Savings Types: Classifying and Measuring Procurement Savings Correctly

Savings types refer to the different categories of cost savings in procurement, such as Hard Savings, Soft Savings, Cost Avoidance and cash flow effects. Clean classification is crucial because, as a rule, only Hard Savings are recognised as a plannable contribution to results. Anyone who does not systematically distinguish between savings risks attribution conflicts with controlling and loses the credibility of their procurement reports. This article explains the main types, how they are measured and typical practical pitfalls.

As of October 2026 · amplifa-marketplace.ai/en/glossary/savings-arten

Key facts at a glance

01 Hard Savings have a direct and verifiable impact on the P&L, for example through lower purchase prices or material costs.

02 Soft Savings improve efficiency or quality but do not immediately result in budget relief.

03 Cost Avoidance prevents future cost increases and is often only recognised internally.

04 Savings are typically calculated as the difference between the baseline and the actual value over a defined volume.

05 A clean baseline and a clearly defined cut-off date are prerequisites for reliable savings reports.

06 In practice, 2–5% Hard Savings relative to procurement volume per year are considered an ambitious but achievable benchmark.

Definition: Savings Types

Savings types are categories for the systematic classification of cost savings in procurement. They differ according to their impact on the profit and loss statement, the timing of realisation and their verifiability. The classification serves as a common language between procurement, controlling and management.

Distinguishing Savings, Cost Reduction and Cost Avoidance

Savings in the strict sense mean a sustained reduction in costs below the original level with the same scope of performance. Cost Reduction is often used synonymously with Hard Savings. Cost Avoidance, by contrast, merely prevents an expected cost increase, such as an announced price rise that is negotiated down. Controllers often do not recognise cost avoidance as a contribution to results, which is why it should be reported separately.

Why classification matters

Without uniform definitions, double counting looms when several parties book the same effect, for example procurement and production in the case of a material substitution. Moreover, classified savings determine whether they flow into budgets and target agreements. A clear taxonomy creates comparability across sites and reporting periods and facilitates prioritising projects by impact on results.

The most important savings types at a glance

In practice, five to six core types have established themselves, differing in terms of impact on results and verifiability. The allocation should be documented as binding within the company, for example in a procurement controlling manual.

Hard Savings (Budget Savings)

Hard Savings are cost reductions that are measurable directly against the budget and have an immediate impact on the P&L. Typical examples are price negotiations with existing suppliers, switching to a cheaper qualified supplier or reduced freight costs through optimised delivery concepts. The prerequisite is that volumes and specifications remain unchanged and the baseline is documented. Hard Savings are considered the most robust category and typically feed into target agreements and budget planning.

Soft Savings (Efficiency and Process Savings)

Soft Savings improve efficiency without immediately becoming budget-effective. Examples include shorter processing times through catalogue purchasing in indirect procurement, fewer urgent orders through better planning, or reduced inspection effort through stable incoming quality. Quantification is carried out using internalised hourly rates or process costs. Soft Savings are valuable but should be reported separately from Hard Savings to avoid losses of credibility.

Cost Avoidance

Cost Avoidance documents averted cost increases, for example when a temporary surcharge tier is dropped after negotiation or index clauses are formulated more favourably. The measurement is based on a forecast of costs without the procurement measure and is therefore more subjective. In practice, a separate reporting line with a clear methodology is recommended, as this category is typically not recognised in external financial accounting.

Working Capital and Cash Flow Effects

Longer payment terms, use of early payment discounts or consignment stock improve cash flow without directly reducing P&L costs. Reducing average inventory through better call-off order management also affects working capital. These effects are reported separately as financing effects. They are often more valuable to liquidity than their nominal impact on results and should not be mixed with classic savings.

Secondary and Quality Savings

Lower scrap rates, fewer complaints and more stable processes reduce total costs but are often booked in production or quality. Savings from collaboration in a procurement cooperation or from bundled volumes also fall into this category. A binding attribution rule is essential: who is allowed to report which effect? Without such a rule, competing savings claims and double entries arise.

Methods and approach for determining savings

Reliable savings are not created by retrospective number juggling, but through methodically sound projects with a defined baseline, measurement metric and realisation period. The process should be defined before the project starts.

Define the baseline

The baseline is the reference value against which the saving is measured. Commonly used are the most recently paid prices, the last budget or a should-cost calculation. The baseline must reflect volumes, specifications and framework conditions; normalisation is required in the event of volume or specification changes. Every baseline change after project start must be documented and approved, otherwise savings lose their validity.

Identify and quantify savings

Levers are identified through spend analyses, bid comparisons from the bid opening, market price indices or should-cost models. Scenarios such as consolidating supplier master records through clean supplier master data management also reveal duplicates and volume discount potential. Each identified lever is assigned a savings type and given a realisation rate, schedule and responsible person.

Document and sign off realisation

After implementation, controlling confirms the savings actually achieved, ideally on the basis of invoice data rather than quoted prices. The cut-off point should be uniform, for example contract signature or the first effective incoming invoice. A four-eyes principle between procurement and controlling significantly increases the acceptance of the figures and prevents later disputes in management reporting.

Key KPIs for managing savings

Savings are managed via KPIs that link volume, price and process effects. In addition to the savings figures themselves, procurement KPIs help monitor the drivers of the saving.

Savings ratio and realisation rate

The savings ratio sets realised Hard Savings against total procurement volume; benchmarks for dynamic companies typically lie at 2–5% per year. The realisation rate compares planned with actually confirmed savings and flags project cancellations or delays early on. Both KPIs should be broken down by savings type and commodity group.

