

Benchmarking in Procurement: Comparing Prices, Processes and Performance Objectively

Benchmarking in procurement is the systematic comparison of prices, terms, processes and supplier performance against internal references, competitors or market standards. The aim is to uncover savings potential, assess one's own market position realistically and underpin procurement decisions with reliable data. In practice, the spectrum ranges from simple price comparisons to holistic analyses of cost structures, supply chains and process efficiency.

Key facts

- Benchmarking in procurement compares prices, terms and performance against internal references, market data or competitors.
- Typical types are internal, external, functional and process-oriented benchmarking.
- Key KPIs are savings, price variance, on-time delivery and the vertical integration of suppliers.
- Reliable benchmarks require harmonised master data, clean spend analytics and defined comparison logic.
- Risks arise from inconsistent comparison conditions, incomplete total-cost-of-ownership analysis and poor data maintenance.
- Regular benchmarks are ideally fed by annual supplier reviews, obtaining market quotations and structured lessons learned.

Definition: benchmarking in procurement

Benchmarking in procurement refers to the systematic, repeatable comparison of one's own procurement metrics, prices and processes against reference values. The reference can be internal (other plants, sites or periods), external (market prices, industry values) or competitor-related. The term covers both the analysis itself and the measures derived from it to improve the procurement position.

Distinction from price comparison and spend analytics

A simple price comparison is point-in-time and usually relates to one product or supplier. Benchmarking, by contrast, is systematic, measurable and linked to objectives. Spend analytics provides the data foundation – such as classified expenditure, supplier consolidation and price histories – from which benchmarking then derives patterns and deviations. In practice, the two interlock but do not replace each other.

Benchmarks as a steering instrument

Benchmarking results feed into procurement strategy: they underpin negotiation targets, make-or-buy decisions on vertical integration and the selection of suppliers. Benchmarks also provide objectivity towards management when savings targets or procurement organisations are realigned.

Methods and approach for benchmarking in procurement

Practical benchmarking follows a clear process: define the objective, delimit the comparison object, collect data, normalise, compare and derive measures. Without defined comparison logic – the same quantities, qualities and delivery terms such as EXW versus DDP, payment terms – results are not meaningful.

Internal benchmarking

The simplest starting point: plants, sites or teams within the same group buy identical or similar parts at different prices. Causes are frequently historically grown supplier relationships, differing drawing statuses or local framework conditions. Internal comparisons quickly deliver realisable savings and create uniform data foundations.

External and functional benchmarking

External benchmarking compares one's own prices and terms with the market – for example via tenders, electronic tendering or reference quotations. Functional benchmarking also compares processes: order lead times, share of urgent orders, framework contract coverage rates. Industry values serve as benchmarks; individual figures from other companies are rarely publicly available.

Cost structure and open-book analysis

For complex parts it is worth looking beneath the surface: should-cost analysis, material cost breakdown and open-book costing show how the quoted price is composed. This makes it clear whether deviations from the benchmark are due to market shifts, supplier efficiency differences or one's own specification errors.

Key KPIs and data basis for benchmarking

Benchmarking stands or falls with reliable metrics. Core elements are savings versus baseline, price deviations, process costs and supplier performance. The data should come from systematically maintained sources – such as harmonised supplier master data and material classifications.

Price and cost KPIs

Typical metrics are price variance (price deviation versus the previous year or budget), savings as a percentage of the baseline, price levels per material group and the share of negotiated purchases compared with list-price-based purchases. For energy-intensive items it is worth separating the base price and the energy price surcharge, otherwise benchmarks are distorted by price dynamics.

Process and supplier KPIs

Process metrics include order lead time, the share of spontaneous urgent orders, coverage through framework contracts and invoice processing including commercial invoice verification. On the supplier side, on-time delivery, quality metrics and response times count. These figures are well suited to comparison between sites and for the annual supplier review.

Data quality and master data

Without uniform material classification, clean supplier master data and consistent units of measure, every benchmark fails. In practice, a data cleansing project is often needed first before meaningful comparisons are possible. Regular maintenance and clear responsibilities are prerequisites for durably

reliable findings.

Benchmarking in negotiation, supplier management and strategy

The real benefit only arises when benchmark results are translated into negotiations, supplier relationships and strategic decisions. Benchmarks provide arguments, target corridors and early warning signals.

Negotiation strategy with benchmarks

Market benchmarks give negotiation targets an objective basis: the buyer argues not on gut feeling but with referenceable market prices. Contracts can be designed more dynamically, for example via escalation clause arrangements that tie price changes to indexable reference values. This makes recurring business comparable and reduces potential for disputes.

Supplier development and joint business plan

In the annual supplier review, benchmark results serve as the basis for a joint business plan (JBP): joint targets for cost, quality, innovation and capacity are agreed in measurable form. Deviations from the benchmark indicate development needs – for example in process efficiency or in the maturity of lean procurement approaches on the supplier side.

Strategic impulses: sourcing and vertical integration

Benchmark results feed the procurement strategy: they may prompt a review of vertical integration, regional diversification of suppliers or an agreement on a consignment warehouse to reduce inventory costs. A binding procurement policy for MRO vs. capex also benefits from benchmark values, because they objectify approval thresholds and procurement routes.

Risks and controls in procurement benchmarking

Benchmarks can mislead if comparison conditions do not match or data is incomplete. Controls, documentation and an honest interpretation of results are therefore indispensable.

