Improving Order and Fulfillment Operations:
Purchase Order Management

Introduction

The growth of global supply chain has put constraints on companies who source goods from factories and suppliers overseas. Where it used to be easy enough to keep tabs on domestic acquisitions and the occasional import, managing procurement across the miles has become increasingly onerous for organizations whose supply chains extend across borders, oceans and continents. As a result, they are looking at ways to make their Purchase Order Management processes more predictable and efficient.

Inefficiencies or ineffectiveness in managing supplier compliance and a lack of consistent communication across suppliers are just two key concerns organizations have. Gaining access to accurate information and data to determine whether projected demand will be met, and ensuring that relationships remain strong, are additional hurdles companies are grappling with.

In some cases, technology and the analytics it provides are helping companies get their arms around their key purchase order management issues. Using this information, organizations achieve greater visibility over open orders, order fill rates, order cycle times, order quantities and supplier response time. With this knowledge, companies can better understand their global supply chain strengths and weaknesses and make more informed business decisions to reduce operational costs and increase sales.

By managing all facets of the purchasing process, purchase order management systems enable collaboration, improve real-time visibility, ensure order fulfillment accuracy, reduce cycle times, lower supply chain execution costs, and more effectively support compliance initiatives.

This brief will examine the challenges organizations face when managing their global supply chains and takes a look at the role purchase order management plays in improving operations.

The Research

To better understand the importance of purchase order management solutions in business today, Peerless Research Group (PRG) on behalf of *Logistics Management* for **Ryder Supply Chain Solutions**, surveyed 468 top supply chain and logistics executives in U.S.-based manufacturing and distribution industries. Study results show that businesses are able to apply more accurate data and improve information flows which is leading to cost savings, better inventory level controls, greater use of assets and increased sales.

Working with Suppliers: Challenges in Production and Delivery

In general, supply chain managers experience a range of issues working with their offshore suppliers. Most issues relate to adherence to delivery schedules, proper order fulfillment, receiving thorough and accurate information, and managing contract compliance issues. These failures can produce severe repercussions. Many of those interviewed (51 percent) said they lost sales or had orders cancelled due to an inability to meet production standards or meet delivery commitments. Better lines of communication with suppliers would improve shipment accuracies and delivery cycles.
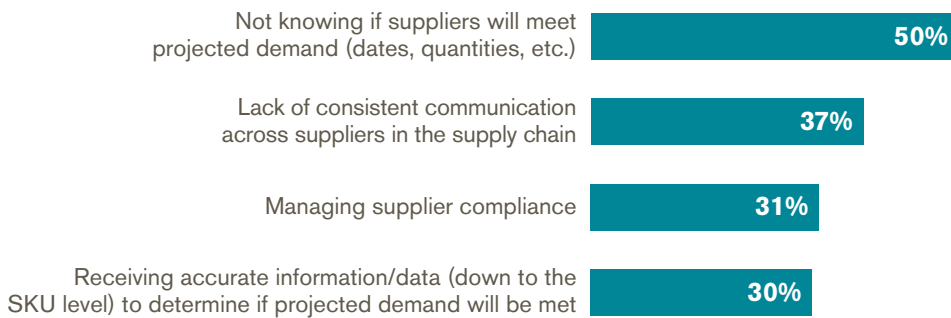
Top challenges working with off-shore suppliers

Not knowing if suppliers will meet projected demand (dates, quantities, etc.)	50%
Lack of consistent communication across suppliers in the supply chain	37%
Managing supplier compliance	31%
Receiving accurate information/data (down to the SKU level) to determine if projected demand will be met	30%

Getting suppliers to comply with proper manufacturing, production practices and specifications is also a challenge for supply chain and corporate executives. Problems range from manufacturing and production quality inconsistencies, to satisfying order requirements, to meeting delivery timelines and logistics guidelines, as well as obtaining detailed and accurate inventory information.

Biggest challenges regarding supplier compliance

Quality control issues	58%
Consistency with suppliers adhering to prescribed requirements	51%
Ability to meet/adjust to tightening delivery windows	48%
Receiving accurate information in a timely manner, down to the SKU level	46%
Adherence to unique customer logistics guidelines	26%
Maintaining a good relationship in the midst of challenges	23%
Suppliers shifting production locations to take advantage of lower-cost production	23%

"I am constantly having to follow-up with suppliers to ensure orders are on schedule and making sure they understand our deadlines for receiving goods."

