



Purchase Order Cost Analysis

In recent times there has been some debate around what constitutes the holistic cost of a Purchase Order (PO). An opinion pointed to the typical cost of raising a purchase order as being between £75 and £120. Analysis calculation plus supporting detail is set out below.

Just as all businesses are different, so the true cost of raising a purchase order (PO) will vary. It should also be remembered that when looking at the cost, it should only be applied to the process of raising the order, not the entire process of meeting an internal customer's requirements. The cost of raising a PO will be more or less the same whether it for an order worth thousands of pounds or one worth only £5.

There are two types of cost involved in the calculation of a PO.

The first is fixed overheads - accommodation, heating, lighting, the staff involved directly and the time of managers or supervisors needed to check and authorise orders.

The second is variable costs - requisition forms and goods received notes, telephone calls (both internal and external), machine time involved in producing the documents, the costs of raising a cheque or other form of payment, and postage and/or fax costs.

The costing of fixed overheads will vary according to how costs are allocated within the organisation. It may be argued that as the staff are there already, they do not cost anything extra when handling the necessary paperwork. If, however, the organisation uses a system such as activity-based costing, the true cost of such staff input is more visible. For example, junior staff costs can build up as follows:

1. Receive requirement from internal customer and clarify precise requirement, raise and despatch - say half an hour.
2. Accounts rep receives copy order, raises a file and files away - 15 minutes.
3. Warehouse rep receives copy document, checks delivery details, allocates space on storage area and files - up to half an hour.
4. Acknowledgement of order received, compared with order and filed if OK. If not, remedial action has to be taken - 15 minutes.
5. Goods received and checked in, raise receipt of goods note and pass to accounts - half an hour.
6. Three-way match, pass invoice for approval to pay, pass invoice for raising cheque, raise cheque, pass for signature, confirm its details on file, address envelope and post - up to two hours.

Post expense to cost centre, send report to cost centre confirming entry - 15 minutes.

Then there is the cost of senior management time:

1. Approve issue of order, possibly confirm requirement first - say 15 minutes.
2. Approve invoice, with clarification - 15 minutes.
3. Sign cheque, return to accounts - 15 minutes.

Mapping your own process in line with the above and applying your particular relevant costs. might enable you to arrive at an approximate cost for raising a PO, which could be less than £75 or much more than £120, depending on how complex your process is and how much staff are paid.

Irrespective of whether or not your process is via ERP or bespoke P2P process the steps are basically the same.

Please note the detail offered shouldn't be taken as a definitive "must accept" answer: it's an opinion only, however steps out a chronological sequence of steps that add up to a top figure.

Where can you put this on a "diet"; eliminating cost and time whilst maintaining security of holistic end to end process thus saving time and cost.