Savings Forecast: Making Procurement Cost Savings Plannable

The savings forecast is the systematic prediction of expected savings in procurement over a defined planning horizon. It combines spend data, market trends and planned procurement initiatives into a robust projection on the basis of which budgets, targets and reports are built. For technical buyers and supply chain managers, it is the central steering instrument for credibly communicating cost targets and achieving them realistically.

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Key facts at a glance

01 The savings forecast projects expected procurement savings based on spend data, market indicators and planned initiatives.

02 It is typically based on a spend analysis structured by category with baseline prices.

03 A distinction is frequently made between soft savings (cost avoidance) and hard savings (verifiable budget reduction).

04 Forecast quality depends heavily on data quality, price index assumptions and execution discipline on initiatives.

05 In practice, the forecast is updated on a rolling quarterly basis and reconciled against actual savings in savings tracking.

06 Typical target metrics are annualised estimated savings, implementation rate and forecast accuracy.

Definition: savings forecast

The savings forecast is a quantified projection of the cost savings that procurement is likely to realise in a given period – usually the current or next fiscal year. It translates planned procurement activities such as tenders, negotiations or supplier consolidation into expected euro amounts.

Distinction from savings tracking

The forecast looks forward and estimates future savings, whereas savings tracking retrospectively compares planned with actually realised savings. Both instruments draw on the same data basis and the same measure definition. Only if baseline, calculation logic and attribution are consistent can the accuracy of the projection be measured and improved over time.

Hard savings versus soft savings

Hard savings are verifiable reductions in actual spend or budget lines, for example through price concessions, rebate agreements or volume bundling. Soft savings, by contrast, describe cost avoidance, for instance when a price increase demand is deflected or budgeting is based on market price indices. In the forecast, both groups should be reported separately, as they differ in robustness and are often recognised differently in controlling.

Methods and approach for creating a savings forecast

A robust savings forecast is methodically built in several steps: define the baseline, rate initiatives pipeline-style, apply risk parameters and roll the result forward continuously. The approach should be documented so that finance and executive management can follow the figures.

Baseline and spend analysis

The starting point is a cleansed spend analysis, typically based on order data, invoice data and delivery schedule information. For each relevant category, a reference price or reference cost structure is defined against which future savings are measured. Category value driver analysis helps to understand which cost drivers – material, energy, labour, logistics – dominate the baseline price and where levers can be applied.

Initiative pipeline and probabilities

Planned initiatives – such as a tender, a supplier meeting, demand aggregation across sites or a pilot project with a supplier – are recorded as a pipeline with expected savings potential, implementation timing and probability of realisation. In practice, buyers often rate the probability in stages, for example 20 to 90 per cent, depending on the maturity of the initiative. The sum of the probability-weighted values yields the expected savings.

Market price and demand assumptions

As raw material, energy and logistics prices are volatile, index assumptions are incorporated into the forecast, for example for steel, plastics or energy surcharges such as the alloy surcharge. In addition, demand sensing methods provide short-term signals on demand development that refine volume assumptions. All assumptions should be documented separately so that sensitivities remain traceable and forecasts can be quickly adjusted when conditions change.

Key KPIs and metrics of the savings forecast

Metrics make the quality of the projection and the progress of the initiatives measurable. They also serve communication with executive management and controlling and create accountability for the procurement team.

Annualised estimated savings

Annualised estimated savings describe the savings of all initiatives extrapolated to a full year – regardless of when they take effect during the year. This figure is well suited to target agreements because it reflects the full potential of an initiative. A uniform annualised calculation logic is essential, otherwise figures are not comparable between teams and periods.

Implementation rate and realisation rate

The implementation rate sets completed against planned initiatives; the realisation rate compares realised with forecast savings. In practice, realisation rates are frequently between 60 and 90 per cent depending on organisational maturity. Systematic deviations point to optimistic pipeline ratings, missing implementation resources or incorrect market assumptions.

Forecast accuracy and pipeline capping

Forecast accuracy measures how close the projection came to the later actual result, typically measured as the percentage deviation per quarter. In addition, a pipeline haircut has proven its worth: in practice, aggregate forecasts are often only counted at 70 to 85 per cent of the pipeline value to cushion optimism bias. Both metrics belong in regular procurement reporting.

Risks, controls and interfaces

Savings forecasts are subject to systematic biases and data risks. Without clear control mechanisms, there is a threat of phantom savings, double-counted savings and loss of trust with controlling.

Avoiding typical distortions

Common sources of error are optimism in realisation probabilities, missing baseline updates after index changes and double counting when the same initiative appears in several categories. Exchange rate and volume effects are also often declared as savings even though they do not result from procurement performance. Clear measure definitions and a neutral review body – such as controlling – remedy this.

Interface with budget and liquidity

Robust savings affect budget targets, contribution margins and liquidity-relevant metrics. Through accounts payable term optimisation, additional working capital effects can be generated, which should be reported separately in the forecast – and not as price savings. Early alignment with finance prevents discussion at the annual financial statements.

Factoring in supplier-side risks

Savings depend on the delivery capability of contractual partners. Supplier location risk, delivery date commitments that are in fact not met, or quality problems that show up as red flags in the complaints process can erode realised savings. Robust forecasts therefore include fallback scenarios and also rate critical initiatives using the supplier rating.

Current developments and digital support

Savings forecasting is becoming increasingly data-driven: automated spend analyses, index feeds and AI-supported forecasting models are step by step replacing manual spreadsheets. At the same time, sustainability and resilience goals are extending the classic definition of cost.

