Target-Actual Price Comparison: systematically uncovering and managing price deviations

The target-actual price comparison is the systematic juxtaposition of planned (target) prices with the prices actually realised (actual) in procurement. It is one of the core controlling instruments of procurement management and makes price deviations visible at an early stage. Buyers and supply chain managers use it to identify cost drivers, prepare supplier negotiations and demonstrate the effectiveness of savings measures.

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Key facts at a glance

01 The target-actual price comparison contrasts planned prices from demand planning, framework agreements or target costing with the prices actually paid.

02 Deviations are typically analysed differentiated by volume, price and currency rate in order to attribute causes clearly.

03 Key data sources are the ERP system, framework agreements, price lists as well as order and invoice data.

04 In practice, the deviation tolerance is frequently one to three per cent, depending on material class and market volatility.

05 The target-actual price comparison complements volume- and inventory-oriented controls such as the plan-actual inventory comparison.

06 It forms the basis for terms and conditions management, supplier discussions and price performance evaluation in procurement.

Definition: target-actual price comparison

The target-actual price comparison is a controlling instrument that compares the planned purchase price of a material or service with the actual price realised from purchase order and invoice. The deviation is reported in absolute and percentage terms and is generally assessed on a

volume-weighted basis.

Delineation from related comparisons

The target-actual price comparison looks exclusively at the metric of price and is therefore considerably narrower in scope than general cost controlling. While the plan-actual inventory comparison examines stock levels and inventory coverage against the planning and disposition process, the focus here is on the price dimension. Moreover, the target-actual price comparison is not a must-buy comparison that already starts before the order is placed, but a downstream control of realised transactions.

Target price: where does the benchmark come from?

The target price can come from various sources: from calculations within target costing, from concluded framework agreements and terms, from budget specifications of demand analysis, or from historical prices carried forward as a reference. The more reliable the target price basis, the more meaningful the comparison. In practice, it has become clear that implicit target prices from prior periods must be updated regularly, otherwise apparent deviations arise from mere market movements.

Methods and procedure in the target-actual price comparison

An effective target-actual price comparison follows a clearly structured process from the data basis through deviation analysis to the derivation of measures. A uniform approach across all material groups is important so that results remain comparable.

Data basis and system support

The foundation is consistent master data: material numbers, units of measure, currencies and price validity must be cleanly maintained. Typically, order data, invoice data and contract targets are merged from the ERP system or from e-sourcing platforms. Where the degree of automation is high, automatic replenishment takes over the volume side, while the price comparison runs as a periodic report or real-time evaluation.

Deviation analysis by cause

Not every price deviation is a performance weakness of procurement. It is common practice to differentiate between: price ancillary cost effects (e.g. freight and customs costs), volume and assortment effects, exchange rate effects, market price effects (commodity indices) and genuine negotiation deviations. Only this separation allows fair assessments and targeted countermeasures – for example through terms and conditions management or a new tender with a structured bid matrix.

Reporting and escalation

In practice, deviations are presented in a multi-level reporting structure: material group level for operational buyers, supplier level for supplier management, and company-wide level for controlling. If a deviation exceeds defined thresholds, an escalation is triggered – ranging from clarification in the next supplier meeting to examining alternative sources from the Supplier Segmentation Matrix.

Key KPIs around the target-actual price comparison

The target-actual price comparison already delivers a KPI in itself, but only unfolds its full effect in interaction with further procurement and inventory KPIs.

Price deviation rate and savings rate

The central KPI is the price deviation, in practice frequently reported as a percentage, volume-weighted figure. In addition, the realised savings against the target basis are reported – differentiated into negotiated, switched (preferred supplier or dissolved single sourcing) and market effect. This separation is important so that savings are not attributed to procurement twice or incorrectly.

Relationship to volume and inventory KPIs

A low price combined with high stock levels can increase total costs. For this reason, the target-actual price comparison is typically combined with the plan-actual inventory comparison, inventory coverage and inventory turns. This creates an overall picture: favourable purchase prices alongside adequate stock levels and high turnover rates demonstrate effective procurement controlling.

Catalogue and process compliance as supporting KPIs

It is also worth looking at catalogue compliance as a supporting metric: deviations from the target price frequently arise from circumventing agreed catalogues and contracts, i.e. orders placed outside the approved channels. Process costs per purchase order also reveal whether favourable prices are eaten up by elaborate procurement processes.

Risks and controls in the target-actual price comparison

A target-actual price comparison is only as good as its data basis and its consistent use. Without defined consequences, it risks degenerating into a mere reporting duty.

Typical risks and sources of error

Common sources of error are outdated or non-volume-weighted target prices, missing currency conversion at the relevant reference date, and unclear demarcation of price ancillary costs. Structural risks such as dependence on a single supplier (single sourcing) or insufficient supply market intelligence on market prices also distort the comparison. Currency and commodity risks can additionally be influenced through hedging instruments such as forwards & swaps.

Controls and governance

Effective controls include: regular maintenance of target prices (e.g. quarterly), the four-eyes principle for manual price changes, reconciliation between order and invoice prices, and defined tolerance thresholds with escalation paths. Order deviations should be checked before release, not only after invoice receipt. The procurement mission statement should explicitly anchor the expectation of price discipline and transparency.

