



# NAHB Building Business Briefs

A Service of the Business Management & Information Technology Committee

## **A Fine Mesh: Linking Schedules to Purchase and Work Orders**

**By Maggie Geoffroy**

Purchase order and work order systems are great for controlling materials costs and setting agreements with trade contractors. However, you must coordinate the field with the back office to truly keep budgets in check. Costs can take a huge hit if materials arrive late or if trades receive payment for work they haven't completed. Prevent that from happening by linking purchase orders and work orders (PO/WOs) to your schedule.

Organization is key to the success of that procedure. Follow the steps below to achieve maximum control with minimum effort. You can complete them manually with good communication and a systematic PO/WO processing method, or you can purchase integrated accounting and scheduling software that automates and guides the process.

- Create PO/WOs. First, decide whether or not to include multiple activities or tasks on an individual PO/WO. For example, your electrician's WO may include work that spans several phases of a project. Unless you use software that issues and tracks partial payment on WOs, it's most effective to issue PO/WOs by individual task. Therefore, you may issue two or three WOs to your electrician.
- Create a schedule with tasks for each document. Each PO/WO you issue has an associated activity and supplier or trade. Each activity has a duration, predecessor, and successor. Your schedule will fall into place once you determine how long each activity takes and which ones must occur before and afterwards.
- Approve the PO/WO for payment. During job inspections, indicate what percentage of each task on your schedule is complete. Was the framing package delivered? If so, that activity is 100 percent complete. Is the electrician finished with the rough-in? Not quite; that task is 75 percent complete. Since the framing package was delivered and that activity is complete, you can approve the framing package PO for payment. Your activities directly correlate with a PO/WO, leaving no room for error.

Set up a PO/WO payment policy and put it in your trade contractor and supplier agreements. Make sure trades and suppliers understand upfront whether you pay portions of partially complete PO/WOs, or whether you pay only when their associated tasks are 100 percent complete.

If you elect to pay your electrician for the rough-in work that's 75 percent done, you partially pay your WO. If you're using a software program to control your PO/WOs, you should be able to

issue and track a partial payment. If your policy withholds payment until work is complete, do not approve the PO for payment.

If you process PO/WOs manually, a well-designed system will prompt you to reconcile the documents' payment status when all tasks are complete. If you do it electronically, a direct interface between your scheduling and accounting software should automatically update your PO/WO payment status. This alleviates the hassle of sifting through stacks of vendor invoices to approve for payment.

Once you find a PO/WO processing system or software that works for your company, stick with it. Everyone runs into financial emergencies from time to time, but if your agreements stipulate that you only pay PO/WOs when their tasks are 100 percent complete, don't regularly give in to trades or suppliers who beg for full payment for a partially complete job or delivery. Don't let their cash flow problems sandbag your system. Working with financially solvent trade contractors and suppliers goes a long way toward maintaining your schedule and controlling costs.

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