time delivery (OTIF): > 95%

measured per supplier on the basis of confirmed purchase order data

### Maverick buying share: < 10%

share of purchase orders outside the regulated process

### Three-way match hit rate: > 90%

share of documents that can be matched automatically; target for touchless payment

### Purchase order cycle time: 1–5 working days

from purchase requisition to dispatched purchase order

## Practical example

A mid-sized mechanical engineering company with around 350 employees found that a considerable proportion of purchasing took place outside the regulated process: departments ordered directly with suppliers by email, purchase order approvals were irregular, and invoices could often not be clearly assigned. Through a new preferred supplier policy, catalogues for standard materials and a tightened approval matrix, process effort was significantly reduced; on-time delivery became measurable via the confirmed purchase order data, and supplier improvement discussions were possible on a data-driven basis for the first time.

- Introduction of a two-stage purchase order approval with clear amount and commodity group authorisations

- Establishment of supplier catalogues with a uniform catalogue structure for C-parts
- Anchoring liquidated damages and jurisdiction clauses in purchase order terms for critical components
- Automated three-way match of purchase order, goods receipt and invoice with defined match & merge rules

## Conclusion

The purchase order is far more than a form: it is the point where requirements, supplier selection, terms and compliance converge and binding obligations arise. Those who structure it cleanly – with clear approvals, consistent master data and well-considered contractual terms – reduce process costs and risks at the same time. At the same time, the purchase order is becoming a data carrier for sustainability, supply chain security and KPI-based steering. For technical buyers in DACH industry, the continuous improvement of this core process is therefore worthwhile. Well-drafted purchase orders are the foundation for robust supplier relationships and efficient materials management.

## Frequently asked questions

### What is a purchase order in simple terms?

A purchase order is a company's binding offer to a supplier to purchase goods or services on specified terms. It typically contains the item number, quantity, price, delivery date and delivery address. The purchase contract is generally only concluded once the supplier has issued the order confirmation.

### When is a purchase order legally binding?

The purchase order is initially a binding offer by the buyer. The contract is typically concluded by acceptance – usually via an order confirmation or by implied conduct such as delivery. In the case of framework agreements or an ongoing business relationship, the interpretation may differ; in the event of a dispute, the provisions should be legally reviewed.

### What should a purchase order contain?

Essential contents include the purchase order number, supplier, items with number and description, quantity, unit, price, delivery date, delivery address and delivery terms (e.g. CPT). Depending on requirements, quality requirements, material compliance specifications, contractual penalties (liquidated damages) and references to framework agreements are also added.

### What is the difference between a purchase order and an order confirmation?

The purchase order originates from the buyer and constitutes their offer to purchase. The order confirmation is the supplier's response and documents their acceptance or any deviations. Deviations in price, quantity or delivery date should be clarified immediately, as they can change the content of the contract.

### What does maverick buying mean?

Maverick buying refers to procurement outside the agreed purchasing process, for example when departments place orders directly with the supplier. It bypasses framework agreements, approvals and compliance checks, and typically leads to higher prices and a lack of traceability. Countermeasures include catalogues, simple self-service processes and clear escalation paths.

## **How does the ordering process work in an ERP system?**

The usual sequence is purchase requisition review and supplier selection purchase order approval purchase order order confirmation goods receipt invoice verification (three-way match) payment. Modern systems partially automate classification, approvals and matching. Clean master data and clear match & merge rules are crucial for smooth processes.