—Supply Chain Management, Medical Supplies; $10M-$100M

"On a daily basis we monitor and scrutinize inventory levels. We're increasing safety stock to offset inconsistent product quality, quantity and delivery discrepancies and deficiencies."
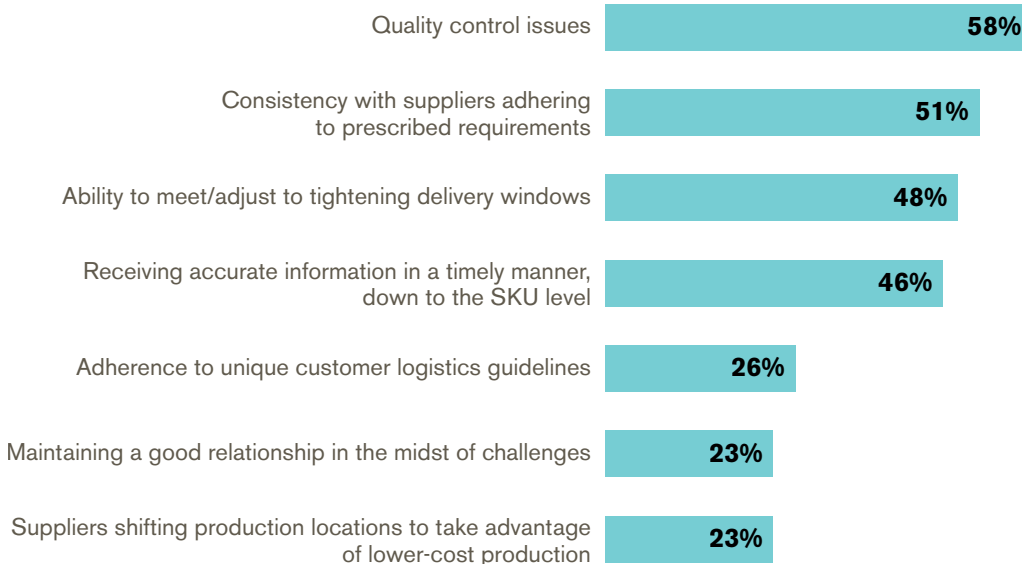
—Director, Manager of Logistics; Automotive equipment; $100M-$250M

However, while questions over sub-standard quality control practices persist, nearly one-half (46 percent) of those we surveyed continue to leave these responsibilities in the hands of their suppliers rather than taking over these tasks. Moreover, almost as many (44 percent), are likely to assign internal staffing to monitor on-site supplier manufacturing operations. Some also prefer to outsource QA/QC to independent agents (13 percent) or have a 3PL validate quality control processes.

Methods use to ensure product quality assurance and quality control standards

Our suppliers are responsible for their own QA/QC	46%
We have our own staff dedicated to overseeing QA/QC at factory locations	44%
Our sourcing agent takes responsibility for QA/QC across their factory locations	13%
Our goods are brought to our logistics provider, who performs and validates the QA/QC process	10%
We hire a 3rd party company to validate QA/QC at factory locations	9%

To maintain production process schedules, businesses proactively pursue initiatives and systems to:

- Improve scheduling, forecasting and demand planning

- Implement better reporting tools

- Employ technology for tracking deliveries, shipments, inventory management, etc.

- Cultivate supplier collaboration and closer communication. Some respondents said they now monitor and follow order status more closely than in the past

- Partner with the right suppliers

- Gauge supplier performance and use KPIs

- Apply manufacturing and business process improvement strategies: Lean, Six Sigma, TQM; setting up Kanban programs, JIT

- Better optimize own staff

We added more people to our workforce and gave our workforce a lot more power to make decisions on their own.

–Business Development, Supply Chain Solutions; 3PL; $50M-$100M

"We conduct weekly demand analysis by distribution center. SKU inventory at our DCs are analyzed and from there we schedule our production."

—Finance and Operations; Food and Beverage; $1B - $2.5B

"We are looking to find suppliers for materials so we'll be able to keep enough on hand for JIT manufacturing."

—R&D; Paper and Printing: $2.5B+

"We source from multiple suppliers and get involvement of suppliers earlier in the product lifecycle. We enforce defined performance penalties."

