What is three-way matching?

Three-way matching is a procedure for processing a vendor invoice to ensure that a payment is complete and accurate. The goal of three-way matching is to highlight any discrepancies in three important documents in the purchasing process – purchase orders, order receipts/packing slips, and invoices – in order to save businesses from overspending or paying for an item that they did not receive.

Let’s explore the three documents that are critical to managing payments through accounts payable.

1. *Purchase orders (PO)* – A [purchase order](https://www.purchasecontrol.com/blog/what-is-3-way-matching/) is the official confirmation of an order. It is a document sent from a purchaser to a vendor that authorizes a purchase. Purchase orders generally include the name of the company purchasing the goods or services, date, the description and quantity of the goods or services, price, a mailing address, payment information, invoice address, and a purchase order number.
2. Order receipts/packing slips – This is the proof of payment and delivery. An order receipt is included by the vendor with goods that have been delivered to the purchaser. It details exactly what is in the shipment or order. Order receipts typically include the same information as in the invoice, as well as the method of payment.

3. Invoices – An invoice requests payment for a purchase. Invoices are sent from the vendor to the purchaser. They include the same information as in the purchase order, as well as an invoice number, vendor contact information, any credits or discounts for early payments, payment schedule, and total amount due to the vendor.

Before an invoice is paid, accounts payable reviews the quantities, prices, and terms to ensure that what is ordered (via the purchase order) matches the goods received (via the order receipt/packing slip) which matches what they are being charged (via the invoice). It’s important to mention that businesses may choose not to use three-way matches for small or recurring purchases.

If any issues are found – inaccurate quantities, wrong prices, damaged goods, or more, payment is not sent until the issue is rectified. Once the invoice has been validated by the three-way matching process, payment is sent according to terms.
Why use three-way matching?

Three-way matching is a beneficial business practice for three key reasons:

1. **Saves businesses money** – Verifying that data is consistent across purchase orders, receipts, and invoices helps businesses avoid overpaying, paying for duplicate items, and paying for things they haven’t received. Keeping such close tabs on finances also helps decrease the possibility of fraud.

2. **Ensures optimal vendor relationships** – Professional vendors respect the importance of purchase orders, invoices, and receipts to the accounts payable process. Frequent mistakes on receipts and invoices can be a sign of a broader business issue, and may indicate that it’s time to begin shopping around.

3. **Prepares businesses for audits** – Auditors are specifically on the lookout for financial discrepancies. Compiling these documents in advance of an audit and checking that the numbers line up using the three-way matching process is a big step in the right direction.

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What are the benefits of automating three way matching?

Three-way matching is a great business practice, but truth be told, it is labor-intensive and time consuming. Thumbing through stacks of paperwork to find these three documents is difficult enough. Layer on top of that the need to scan each document carefully to ensure the numbers are aligned. Not only is this inefficient, it’s highly susceptible to human error.

The three-way matching process happens automatically when you upgrade to an e-procurement system like PurchaseControl – no human intervention required. Issues are brought to light early, so you don’t bottleneck or slow down the payment process. You will significantly reduce processing costs, and perhaps more importantly, be able to spend more time doing more valuable work.

Trends suggest that the future of procurement is automated. In Deloitte’s 2016 Global CPO Survey, Chief Procurement Officers indicate that they are investing increasingly in innovation and digital technologies in an effort to shift their teams towards more strategic tasks. Organizations want procurement teams to “make day-to-day execution ruthlessly efficient, lightning quick, and transparent.” In our humble opinion, automating the three-way matching process is an excellent start towards making the entire procurement process more efficient.

https://www.purchasecontrol.com/blog/what-is-3-way-matching/
PurchaseControl can improve your accounts payable function and automate the three-way matching process
About PurchaseControl

PurchaseControl is cloud based procurement software for business spend management. We empower businesses by providing greater transparency and oversight into the purchasing process. With PurchaseControl, you have the flexibility to manage how spend actually happens instead of how you wish it would happen.

The entire PurchaseControl team has experience within a range of businesses, and as such, we bring a practical, holistic approach to purchasing. We understand what it takes to run a business and apply that knowledge to make PurchaseControl as effective as possible for all users.

Learn more at www.purchasecontrol.com

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