

Savings Realized: Making realised savings in procurement verifiable

Savings Realized refers to the share of procurement savings that has actually arrived in the profit and loss account. The term is distinguished from identified or negotiated savings, which initially exist only on paper. For buyers, the metric is central because it demonstrates procurement's effective performance to management and finance. Anyone who defines and measures Savings Realized cleanly creates reliability in budgeting, reporting and target agreements.

Key facts

- Savings Realized include only savings that have taken effect in actual purchasing volume and become budget-effective.
- The metric differs from Savings Identified and Savings Negotiated, which represent early stages of the savings process.
- A clean baseline calculation and a defined measurement period are prerequisites for reliable figures.
- Hard savings have a direct impact on the cost structure, soft savings rather on cash flow, process costs or risk position.
- In practice, typically 80 to 100 per cent of negotiated savings are realised in the first year; the range depends heavily on implementation and data quality.
- Without alignment with finance, there is a risk of duplicates, disputed figures and loss of credibility in reporting.

Definition: Savings Realized

Savings Realized describe savings that have actually arrived in the company after negotiation, implementation and posting. The decisive factor is the proof via actual volume: only when purchasing prices, volumes or terms are permanently recorded as changed does a saving count as realised. The metric therefore belongs to the family of savings metrics and represents their endpoint.

Distinction from Savings Identified and Negotiated

Savings Identified arise in the analysis phase, for example through benchmark comparisons, tendering processes or demand aggregation across sites. Savings Negotiated document the negotiation result, such as a new price or discount in the contract. Savings Realized only begin with effective ordering and posting practice. The gap between negotiated and realised savings frequently arises from lower volumes, delayed switchover, special arrangements or data errors. Procurement leaders should actively manage this gap rather than only discovering it at the year-end close.

- Identified: potential from analysis and benchmarking
- Negotiated: negotiated, contracted result
- Realized: posted, budget-effective saving

Hard savings and soft savings

Hard savings have an immediate impact on the cost base: lower unit prices, better payment terms with a measurable interest effect or reduced air freight cost components through a changed mode of transport. Soft savings comprise cost avoidance, quality improvements, supplier consolidation or process simplification. In practice, finance primarily accepts hard savings as proven savings; soft savings should therefore be clearly defined, plausibly quantified and reported separately. A mixed presentation weakens the credibility of the entire procurement report.

- Hard savings: budget-effective and verifiable
- Soft savings: separate reporting line with a defined methodology
- Never report cost avoidance as realised savings

Methods and approach for determining savings

Reliable Savings Realized are not created at year-end but through a structured approach from baseline calculation to reconciliation with accounting. The process needs clear rules so that each saving is counted only once.

Establishing the baseline calculation and measurement period

Every saving needs a traceable baseline: usually the actual prior-year price, a budget price or a binding reference price from the tendering process. The baseline value is documented with volume, price and, where applicable, index adjustments. The measurement period should follow the budget year so that Savings Realized align directly with budgeting and finance's plan variances. Index-linked materials such as metals or plastics require a clear rule on whether index effects are stripped out – otherwise market developments merge with procurement performance.

Recording process and data sources

In practice, every savings initiative is created with volume, baseline price, responsible person and expected implementation date. Once effective, procurement reviews the actual data from the ordering and invoicing systems and marks the initiative as realised. The link to order processing is important: only the invoiced volume makes the saving measurable. For volume or specification changes, the variance workflow recalibrates the baseline. This keeps the figure reliable even with changing purchase volumes and framework call-offs.

Reconciliation with finance and accounting

Savings Realized are only valuable if finance recognises them. A joint methodology agreement is recommended: definition of hard and soft savings, treatment of volume, mix and index effects, and the reporting date. Regular reconciliation – often quarterly – prevents duplication with accounting metrics or cost allocations from logistics processes. Anyone who documents the methodology in a binding manner builds trust and accelerates later audits by external auditors or internal audit.

Key KPIs around Savings Realized

Savings Realized sit alongside other metrics that reflect implementation fidelity and price discipline in procurement. Individual figures must always be assessed in context.

Realisation rate and Time-to-Benefit

The realisation rate sets Savings Realized in relation to Savings Negotiated and shows how much of the negotiation result actually arrives. In practice, values often lie between 80 and 100 per cent; below that, it is worth analysing the causes. In addition, Time-to-Benefit measures how quickly negotiated terms take effect. Long implementation times cause genuine financial damage, even if the contract is correct. Both metrics belong in management's regular procurement reporting.

Price compliance and payment term adherence

Price compliance checks whether orders are actually placed and invoiced at the negotiated prices – a frequent reason for lost savings, for example with free-text orders outside framework agreements.

Payment term adherence measures whether agreed payment terms are observed; over long terms, this produces a measurable cost-of-capital effect that can form part of hard savings. Both metrics link Savings Realized to operational discipline in the ordering process and show where retraining or system adjustments are needed.

Budget effectiveness and forecast quality

Budget effectiveness describes whether the saving was anchored in the year's plan or undermines the plan only afterwards. Savings that were never in the budget distort plan quality and should be reported separately. The forecast quality of procurement initiatives – i.e. how precisely expected and realised figures match – is a good indicator of the maturity of the procurement process. Mature organisations achieve variances of only a few percentage points here.

Risks and controls in savings assessment

The greatest danger lies not in missing savings but in wrongly attributed ones. Without clear controls, the metric loses significance and trust.

Typical sources of error

Common errors are duplication across several reporting years, counting volume effects as price savings, outdated or embellished baseline calculations, and savings from supplier changes that in reality merely shift costs. Quality problems can also make savings illusory: a lower price with poorer Cpk/process capability in the supply process generates rework and logistics costs that eat up the saving. Every substitution should therefore undergo a review by quality management in procurement before it counts as a saving.