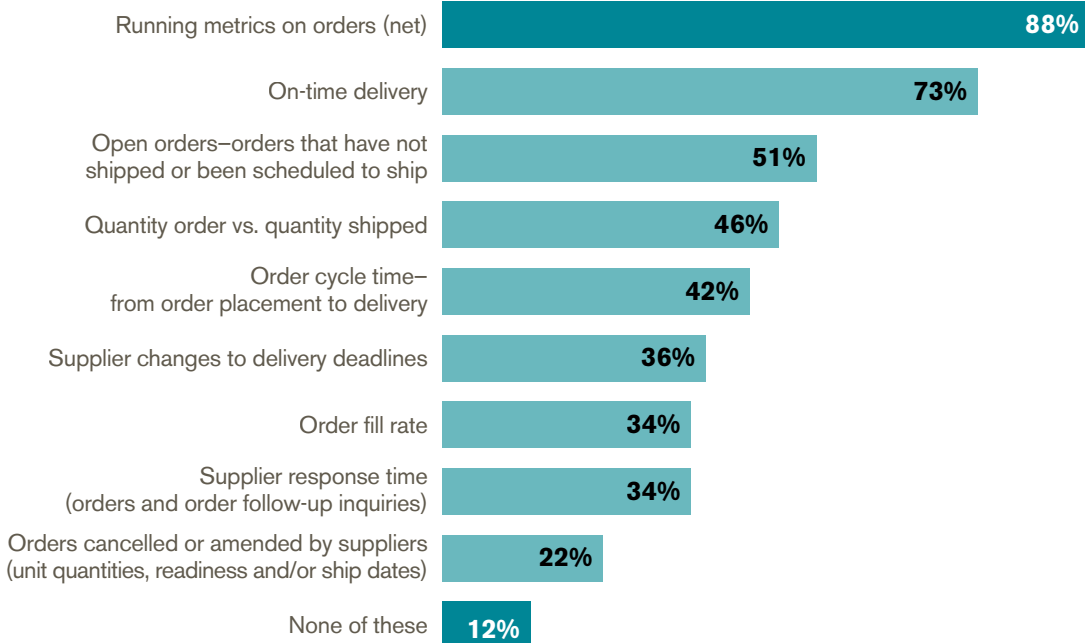**Manager, Product Lifecycle Development; Warehousing Services: $10M - $50M**

"We've embraced a Kanban process, and have implemented a basic forecasting tool based on historical purchasing patterns."

Supply Chain Management; Paper and Printing; $500M - $1B

To help ensure proper receipt of materials, most businesses (88 percent) employ key industry metrics covering various aspects of an order. Mostly, companies track commitments on delivery schedules and cycle times, fulfillment on back orders, and responsiveness in correcting order discrepancies.
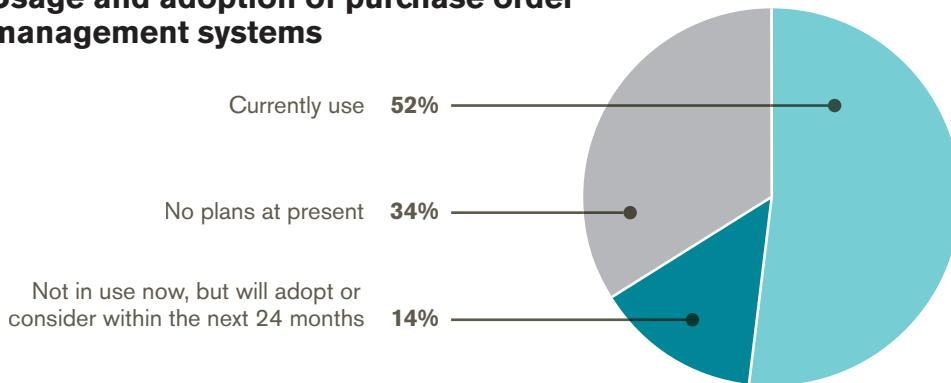
Aspects of an order for which metrics are being run

Metric	Percentage
Running metrics on orders (net)	88%
On-time delivery	73%
Open orders–orders that have not shipped or been scheduled to ship	51%
Quantity order vs. quantity shipped	46%
Order cycle time–from order placement to delivery	42%
Supplier changes to delivery deadlines	36%
Order fill rate	34%
Supplier response time (orders and order follow-up inquiries)	34%
Orders cancelled or amended by suppliers (unit quantities, readiness and/or ship dates)	22%
None of these	12%

Adoption of Purchase Order Management Systems

To facilitate and streamline procurement practices, collaborate with suppliers, and to better manage production quality and delivery timelines, the majority of those surveyed turn to solutions that include purchase order applications. More than two out of three companies either currently use (52 percent), or plan to adopt in the near future (14 percent), a purchase order management system.

Usage and adoption of purchase order management systems

Category	Percentage
Currently use	52%
No plans at present	34%
Not in use now, but will adopt or consider within the next 24 months	14%

"Our business is awarded based on price and supplier score cards. For overseas suppliers we only work with suppliers who are top performers."

