

Use the following to determine the best way to calculate the financial impact:

	Savings or Avoidance	Definition	When to Use	Limitations/Other Considerations	Calculation
Competitive Sourcing	Avoidance	Difference between the awarded bid (what you will pay) and the average of the non-awarded bids (what you would have paid with other suppliers)	When multiple bids or quotes are obtained for the same good/service; new RFP with one supplier award	Difficult to calculate with Requests for Proposals when proposed solutions are very different.	Average of Non-Awarded Bids - Awarded Bid = Savings or No. 2 Proposer (Non-Awarded Bid) - Awarded Bid = Savings
Previously paid price	Savings	The last price paid for the same good/service	Sole Source; only one quote/bid received; multiple bids or quotes are obtained for the same good/service and there are recent previous purchases of the same good/service		Last price paid - Awarded Price = Savings
Previously paid price	Avoidance	The last price paid for the same good/service	Sole Source; only one quote/bid received; multiple bids or quotes are obtained for the same good/service and there are previous purchases of the same good/service but not recently	Use an Index to “update” the last purchase price - to account for inflation Consumer Price Index (CPI) - generally accepted index measure to account for inflation and/or new market conditions in specific geographic areas (CPI) Producer Price Index (PPI) may be the fairer measure of commodity-specific inflation (PPI)	Last price paid x (1 + % Δ CPI) - Awarded Price = Savings

Calculating total sourcing savings from term contracts - include calculation in tool

Examples:

The following three contracts were renegotiated during the fiscal year beginning on July 1 and ending on June 30. Determine the total savings achieved for this period:

	Contract Date Range (day's active)	Savings FY	Spend
Contract A	Aug 1-Dec 31 (152)	10%	\$100,000
Contract B	Jan 1-Dec 31 (181)	5%	\$250,000
Contract C	Jul 1-Jun 30 (365)	3%	\$125,000

Calculate the individual weighted-average total savings for each contract and add together to estimate the total savings achieved for the period:

Contract A: $[(152/365) * \$100,000 / (1 - .10)] * .10 = \$4,627.09$

Contract B: $[(181/365) * \$250,000 / (1 - .05)] * .05 = \$6,524.87$

Contract C: $[(365/365) * \$125,000 / (1 + .03)] * .03 = \$3,640.78$

Total Savings for Period \$14,792.74