Supporting procurement KPIs

Inventory turns and average inventory show whether inventory and capital tie-up effects actually materialise. The material cost ratio per product captures the impact on production costs. Metrics on incoming quality and delivery reliability prevent price savings from being bought at the price of subsequent costs. All KPIs should be based on consistent master data and functioning automatic account assignment in accounts payable, so that effects can be traced accurately at invoice level.

Risks and controls in savings reporting

The biggest risk is not savings that fail to materialise, but savings that are misattributed or reported twice. Such misstatements permanently damage trust in procurement management.

Typical sources of error

Common mistakes include declaring volume shifts as savings, booking effects multiple times across several projects, baselines based on outdated prices and mixing currency or commodity index effects with performance savings. Urgent orders with premium freight that replace cheaper sources of supply at short notice can also generate pseudo-savings if the downstream costs of special transport are not attributed.

Controls and governance

Helpful measures include a binding category catalogue, an approval process involving controlling, annual baseline reviews and proper filing of supporting evidence. When changing suppliers, supplier default risk and the creditworthiness of the new supplier should be checked before savings are reported as realised. Contract adjustments such as index clauses or force majeure provisions must be documented promptly, as they change the savings basis.

Current developments: savings beyond the unit price

The concept of savings is increasingly expanding beyond the purchase price. Total Cost of Ownership, resilience and sustainability are shaping modern reporting.

Total Cost of Ownership instead of list price

More and more companies evaluate savings across the entire life cycle: freight, customs, tooling costs, engineering effort via Engineering Change Notice (ECN) processes, inventory carrying costs and default risks. A lower unit price can be net more expensive if capacity planning is poorer or logistics costs are higher. TCO-based savings are more complex to measure but closer to reality and withstand discussions with business departments.

Valuing risk and sustainability effects

Diversified sources of supply reduce country risk in procurement and create options that cannot be directly quantified in euros. Approaches to valuation include risk cost models or qualitative scorecards. The same applies to CO2 reductions and compliance: these effects are often tracked as non-financial savings in their own reports. A clear separation between monetary and non-monetary categories is recommended.

Typical metrics

Metric	Typical value
Savings ratio (Hard Savings / procurement volume)	2–5% p. a. *Common benchmark for ambitious procurement organisations; varies depending on maturity level and market cycle.*
Realisation rate of planned savings	> 90% *Ratio of confirmed to planned savings; lower values indicate project delays.*
Inventory Turns	8–12 per year (benchmark) *Indicator of whether inventory reductions actually materialise as working capital effects; industry-dependent.*
Cost avoidance share of the savings report	report separately *Should not be mixed with Hard Savings, as it is often not recognised by controlling.*

Practical example

A medium-sized mechanical engineering company with €40 million in annual direct material volume introduced a uniform savings taxonomy. Previously, procurement, production and engineering reported overlapping savings; management reporting showed €4.2 million in procurement savings, but controlling confirmed only €1.6 million.

- Introduction of a binding catalogue of four savings types with an approval process run by controlling
- Baseline reviews per commodity group before project start, plus normalisation in the event of volume and specification changes

- Consolidation of 300 duplicate supplier master records, which unlocked new negotiation potential through bundled volumes
- Separate reporting line for cost avoidance and working capital effects to avoid diluting Hard Savings

Conclusion

Savings types are the backbone of credible procurement controlling. Anyone who cleanly separates Hard Savings, Soft Savings, Cost Avoidance and financing effects produces figures that controlling and management accept. What matters are a documented baseline, uniform attribution rules and sign-off by an independent party. Supporting KPIs such as inventory turns or the material cost ratio prevent price advantages from being eaten up by subsequent costs. Those who also factor in TCO and risk perspectives make the value of procurement visible beyond the unit price.

Frequently asked questions

? What are Hard Savings and Soft Savings in procurement?

Hard Savings are budget-affecting cost reductions that flow directly into the profit and loss statement, such as lower purchase prices for the same scope of performance. Soft Savings improve process efficiency or quality but do not immediately affect budgets, such as shorter processing times or fewer urgent orders. In financial controlling, only Hard Savings are typically recognised as a contribution to results.

? Is Cost Avoidance counted as a genuine saving?

Cost Avoidance prevents future cost increases, for example a price rise that was successfully negotiated away, and is not an improvement on today's level of results. It is therefore generally not recognised in external financial accounting. In practice, many companies report it in a separate report so as not to jeopardise the credibility of Hard Savings.

? How do you calculate procurement savings correctly?

Savings are calculated as the difference between a defined baseline and the actual value, multiplied by the relevant volume. Key factors are normalisation in the event of volume or specification changes, a clearly defined realisation date and verification against invoice data. Controlling should sign off the figures so that they hold up in management reporting.

? What types of savings are there?

Common categories are Hard Savings, Soft Savings, Cost Avoidance, working capital and cash flow effects, as well as secondary savings such as quality or logistics savings. Modern approaches add non-monetary categories such as risk reduction or CO2 avoidance. What matters is that each type is clearly defined and that attribution rules are established within the company.

? Which KPIs govern savings in procurement?

The core KPIs are the savings ratio relative to procurement volume and the realisation rate of planned projects. In addition, inventory turns, average inventory levels, the material cost ratio and metrics on incoming quality indicate whether savings are sustainable. All KPIs should be based on consistent master data and invoice-based values.

? How do you prevent duplicate savings claims within a company?

With a binding taxonomy, clear attribution rules per department and a central project database in which every measure is recorded exactly once. An approval process involving controlling and annual baseline reviews also help. Without governance, competing claims between procurement, production and logistics loom.

Find the right suppliers on Amplifa

Verified industrial suppliers in Germany, Austria and Switzerland. Describe your requirement and receive comparable offers.

amplifa-marketplace.ai