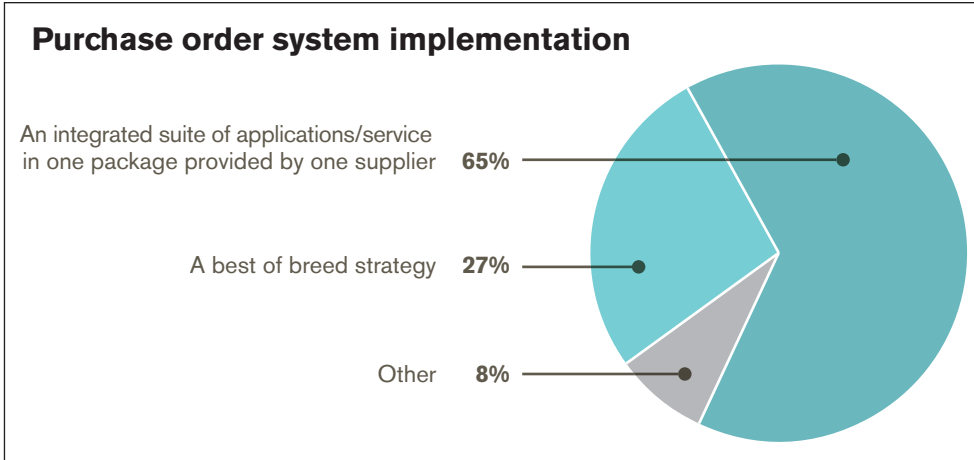—VP, Sourcing and Procurement; Paper and Printing; $2.5B+

Yet, one out of three organizations indicated they presently have no plans at all. The most common reasons given are that there's not enough information about the programs or there's insufficient understanding of the benefits.

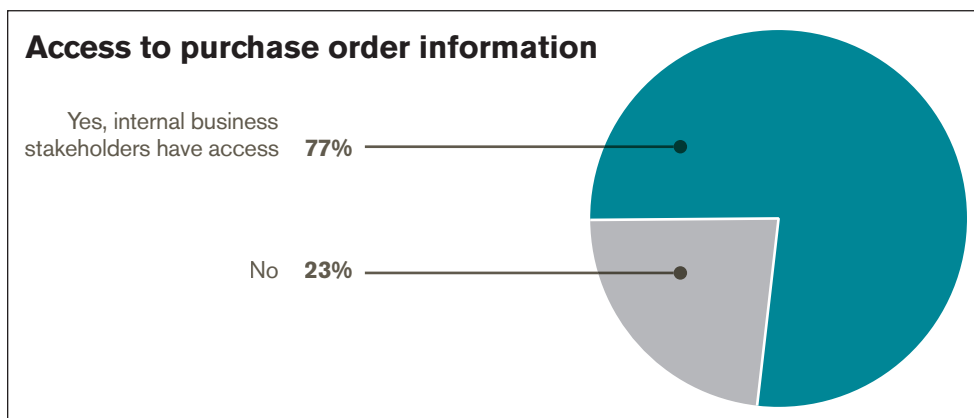## Purchase Order Management Implementations

Most businesses prefer an integrated suite of applications provided by a single supplier (65 percent) versus employing a best-of-breed application strategy (27 percent).

Purchase order system implementation

An integrated suite of applications/service in one package provided by one supplier **65%**
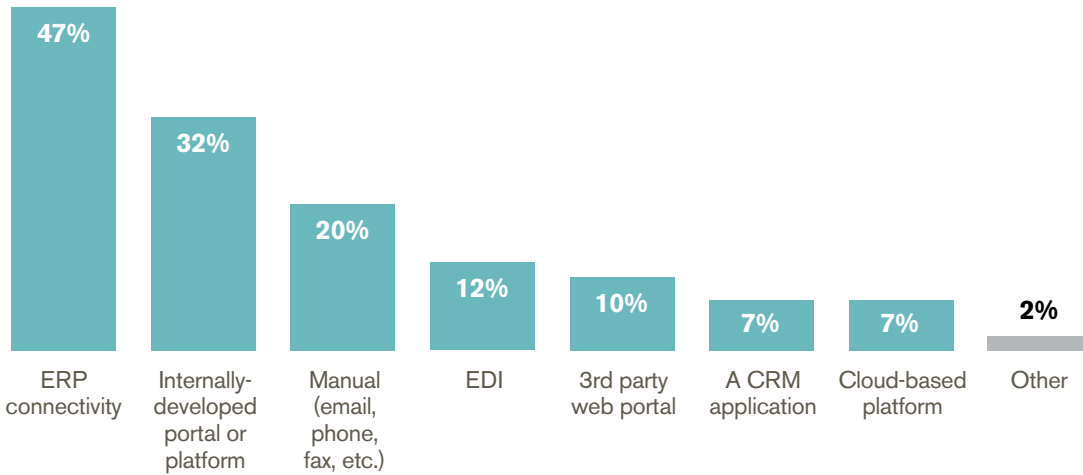
A best of breed strategy **27%**

Other **8%**

Businesses look for features in a purchase order management application that provides inventory and demand planning, process monitoring, and robust reporting tools. These commonly include:

- Contract compliance gauges
- EDI capabilities
- A dashboard with real time data/same day updates
- Forecasting accuracy and demand analysis
- Reporting metrics—milestone alerts
- Procurement and production planning
- Tracking capabilities
- Visibility and inventory product velocity
- Ease of use

Most organizations (77 percent) currently enable their internal business units to use to purchase order information. Connectivity through their ERP platform or by access an internal web-based portal are the most common methods for data access.