Automation and forecasting models

Modern procurement systems link spend data, price indices and supplier information in near real time and deliver forecast updates without manual effort. Machine learning methods can estimate probabilities of initiative realisation from historical negotiation and market data. A clean data basis remains a prerequisite, in particular a unique supplier identifier such as the D-U-N-S Number (DUNS), which prevents duplicates and misattributions.

Sustainability as a new savings dimension

Increasingly, CO2 savings are also forecast, for example as part of supply chain decarbonisation. Starting points are the carbon price in the valuation, the Product Environmental Footprint (PEF) as a product metric and targeted supplier integration into improvement programmes. Many companies run parallel forecasts for costs and emissions, as both target metrics are reported to different stakeholders.

Resilience and capacity planning

Savings from supplier consolidation or aggressive price negotiations can reduce supply resilience. Capacity planning alignment with strategic suppliers and maintaining secondary sources therefore belong in forecast considerations when initiatives change the supplier landscape. A transparent trade-off between savings potential and supply security increases management acceptance of the projection.

Implementation in day-to-day business

The value of a savings forecast is decided in its operational anchoring: clear responsibilities, regular update cycles and meaningful reporting. Those who treat the forecast as a living steering instrument achieve significantly higher realisation rates.

Rolling forecast process

A rolling process has proven effective, with monthly pipeline maintenance by the category managers and a formal quarterly forecast revision. Each initiative is assigned an owner, a date in line with

schedule planning and a clear status. For strategic categories, a review of ongoing tenders and their specifications supplements whether the forecast potential remains negotiable.

Reporting and stakeholder communication

The reporting should show in just a few pages the forecast split by category, the top initiatives, deviations from the previous period and changes in assumptions. Graphical waterfall presentations from baseline to forecast spend improve traceability. It is important to disclose uncertainties openly rather than hiding buffers silently in the figures.

From forecast to implementation

A forecast is only as good as the implementation of the initiatives behind it. This includes timely tenders, structured supplier meetings and, where required, use of a marketplace for comparative quotations. After completion, savings tracking secures the actual impact in the order and invoice process and feeds the next forecast cycle.

Typical metrics

Metric	Typical value
Forecast accuracy	< 10 % deviation *quarterly deviation of forecast versus actual savings, typical benchmark for mature organisations*
Realisation rate	60–90 % *realised divided by forecast savings, depending on maturity level*
Pipeline haircut	70–85 % *customary deduction applied to pipeline values to compensate for optimism bias*
Annualised estimated savings	2–5 % of relevant spend *common annual target in procurement, depending on category and market situation*

Practical example

A mid-sized mechanical engineering company with direct spend of around €90 million creates a structured savings forecast for the following year for the first time. Based on a cleansed spend analysis, the team defines baseline prices for the top 20 categories and establishes a pipeline of 24 initiatives, including a steel tender, demand aggregation across two sites and rebate negotiations with three A-suppliers. Each initiative is assigned a probability of realisation; the forecast is reported to management with an 80 per cent pipeline haircut. After two quarters, the forecast deviation is below ten per cent, mainly because steel index assumptions are updated monthly.

- Baseline per category with documented calculation logic and controlling sign-off
- Monthly pipeline maintenance, quarterly forecast revision with assumptions log
- Separation of hard savings, soft savings and working capital effects
- Reconciliation of realised savings with order and invoice data to avoid phantom savings

Conclusion

The savings forecast turns procurement ambitions into a measurable, communicable planning figure. What matters is a clean baseline, realistic probabilities, documented market assumptions and a consistent reconciliation with savings tracking. Companies that systematically interlock forecast and execution achieve significantly higher and more reliable savings in practice. At the same time, procurement gains credibility with executive management and controlling. Those who also factor in sustainability and resilience criteria make the projection fit for the requirements of a changing supply chain.

Frequently asked questions

? What does savings forecast mean in procurement?

The savings forecast is a quantified projection of procurement savings for a defined period, usually the fiscal year. It is based on spend data, defined baseline prices and a rated initiative pipeline. Planned activities such as tenders or negotiations are weighted by their probability of realisation.

? How do you create a savings forecast step by step?

First, a cleansed spend analysis with baseline prices per category is created. Then initiatives with expected savings potential, implementation timing and probability are recorded in a pipeline. Market and index assumptions are then incorporated, the forecast is reported net of haircuts and updated on a rolling quarterly basis.

? What is the difference between savings forecast and savings tracking?

The forecast projects future savings forward, whereas tracking retrospectively compares planned with realised savings. Both use the same baseline and measure definition. Only this consistency makes it possible to measure the accuracy of the projection and continuously improve it.

? Which metrics belong in a savings forecast?

Key metrics are annualised estimated savings, the realisation rate, the pipeline implementation rate and forecast accuracy. In addition, soft savings and hard savings are reported separately. Many companies also apply a pipeline haircut of typically 70 to 85 per cent.

? How accurate are savings forecasts in practice?

Accuracy depends on data quality, volatility of the procurement markets and execution discipline. Well-run organisations achieve quarterly deviations of often below ten to fifteen per cent. Systematic deviations usually indicate optimistic pipeline ratings or outdated baselines.

? Are CO2 savings also included in the savings forecast?

At many companies, yes, increasingly as a parallel projection alongside cost savings. Starting points are the carbon price, the Product Environmental Footprint (PEF) and initiatives for supply chain decarbonisation. Separate reporting is important, as emissions and cost savings follow different target logics.

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