

The Savings Definition Standard

A one-page agreement between procurement and finance about what counts as a saving. Most credibility problems between the two functions are definition problems wearing a disguise.

WHY THIS DOCUMENT EXISTS

Procurement reports a number. Finance cannot find it in the accounts. Both are right, because they are measuring different things and neither has said so out loud. Agreeing the definitions in advance, in writing, is the cheapest credibility procurement will ever buy. It has to happen before the savings are claimed, not during the argument about them.

THE DEFINITIONS

TERM	DEFINITION	COUNTS IN THE P&L?
Negotiated savings	The reduction agreed with the supplier against an approved baseline at the point of signature.	No, a forecast
Realized savings	The portion of negotiated savings evidenced in invoices actually paid, over a defined period.	Yes
Cost avoidance	An increase prevented or reduced. Real value, but there is no lower number to find in the ledger.	No, tracked separately
Cost reduction	A fall in absolute spend against prior-period actuals, at comparable volume.	Yes
Run-rate savings	Annualized value once fully implemented, at current volume.	Forecast only
In-year savings	Value landing inside the current fiscal year, pro-rated from the effective date.	Yes, budgetable
Working capital	Value from payment terms or inventory. Cash, not margin.	Separate line

BASELINE RULES

- **Baseline is the last twelve months of actual spend**, at the price actually paid, for the same specification. Not list price, not budget, not the first quote.
- **Volume is held constant.** Value that comes from buying less is a demand decision, and belongs to the budget owner, not to procurement.
- **Where there is no history**, baseline against the best qualified bid received, and label it as such. Say which baseline was used, every time.
- **Specification changes reset the baseline.** If you bought something different, the comparison is not a saving.



CLAIM RULES

- **Twelve months maximum** for any single initiative. Year two is the new baseline.
- **One owner per claim**, named, in the business, who agrees the number before it is reported.
- **Finance validates before it is published**, not after it is challenged.
- **Evidence is an invoice**, not a contract. A signature is a promise; an invoice is a fact.

SIGN-OFF

Agreed definitions for the _____ fiscal year.

Procurement: _____ Date: _____

Finance: _____ Date: _____

Review annually, or whenever the reporting basis changes.