Bridging Procurement and Finance for a Unified Approach to Savings.

Will We Ever Gain Recognition for Cost Avoidance ?

Trying to explore some strategic business case for making cost avoidance a recognized & measurable financial contribution? Need your help!

Discover more insights >

Karima
Procurement Value for Growth

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Executive Summary

1. My (OUR?)Problem Statement

Cost avoidance often goes unrecognized by finance because it doesn't directly affect financial statements, despite significant efforts from procurement.

2. My objective: align with finance in recognizing cost avoidance as a measurable & impactful financial contribution.

3. My weapon ? (trying in here:))

Sales Comparison...

If Finance understands projected revenue or sales pipelines and knows how to include them in reports, then why aren’t we at the same level with projected cost avoidance, or even worse, why is actual cost avoidance still overlooked??

Understanding Cost Avoidance for the newbies?

Cost avoidance is the prevention of future expenses through proactive procurement measures.

Example: locking in a 3 year fixed price contract avoided a 15% increase due to inflation...

It is about:
Deferring price increases,
negotiating long term fixed price contracts,
switching to more cost effective suppliers...

So how can we compare this to Sales? ==>

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The Sales Analogy

Sales teams project future revenue opportunities, & finance values those projections ! It is called Sales Pipeline!

Similarly, cost avoidance is a projection of prevented future expenses that finance should recognize.

Does this make any sense? Or it's only me in here?

In sales, finance recognizes projected revenues from future contracts as valuable -> even though they haven't yet materialized !
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Similarly, cost avoidance prevents future financial losses & should be seen as an indirect financial gain ?

Sales Pipeline Management	Cost Avoidance in Procurement
Forecasting Revenue: uses deal stages & probabilities to estimate future revenue.	**Forecasting Avoided Costs**: uses past data or market trends to estimate avoided costs.
Example: a deal with 70% closure probability contributes X $ to projected revenue.	**Example**: a renegotiated fixed price contract avoids X $ in annual cost increases.
Included in Budgets: revenue forecasts are part of financial planning.	**Include Avoided Costs in Budgets**: integrate avoided costs into procurement narratives and plans.
KPIs: "Pipeline Conversion Rate" to track opportunity to revenue success.	**KPIs**: "Avoided Cost Ratio" to measure cost avoidance as a percentage of total spend.
Risk Mitigation: pipeline management reduces uncertainty about future revenue.	**Risk Mitigation**: cost avoidance reduces exposure to price volatility and inflation risks.

Sales Pipeline vs. Cost avoidance !

Finance recognizes these Sales forecasts because they indicate future value.

But here's the kicker:

Cost avoidance in procurement is the exactly the same concept!

Except instead of future revenue, it's avoiding future costs, keeping the organization financially resilient!

SO -

If Sales says, "this deal has a 70% chance of closing; it's worth X $ in future revenue,"
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We can say, "this contract froze prices for two years, saving us X $ in future price hikes." The logic is parallel?

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Proposed Framework for Recognition

Step	Action	Outcome	Example
Adjust Reporting Frameworks	add a dedicated "Cost Avoidance" line item in financial reports & define tracking templates.	visibility & measurability in financial reporting.	Highlight avoided costs from a 2 year fixed price supplier contract during a 5% inflation period.
Develop Shared Metrics	work with finance to create KPIs like "Avoided Cost Ratio" (avoided costs ÷ total spend).	shared accountability and tangible recognition.	Avoided X $ out of Y $ total spend this quarter, achieving a 10% Avoided Cost Ratio.
Build Scenario Models	use "what-if" forecasts to compare actual costs with potential costs without procurement's actions.	shows procurement's tangible financial impact.	*Scenario 1*: Without procurement's action = X $ in higher costs. *Scenario 2*: With action = Y $ saved.
Integrate in Budgets	Let's add cost avoidance as a narrative & variable in annual budgeting & forecasting processes. Tell the story.	Cost avoidance into future planning workflows.	we secured a fuel contract, & avoided X $ in expected surcharge increases, protecting cash flow.
Use Audit Validation	bring external auditors to verify avoided costs & methodologies for added credibility if needed!	builds trust in procurement's reporting & calculations.	external auditors confirm that procurement's avoided costs of X $ over 12 months are accurate…how can we debate?
Implement Joint Reviews	quarterly check with finance to assess & report cost avoidance contributions.	keeps cost avoidance on finance's radar consistently until they get it !	work & talk to finance more often about savings and avoided costs…builds trust & transparency.
Educate Finance	workshops to align with finance on methodologies & cost avoidance value.	better understanding on procurement savings.	Training explaining how deferred cost increases prevented X $ in excess spend over the past year. Real business case presentation…

Recognizing procurement's strategic role in securing financial resilience.

Moving Forward Together

Cost avoidance is procurement's pipeline, and just as finance trusts sales forecasts, it's time to recognize avoided costs as a strategic gain for the company's future.

Engage with finance teams to redefine cost avoidance strategies today.

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