- Avoid duplication across years and projects
- Strip out volume, mix and currency effects
- Include quality and freight impacts in the assessment

Supplier risks and sustainability effects

Savings from supplier changes can create new risks, for example an increased supplier location risk through single sourcing in a critical region, or longer transport routes with higher air freight cost components in the event of disruption. Price savings must therefore be weighed against security of supply, compliance and sustainability requirements. Suppliers without sufficient financial strength can become expensive despite price advantages; protective instruments such as a parent company guarantee belong in the risk assessment. Savings Realized bought with unacceptable risks should be qualified accordingly in reporting.

Control instruments in the process

Effective controls include the Approved Vendor List (AVL) as a gate against unauthorised sources of supply, price adjustment clauses with clear triggers and audit rights in the contract, and a documented approval process for every savings report. Sample audits by accounting and an annual methodology review ensure consistency. For disputed figures, a neutral body such as finance or internal audit helps as an arbiter. This keeps the metric defensible in discussions with management and auditors.

Current developments and outlook

The handling of Savings Realized is changing: a better data situation, closer integration with finance and a broader understanding of value shape practice in DACH industry.

Automation and data quality

Digital procurement platforms and integrated ERP systems significantly improve the data basis: price and volume deviations become automatically visible, price compliance checks run system-supported, and savings initiatives are linked directly to order data. This reduces manual effort and borderline cases of subjective assessment. The prerequisite remains a clean category and supplier structure; without classified spend data, automation does not produce reliable measurement. Organisations that treat data quality as a task in its own right with clear responsibilities achieve the greatest leverage.

A broader understanding of value beyond price

Increasingly, companies assess procurement performance beyond price: delivery reliability, incentive models for innovation and co-development with strategic suppliers, CO2 reduction in the supply chain and shortened time-to-market through closer supplier involvement. Such values cannot simply be converted into Savings Realized, but should stand as a separate reporting dimension alongside the cost metric. Agile sourcing approaches in early project phases also require an adapted measurement logic, as flexibility is deliberately prioritised over absolute unit prices here.

Typical metrics

Realisation rate (realised vs. negotiated): typically 80–100%

Values below this indicate implementation or data problems

Price Compliance: > 98%

Share of orders placed at negotiated terms

Payment Term Adherence: > 95%

Basis for measurable cost-of-capital savings

Time-to-Benefit: typically 1–6 months

Time between contract signing and effective posting

Practical example

A mid-sized mechanical engineering company with an annual purchasing volume of around €60 million introduced a structured savings measurement process. Previously, procurement had reported negotiated price advantages directly as savings; finance increasingly doubted the figures because material costs hardly fell in the result. After introducing a joint methodology, it became apparent: around a quarter of the negotiated savings were eaten up by volume deviations, framework prices not honoured

and delayed contract implementation. With targeted measures, the realisation rate rose significantly within a year, and procurement management was able to report budget-effective Savings Realized confirmed by finance for the first time.

- Methodology agreement with finance: baseline prices, measurement period, hard/soft separation
- Price compliance check linked to framework and contract data, free-text ordering reduced
- Quarterly reconciliation of actual data against savings initiatives including variance analysis
- Quality and risk review of every supplier change before recognition as a saving

Conclusion

Savings Realized is the only savings metric that directly shows how much procurement performance actually arrives in the company. The value is not created in the negotiation but in consistent implementation, posting and reconciliation with finance. Companies that establish binding rules for baseline calculation, recording processes and controls gain a reliable picture of their procurement performance and avoid friction losses in reporting. At the same time, the metric should never be viewed in isolation, but alongside quality, delivery reliability and risk. Those who manage Savings Realized cleanly strengthen procurement's position as an independent value driver in the company.

Frequently asked questions

What does Savings Realized mean in procurement?

Savings Realized refers to savings that have actually taken effect in the company's actual costs after negotiation and implementation. The prerequisite is a documented baseline calculation and the posting at the new terms. They are thus distinguished from Savings Identified and Savings Negotiated, which represent earlier stages of the savings process.

What is the difference between hard savings and soft savings?

Hard savings have a direct and measurable impact on the cost structure, such as lower unit prices or improved payment terms. Soft savings comprise cost avoidance, process improvements or quality and risk benefits that cannot be clearly attributed to cost accounting. In practice, both should be reported separately, as finance typically only recognises hard savings as proven savings.

How are Savings Realized calculated?

The usual formula is: (baseline price minus actual price) multiplied by the actual purchase volume in the measurement period. The baseline is typically the prior-year price, a budget price or a reference value from the tendering process. It is important to strip out volume, mix, currency and index effects and to count each saving only once.

When is a saving considered realised?

A saving is considered realised when the new terms have been bindingly implemented and the company has actually ordered and been invoiced at the new prices. The measurement period should coincide with the budget year so that the figures are plan-relevant. A reconciliation with finance documents the recognition of the saving.

Why do negotiated savings disappear in practice?

Common causes are lower actual purchase volumes than planned, price deviations through free-text orders outside framework agreements, delayed contract implementation, index adjustments and quality

consequences such as rework. Duplicates in recording also distort the picture. A systematic price compliance check and reconciliation with actual data uncover these gaps.

What role does finance play in Savings Realized?

Finance and procurement jointly define the methodology: permitted baseline prices, the treatment of volume and index effects, and the distinction between hard and soft savings. Without this alignment, procurement figures are regularly challenged in reporting. Quarterly reconciliation and an annual methodology review have proven effective in practice.