Pay No Attention to Cost Avoidance: Procurement Myth No. 2

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We continue our series on the top 25 procurement myths. Some you may know, others maybe not. You also may agree with us on certain ones and not others. But, the important thing is that we have this discussion. We will post 1 a day here on *Chief Procurement Officer*, so make sure to check back on the site to catch them all.

2. Cost avoidance is not that important

Economic value is generated by improving cash flows to maximize NPV. Just because finance wants a standard cost on the books to revalue down and make it easier to both close the books and to measure procurement (i.e., via favorable purchase price variance), this has no bearing on the magnitude of the economic value added itself. Besides, cost reduction is basically cost avoidance with a baseline (i.e., you are avoiding paying the higher price you paid before!). And consider this: Should your choice of contract duration actually determine whether the value is counted as a “hard” benefit or not? It would, and this is the danger. The measurement system itself will incentivize value destruction. Why design out all the costs of a new product up front? There’ll be no savings left for procurement. You get the idea.

For more on this, see **here** and **here**.