Contractual and legal aspects

Where persistent or significant price deviations occur despite agreements, the question of adjustment and exit rights arises. Depending on the contractual situation, a right of termination for cause may be considered; however, its enforceability must always be assessed on a case-by-case basis with legal review. Export control and material compliance requirements can also mean that the nominally cheapest supplier is not the economically right choice – such restrictions should already be factored into the target price logic.

Current developments: digitalisation and strategic integration

The target-actual price comparison is evolving from a downstream report into a data-driven steering instrument. Digitalisation, market data integration and early supplier involvement are significantly changing practice.

Automation and real-time reporting

Modern ERP and analytics platforms enable deviation reporting in near real time rather than only monthly. Automatic alerts on tolerance breaches, automated price list maintenance and integration with e-sourcing processes shorten response times. Well-maintained master data remains a prerequisite – in practice, this is often the bottleneck.

Market data and index clauses

A growing number of companies combine internal actual data with external market data from supply market intelligence, such as commodity indices or market benchmark data. This makes it possible to determine whether a deviation is market-driven or negotiation-driven. Indexed price formulas in contracts make the target-actual comparison dynamic: the target price then moves automatically with defined reference values.

Early involvement and price strategy

Strategically oriented procurement organisations move price management forward: through early supplier involvement and consistent target costing, the target price is set realistically as early as product development and achieved jointly with the supplier. The downstream target-actual price comparison then serves as proof of effectiveness rather than a pure control instrument. Outsourcing potential analyses and the make-or-buy dilemma are also frequently underpinned with the same price data.

Typical metrics

Metric	Typical value

Price deviation rate	typically ±1–3 % *volume-weighted per material group; define tolerance thresholds depending on market volatility*
Realised savings	commonly 2–5 % p. a. on addressable volume *separate into negotiated, switched and market effect for clean attribution*
Target price currency/up-to-dateness	> 95 % of line items updated within the cycle *outdated target prices are the most common source of error in the comparison*
Catalogue Compliance	> 90 % of volume via approved channels *deviations often arise from circumventing agreed contracts and catalogues*

Practical example

A mid-sized mechanical engineering company with a procurement volume of around EUR 40 million found that its monthly price reports varied considerably from one another and that the target-actual price comparison created more confusion than insight. The company therefore introduced a structured solution: target prices were updated quarterly from framework agreements and target costing specifications, deviations were separated by cause into market effect, currency and negotiation effect, and assessed at material group level. Within one year, the rate of unexplained deviations fell significantly, and the material group buyers were able to conduct their negotiations backed by reliable figures.

- Introduction of quarterly target price maintenance with a four-eyes review
- Causal separation of deviations: volume, currency, market, negotiation
- Automatic alerts when deviations exceed defined tolerance thresholds
- Linking deviation results to the Supplier Segmentation Matrix for strategic supplier decisions

Conclusion

The target-actual price comparison is a proven yet continuously developable instrument of procurement controlling. It makes price deviations transparent, provides the data basis for negotiations and evidences the effectiveness of savings measures. However, what is decisive is the quality of the target price basis and the consistent differentiation of deviation causes. Combined with inventory KPIs such as the plan-actual inventory comparison and strategic instruments such as target costing, it unfolds its full effect. Those who understand the target-actual price comparison as an active steering instrument rather than a mere reporting duty create the foundation for sustainably competitive procurement costs.

Frequently asked questions

? What is a target-actual price comparison in procurement?

The target-actual price comparison contrasts planned purchase prices (target) with the prices actually realised (actual) from purchase orders and invoices. It serves procurement controlling by enabling early detection of deviations and the separation of causes such as market movements, currency effects or negotiation outcomes. In practice, it is volume-weighted and reported periodically.

? How is the price deviation calculated in the target-actual comparison?

Typically, the difference between target and actual price is calculated per material line item and multiplied by the deviation quantity. This yields an absolute amount which is then set in relation to the total target value. It is important to separate price, volume and currency effects in order to attribute causes clearly.

? Where does the target price come from?

Target prices come from framework agreements, terms and conditions, budget specifications from demand analysis, or from calculations such as target costing. Prior-period prices are also frequently used as a reference, but this requires regular updating. The more reliable the target basis, the more meaningful the comparison.

? What is the difference between target-actual comparison and plan-actual inventory comparison?

The target-actual price comparison looks at the metric of price, whereas the plan-actual inventory comparison examines stock levels and inventory coverage against the planning and disposition process. The two complement each other: a good price combined with excessive stock can still increase total costs. Practice-oriented procurement functions evaluate both KPIs together.

? What role does the target-actual price comparison play in negotiations?

It gives buyers a data-based starting point: anyone who knows the deviations and their causes can address price components in a targeted manner. Combined with supply market intelligence and a structured bid matrix, this creates a robust negotiation mandate. After the deal is closed, the comparison serves as an effectiveness check.

? How often should a target-actual price comparison be carried out?

A monthly or quarterly cycle is common, and for critical material groups also on an ongoing basis. What matters is less the frequency than the consequence: deviations must be commented on, causes clarified and measures derived. Automated reporting now also enables continuous monitoring.

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