Access to purchase order information

Yes, internal business stakeholders have access **77%**

No **23%**

How users are accessing purchase order information

Category	Percentage
ERP connectivity	47%
Internally-developed portal or platform	32%
Manual (email, phone, fax, etc.)	20%
EDI	12%
3rd party web portal	10%
A CRM application	7%
Cloud-based platform	7%
Other	2%

Organizations are split on their approach to managing their purchase order solution. While slightly more than 40 percent rely on internal personnel, a 3PL (33 percent) or a combination of each (26 percent).

Management of purchase order system

In-house system	41%
3rd party system	33%
A hybrid of both in-house and 3rd party solutions	26%

"We're evaluating and will be adopting cloud-based manufacturing applications which include Enterprise Resource Planning (ERP) applications."
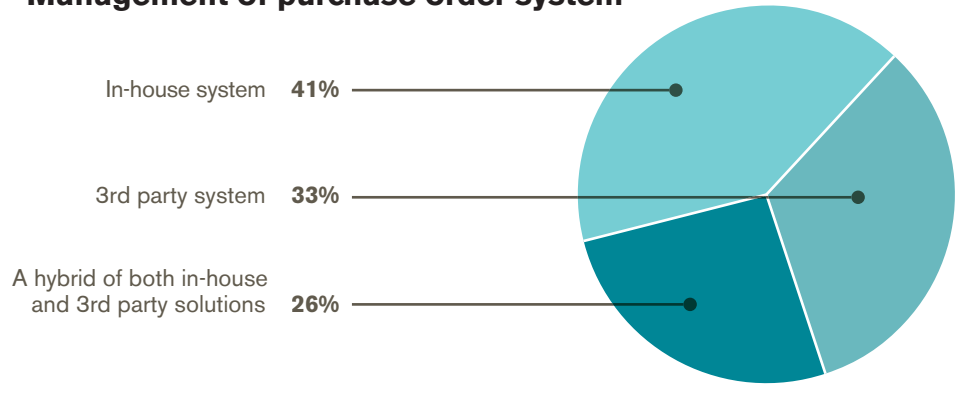**—Manager, Product Lifecycle Development; Aerospace: $2.5B+**

"We would like to improve the visibility into the forecast algorithms and be able to override the system as required."
—Manager, Product Lifecycle Development; Aerospace; <$10M

"We're looking for connectivity with critical suppliers that allows for visibility of purchase orders status—i.e. quantity produced, shipping information."
—Supply Chain Management; 3PL; $10 -$50M

"Our information cycle is shortened--order placement, time-to-process, time-to-ship, and time-to-receive are all tracked."
—Senior Consultant; Business Consulting Services; $100M - $250M
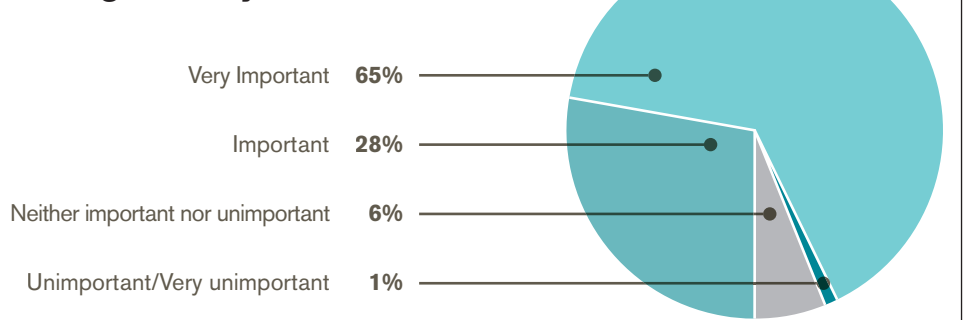
Benefits of a Purchase Order Application

As a consequence of their purchase order management implementation, businesses recognize its importance and recognize the benefits. Fully, nine out of ten decision-makers (ninety-three percent) we interviewed claim their purchase order management system is important to their business operations.

