

How Can You Ensure Negotiated Savings Is Captured?

In the last edition of PurchTips, we explored two reasons why “Realized Savings” is less than “Negotiated Savings” as defined in our Procurement Funnel model (<http://tinyurl.com/gqpwpq7>). Those reasons were: “Prices varied from assumptions” and “End user compliance was less than 100%.” Today, we’ll cover one more reason.

Reason #3: Quantities purchased were less than forecasted. In calculating cost savings, typically you take the savings per unit and multiply by the quantity purchased. So, the more you buy, the more you “save.” If the organization buys a lower quantity than forecasted, Realized Savings will be less than Negotiated Savings. If the quantities used in calculating Negotiated Savings were not forecasted by the procurement department, then the procurement department shouldn’t be blamed for not hitting “Realized Savings.”

Actually, no one should be looking to place blame when quantities purchased were less than forecasted. The goal for many organizations, as we teach in “Finance For Strategic Procurement, Part I,” is to achieve expense reduction as recorded on the profit and loss statement. Whether an expense reduction is achieved due to a procurement department-negotiated discount or the decision not to buy something, it is still a “win” for the organization. To challenge procurement performance when the organization is “winning” is counterproductive.

Now, here are three things you can do to help “Realized Savings” match “Negotiated Savings”:

- Acknowledge the potential of supplier billed prices exceeding contract prices, make sure you know your organization’s requirements and the market inside and out, and manage the supplier and the contract
- Involve end users in the sourcing process so that they buy in to the supplier selection, adequately communicate that there’s a new supplier on-board, monitor usage, and squash rogue buying as soon as it surfaces
- Help end users forecast accurately – after all, you work with many people involved in forecasting, they don’t

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