



## **TOP 10 Questions to Ask BEFORE Taking On New Purchase Orders (PO)**

### **No 1: TYPE OF SALES TRANSACTION**

Question: If the goods are for Re-Sale, does the PO refer to the purchase transaction as a GUARANTEED SALE or a FINAL SALE?

#### **WHY IMPORTANT?**

A GUARANTEED SALE means your customer can return all or a portion of an order after a certain amount of time, if the goods are not selling.

As a result, a GUARANTEED SALE is much like selling "on consignment". As a result, GUARANTEED SALES cannot be financed.

### **No 2: DEDUCTIONS FOR PROMO DISCOUNTS OR ALLOWANCES**

Question: Does your PO require deductions for promo/advertising discounts and allowances from an invoice payment?

#### **WHY IMPORTANT?**

Deductions from your invoice reduces the amount of the check you receive from your customer. If the deductions are significant, it could make an invoice *ineligible for financing*, especially if the actual amount paid is *less* than the amount advanced from your lender.

### **No 3: PARTIAL SHIPMENTS and PARTIAL BILLINGS**

Question: Does your PO allow you to do partial shipments and partial billings?

#### **WHY IMPORTANT?**

If all of the good required to fill an order are not all ready at the same time to be shipped, partial shipping and partial billing allows you to invoice for the portions that have been shipped. Some customers allow this while others do not.

### **No 4: CUSTOMER VENDOR AGREEMENT**

Question: Does your customer have a Vendor Agreement? If so, what does it say? If they have one, READ IT IN DETAIL. Then READ IT AGAIN.

#### **WHY IMPORTANT?**

Vendor Agreements spell out all of the terms and conditions associated with purchase, delivery, payment, PO cancellation, etc.

If you want to propose any changes, its' much easier to negotiate them BEFORE you sign, versus AFTER.

### **No 5: SHIPPING**

Question: Who is responsible for (1) paying for shipping, and (2) arranging for shipping?

#### **WHY IMPORTANT?**

With some customers, you are responsible for both covering the shipping costs and making the arrangements as well. In other cases, the customer makes their own shipping arrangements and covers the cost of shipping themselves. Important to know UPFRONT so you can include shipping costs into your pricing if needed.

## **No 6: ORDER ACCEPTANCE AND TAKING TITLE TO THE GOODS**

Question: WHEN and WHERE does the customer "TAKE TITLE" to the goods, i.e. once you or your supplier(s) ships, or after they are received?

### **WHY IMPORTANT?**

There are several reasons this is important. For one, it establishes WHEN you can invoice, i.e. once you ship or after the goods arrive. Also, from a financing perspective, it makes it much easier for a lender to finance the cost of the goods to your supplier, UPFRONT, if your customer TAKES TITLE when you ship.

Taking Title also means your customer has ACCEPTED the goods and the sale is final.

## **No 7: PO BILLING AND PAYMENT TERMS**

Does the PO provide instructions for submission of the invoice and related documents, i.e., Bill of Lading, etc?

### **WHY IMPORTANT?**

Knowing the exact and detailed instructions and procedures for billing UPFRONT saves a lot of time LATER, when it comes to following up on unpaid invoices or other payment issues. Be sure you have contact information on WHO and HOW to follow-up with on payment issues.

## **No 8: PROMPT PAY DISCOUNTS**

Question: Do YOU offer discounts to customers for FAST PAY?

### **WHY IMPORTANT?**

Also referred to as Trade Discounts, Prompt Pay Discounts are normally offered by YOU, the seller, as an incentive to your customers to pay BEFORE the invoice due date, i.e., net 30. Standard Trade Discounts are expressed as "2/10 net 30". That means that if your customer pays the invoice in 10 days, they can deduct 2% from the amount due, but no deduction if paid in 30 days. For major corporations that purchase millions of dollars in good over the year, a 2% savings can have a significant impact on the bottom line. One word of caution: be sure and calculate the "*true cost*" of Trade Discounts BEFORE offering them. More on that later.

### **No 9: LATE SHIPMENTS AND PO CANCELLATION**

Question: Does the PO include Cancellation Terms or provisions for late delivery?

#### **WHY IMPORTANT?**

Some customers are stricter on Cancellation terms than others, typically for late delivery. If not included in the PO, find out UPFRONT and follow-up in writing. Some customers may also consider issuing an Amendment to the PO extending the due date, if requested for valid reasons.

### **No 10: STORED MATERIALS**

Question: If you are a construction contractor, furnishing and installing materials, can you invoice separately for the materials once they are delivered to the jobsite, and PRIOR TO installation?

#### **WHY IMPORTANT?**

Construction materials delivered to the jobsite and invoiced separately PRIOR TO installation, are fairly easy to finance. Typically referred to as STORED MATERIALS. In addition, having the "ability to buy" may enable you to negotiate volume pricing and discounts, in addition to taking advantage of your suppliers' Prompt Pay Discounts. The savings alone can also help offset your financing costs.