Businesses are looking to attain more precise data and a better flow of information, improve order accuracy and enhanced reporting capabilities. Greater throughput and systems integration are further objectives companies are hoping to achieve through the effective use of a purchase order management system.
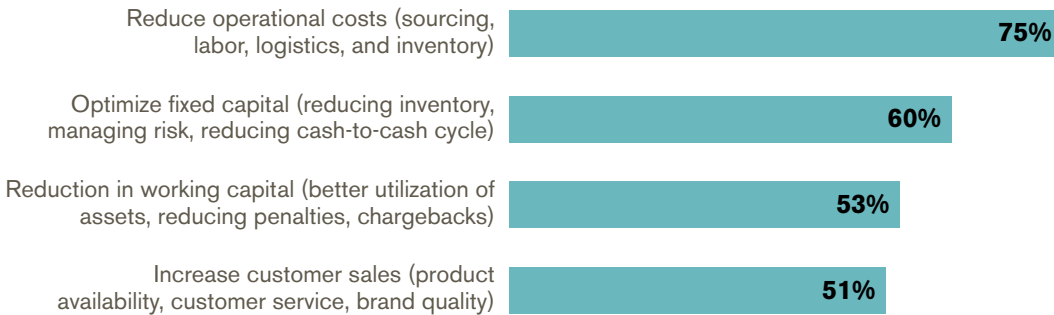
Importance of a purchase order management system

Very Important	65%
Important	28%
Neither important nor unimportant	6%
Unimportant/Very unimportant	1%

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Many companies are effectively addressing a host of supply chain and business processes with their purchase order system. In large part, most eye reductions in supply chain costs, particularly in the areas of sourcing, inventory, labor, and logistics. Many companies also want greater control over inventory, to better assess and manage risks, and more fully optimize capital assets, as well as increase sales and customer service levels.

Objectives looking to achieve with an order management system

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Reduce operational costs (sourcing, labor, logistics, and inventory)	75%
Optimize fixed capital (reducing inventory, managing risk, reducing cash-to-cash cycle)	60%
Reduction in working capital (better utilization of assets, reducing penalties, chargebacks)	53%
Increase customer sales (product availability, customer service, brand quality)	51%

When evaluating purchase order management systems, users require functionality that's accurate, flexible and compatible with other applications.

- Accurate information
- Integration across internal business units as well as with suppliers. Link system to our ERP backbone
- System flexibility and adaptability
- Cost controls

Are Current Purchase Order Management Systems Providing What's Needed?

While nearly three out of four users are generally satisfied with their current purchase order management system, others are not. Almost one out of four (22 percent) are mixed about the efficiency and performance of their system while another six percent are not pleased at all with their current solution.

Level of satisfaction with current purchase order system

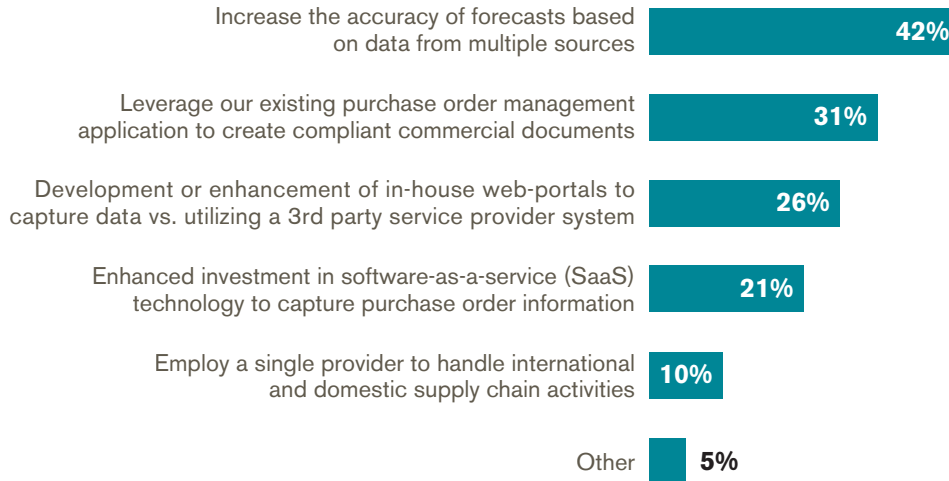|	
Very satisfied	17%
Satisfied	55%
Neither satisfied nor dissatisfied	22%
Dissatisfied/Very dissatisfied	6%
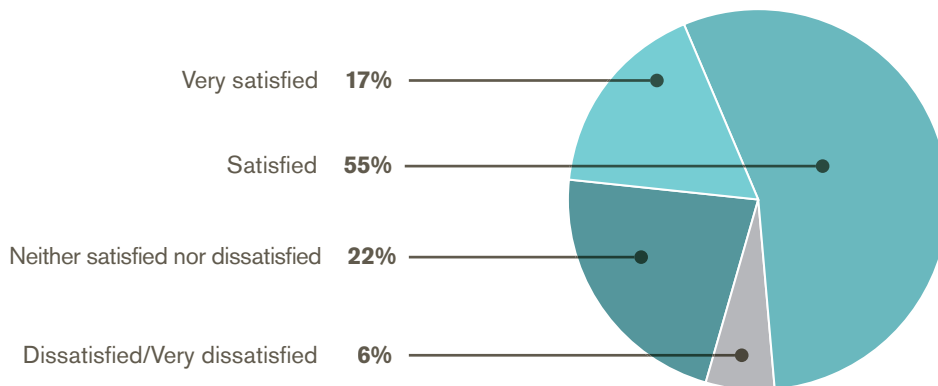
"We need better performance on cycle counts. We don't have a good way to classify inventory by item and would like to improve criteria on reorder points for the purchasing of goods."

