A blanket purchase order (BPO) is a long-term agreement between an organization and a supplier to deliver goods or services with a set price on a recurring basis over a specified time period. If your business makes multiple payments for the same goods or services, issuing a blanket purchase order with the details, such as price and delivery schedule, already specified is an efficient way to reduce time spent and processing delays.

Suppliers, in turn, can submit multiple invoices citing the same BPO number. The blanket purchase order limitations may be based on a specified time, for example a year, or a specific amount of money. In addition to time frame, quantity, and price, blanket purchase orders may include item quality specifications.
The advantages of blanket purchase orders

Procurement departments use blanket orders, which may also be called standing purchase orders, to reduce costs and build leaner, more efficient work processes. Here are several ways blanket purchase orders can boost the bottom line and improve workflow.

Procurement professionals can use blanket purchase orders to secure lower bulk pricing based on total order quantity, even when multiple deliveries are needed over time. When making one order at time over the course of a period of time, smaller quantities are negotiated. A blanket purchase order eliminates the need to secure sourcing and negotiate contracts for each order, which allows the procurement department staff to focus on important activities over repetitive tasks.

Savvy procurement managers can consolidate company-wide direct and indirect spend for more advantageous bulk pricing. And since the contract defines the specifics and scope of the order, the price won’t fluctuate over time, no matter what affects the market.

A blanket purchase order streamlines the ordering process for expected repetitive purchases. For example, if a manufacturing company needs twenty shipments of the raw materials necessary for production in the course of a year, a standing purchase order means one negotiation, one contract, and one approval process, instead of twenty. Multiple shipments as needed offers the additional benefit of minimizing the risk and costs associated with goods storage.

“Blanket purchase orders can give procurement departments leverage to significantly lower purchasing cost for commonly used goods and services.”
When to use a blanket purchase order

Blanket orders are only wise to use under certain circumstances:

- When quantities of the same goods or services are needed throughout a time period, typically one year.
- When unit cost can be well-defined and details can be specified.
- When a single vendor is capable of delivering throughout the length of the contract.
- When ordering in quantity facilitates more favorable contract terms, such as bulk discounts.
- When staggered deliveries minimize stocking risk and costs.

Blanket purchase orders should never be written for orders where the price is not guaranteed, the quality of the product is unreliable, or the vendor cannot be trusted.

What to include on blanket purchase order

Blanket purchase orders should define the following contract terms:

- Duration of agreement
- Pricing and contract terms
- Billing information – how the vendor will submit invoices for payment
- Item specifications including expectations of quality, size, and quantity
- Delivery quantity, times, and locations
- Cancellation clause

The challenges of using blanket purchase orders

Forecasting need is the most challenging aspect of drawing up a blanket purchase order. Data analysis can provide accurate quantities needed by the business over

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the defined time period. Knowing what is needed informs the supplier what quantity to stock in time to deliver according to contract terms. During contract negotiations, the company may leave room for adjustments as goods and services are delivered and put to use.

Agreements of this type are often extended year over year as companies and vendors build working relationships. Accurate forecasting is critical to optimizing the budget and minimizing stocking costs for the company. The vendor, in turn, realizes the benefit of a guaranteed long-term order with adequate time to prepare the goods for delivery.

With a purchase agreement in place and terms defined, a trusted vendor will deliver goods and services, when needed and without additional administrative work. The BPO and incoming invoices should be monitored to ensure the total does not exceed the limits of the agreement. The most efficient and least error-prone method of monitoring is automated three-way matching to verify receipt of goods against the order and PO with comprehensive procurement software.

Manage all your spend including blanket POs, standard POs, and contracts with PurchaseControl

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