Skewed comparisons and phantom savings

Common errors: prices are compared under different delivery terms (EXW versus from factory including freight), volume tiers or quality scopes. Savings are measured against an artificially inflated baseline. Defined comparison logic, total-cost-of-ownership analysis including warehousing, logistics and quality, and critical review by third parties provide the remedy.

Legal and data protection limits

Price fixing or the exchange of terms data with competitors is prohibited under competition law; any such statements in detail must be reviewed legally in advance. The handling of supplier data in KPI systems also requires clear rules. In individual cases – such as assurances given to management or owners – expert review is advisable.

Controls and lessons learned

Effective controls are: periodic repetition of the benchmark, documented assumptions, reconciliation with risk assessments in a risk heatmap and defined escalation routes – an escalation process takes effect when benchmarks are persistently undermined. Lessons learned from completed projects ensure

that comparison logic and insights are not lost.

Current developments: digitalisation and automated benchmarks

Digitalisation is making benchmarking faster, more data-driven and more continuous. Instead of one-off projects, a continuous reconciliation between one's own procurement data and market signals emerges.

Automated spend analytics and price indices

Modern spend analytics tools classify expenditure automatically and detect price deviations in real time. Indexed price adjustment clauses and market data feeds allow continuous comparisons without manual effort. The focus thus shifts from one-off evaluation to continuous monitoring.

Benchmarking as an integral part of the procurement organisation

Successful procurement organisations embed benchmarks in routine operations: defined review cycles, clear roles for data maintenance and evaluation, and integration with supplier portfolio management. This turns benchmarks from a project instrument into a more permanent steering mechanism – with a direct impact on savings quality and negotiating strength.

Typical metrics

Savings vs. baseline: 3–8 % p. a.

Typical guideline figure for realistic, sustainable savings in structured projects.

Price variance: ± 3 % versus baseline price

Smaller deviations are common due to market conditions; larger ones require explanation.

On-time delivery (OTIF): > 95 %

Industry-standard target value for reliable suppliers in industrial settings.

Share of urgent orders: < 5 %

A high share indicates planning or process weaknesses in procurement.

Framework contract coverage: > 70 %

Indicates what share of volume is secured by contract rather than bought on the spot market.

Practical example

A mid-sized mechanical engineering company with three plants found that identical turned parts showed price differences of up to 20 per cent between sites. A benchmarking project first harmonised material master data and delivery terms, then compared prices per plant and analysed cost structures at the three main suppliers.

- Harmonisation of material master data, classification of spend analytics and definition of uniform comparison logic (quantity, quality, delivery terms EXW/from factory).
- Interest-driven dual sourcing resolved: two part groups were tendered electronically (electronic tendering), and the price level fell by single-digit percentage figures on average.
- Should-cost analysis and open-book costing at the most expensive supplier revealed inefficiencies in machining – the basis for a joint business plan (JBP) with measurable targets.
- Establishment of a half-yearly review cycle with defined KPIs, linked to the annual supplier review and documented lessons learned.

Conclusion

Benchmarking in procurement transforms experiential knowledge into reliable, comparable facts and thereby creates the foundation for objective negotiations and strategic decisions. Success depends less on methodology than on data quality, consistent comparison logic and regular repetition. Those who integrate benchmarks into annual supplier reviews, procurement strategy and control processes achieve lasting effects rather than one-off savings. Honest classification remains important: benchmarks are indicative values, not proof. Those who document assumptions and critically review results gain a durably effective steering instrument.

Frequently asked questions

What is meant by benchmarking in procurement?

Benchmarking in procurement is the systematic comparison of purchase prices, terms, processes and supplier performance against reference values from within one's own organisation or from the market. The aim is to identify deviations, quantify savings potential and conduct negotiations objectively. It is therefore a central instrument of procurement strategy.

How is procurement benchmarking carried out in practice?

First define the objective and the comparison object, then build the data basis: harmonised material master data, classified expenditure and consistent delivery terms. Prices, KPIs and cost structures are then compared, deviations explained and measures derived. Documented assumptions and regular repetition are important, as markets change.

Which KPIs are suitable for benchmarking in procurement?

Typical examples are savings versus baseline, price variance, price level per material group, order lead time, share of urgent orders, on-time delivery and supplier quality. In addition, process metrics such as framework contract coverage or the share of negotiated prices provide insights. Crucially, KPIs must be collected consistently and be comparable across periods.

What types of benchmarking are there in procurement?

Common types are internal benchmarking (comparison between plants and sites), external benchmarking (comparison with market prices and industry values), functional benchmarking (comparison of processes independent of industry) and cost structure benchmarking via should-cost analysis or open-book costing. In practice, several forms are combined depending on the question at hand.

How often should you benchmark in procurement?

An annual cycle often proves worthwhile as a basis for budget planning and annual supplier reviews, supplemented by quarterly reviews for critical material groups. With volatile prices – such as raw materials, energy or components with an energy price surcharge – shorter intervals make sense. Consistency is decisive: the same logic, the same data basis, measurable results.

How can errors in procurement benchmarking be avoided?

The most important measure is comparability: the same quantities, qualities, payment terms and delivery terms such as ex works or from the factory. Always measure savings against a realistic, documented baseline and include total cost of ownership. In addition, third-party checks, a defined escalation process for persistent deviations and legal review of external data sources are helpful.