—Vice President, Purchasing; Plastics and Rubber; $10M-$50M

Users who are largely satisfied still admit that certain features of their current system could be improved. Greater forecasting accuracy, improved in-house data collection systems, and capacity to leverage their purchase order application to develop more compliant trade documents are critical actions being taken to improve purchase order management platforms.

Actions taken to improve current purchase order management solution

Action	Percentage
Increase the accuracy of forecasts based on data from multiple sources	42%
Leverage our existing purchase order management application to create compliant commercial documents	31%
Development or enhancement of in-house web-portals to capture data vs. utilizing a 3rd party service provider system	26%
Enhanced investment in software-as-a-service (SaaS) technology to capture purchase order information	21%
Employ a single provider to handle international and domestic supply chain activities	10%
Other	5%

Usage of a 3PL to manage PO system

While the majority (74 percent) of companies we studied do not currently employ a 3PL to manage purchase order processes and logistics activities, those who do (26 percent) acknowledge that troubles with delivery schedules, shipment tracking, and overall customer satisfaction are mitigated when employing a 3PL to manage purchase order procedures.
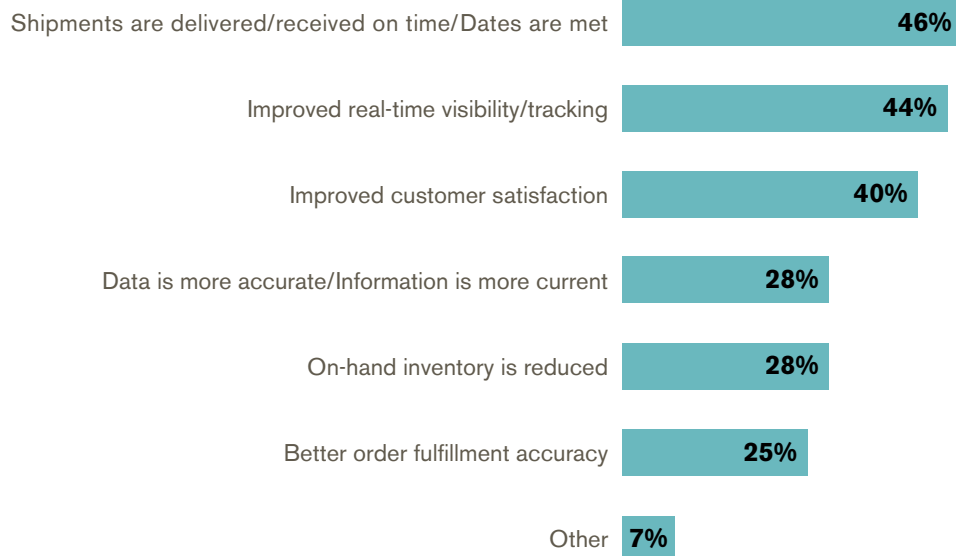
Usage of a 3PL for purchase order management

Yes, use a 3PL **26%**
No **74%**
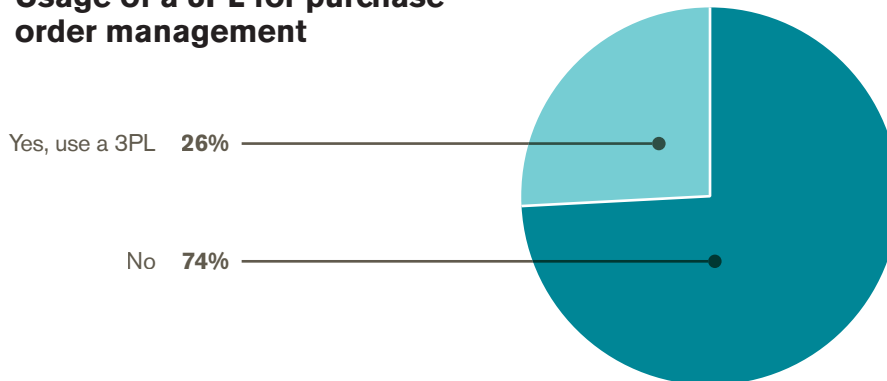
"Accuracy! We need the ability to check price and inventory before initiating orders."
—Corporate Management; Textiles & Apparel; $10M-$50M

"The things we'd like in our order management application are demand signal analysis, order size optimization, inventory optimization indicators."
—Corporate Management; Wholesale: $2.5B+

Benefits in using a 3PL to manage purchase orders and downstream logistics tasks management solution

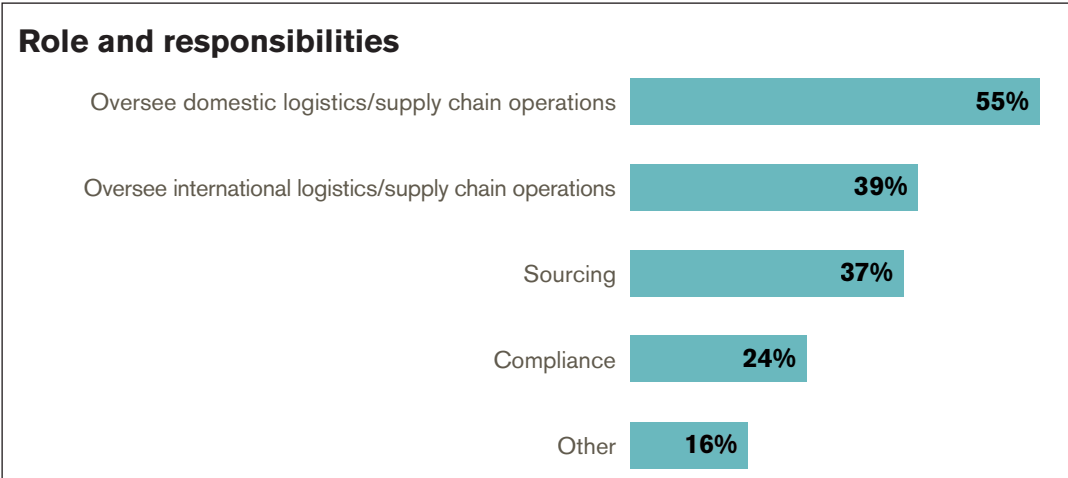|	
Shipments are delivered/received on time/Dates are met	46%
Improved real-time visibility/tracking	44%
Improved customer satisfaction	40%
Data is more accurate/Information is more current	28%
On-hand inventory is reduced	28%
Better order fulfillment accuracy	25%
Other	7%

Conclusions

The results show that respondents face critical challenges to managing supplier compliance, consistent communication across suppliers and access to accurate data. Yet, in most cases they are not fully leveraging the tools and techniques to overcome those challenges. Having the right purchase order management system in place can help. Almost two thirds (65 percent) of respondents acknowledged that having a purchase order management system in place is very important, yet only about half are actually using it. Many say their current purchase order system could be improved. The clear message here is that having the right purchase order management system in place, and using it fully, can dramatically improve order and fulfillment operations, reduce operational costs, increase visibility and improve customer service. With global supply chains growing ever more complex, it's time to address this issue, and either implement a purchase order management system, better use the one already in place, or make a change and explore a new system.

Methodology

This research was conducted by Peerless Research Group (PRG) on behalf of *Logistics Management* magazine for **Ryder Supply Chain Solutions.** This study was executed in November 2013, and was administered over the Internet among subscribers of *Logistics Management.*

Respondents were pre-qualified for being involved in decisions related to international or domestic logistics operations, sourcing or compliance issues.

Role and responsibilities

Oversee domestic logistics/supply chain operations	55%
Oversee international logistics/supply chain operations	39%
Sourcing	37%
Compliance	24%
Other	16%

The findings are based on information collected among 468 top executives holding job titles in logistics and operations (20 percent), supply chain management (19 percent), and executive management (15 percent), procurement and financial management (14 percent), and warehousing and distribution operations (9 percent). A range of manufacturing industries are represented and include food and beverage, aerospace, metals processing, computers and electronics, automotive and transportation, paper and printing, chemicals and pharmaceuticals, etc.; wholesalers and retailers are also included in the study. Companies of all sizes are also well-represented.

About Ryder Supply Chain Solutions

Ryder Supply Chain Solutions is an end-to-end supply chain partner with nearly 80 years of experience helping companies in North America, the UK and Asia transform their supply chains. Ryder provides a full range of services, from optimizing day-to-day logistics operations to synchronizing the supply of parts and finished goods with customer demand. As supply chains become more complex, Ryder leverages five strengths to deliver the best in supply chain execution: know-how, lean methodologies, a proven track record, deep expertise in key industries and a breadth of resources.

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