

Calculating cost savings in the procurement of printed goods and services – Guidance and good practice



PUBLICLY AVAILABLE SPECIFICATION

PAS 1001:2012

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ISBN 978 0 580 73291 1

ICS 03.100.10; 37.100.99

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Publication history

First edition 2012

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This Publicly Available Specification (PAS) has been prepared by the British Standards Institution (BSI) in partnership with Williams Lea.

In addition, acknowledgement is given to the following organizations that have been involved in the development of this guidance document:

- BPIF (British Printing Industries Federation);
- CIPS (Chartered Institute of Purchasing and Supply);
- Horizon Associates;
- ISRU (Industrial Statistics Research Unit, Newcastle University);
- Lead technical author: Janice Hailstone (Williams Lea);
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- Technical drafting panel members: Laurence Bosshard (Williams Lea), Matt Linsley and Dave McGeeney (ISRU).

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The global business process outsourcing industry is valued at approximately \$122-154 billion per annum^[1]. Whilst the exact nature of the goods and services outsourced can vary significantly, there remains a common challenge for service providers to be able to accurately calculate the cost savings achieved for their clients.

Theoretically, cost savings for procured goods and services can be calculated through direct comparison with historical data. The challenge for service providers, however, is where no historical direct comparison can be made.

This PAS presents guidance on good practice in calculating cost savings in the procurement of printed goods and services, both with and without historical data.

While this PAS has been illustrated with examples specific to the outsourced procurement of printed goods and services, the principles behind the calculation of cost savings translate to any goods and services.

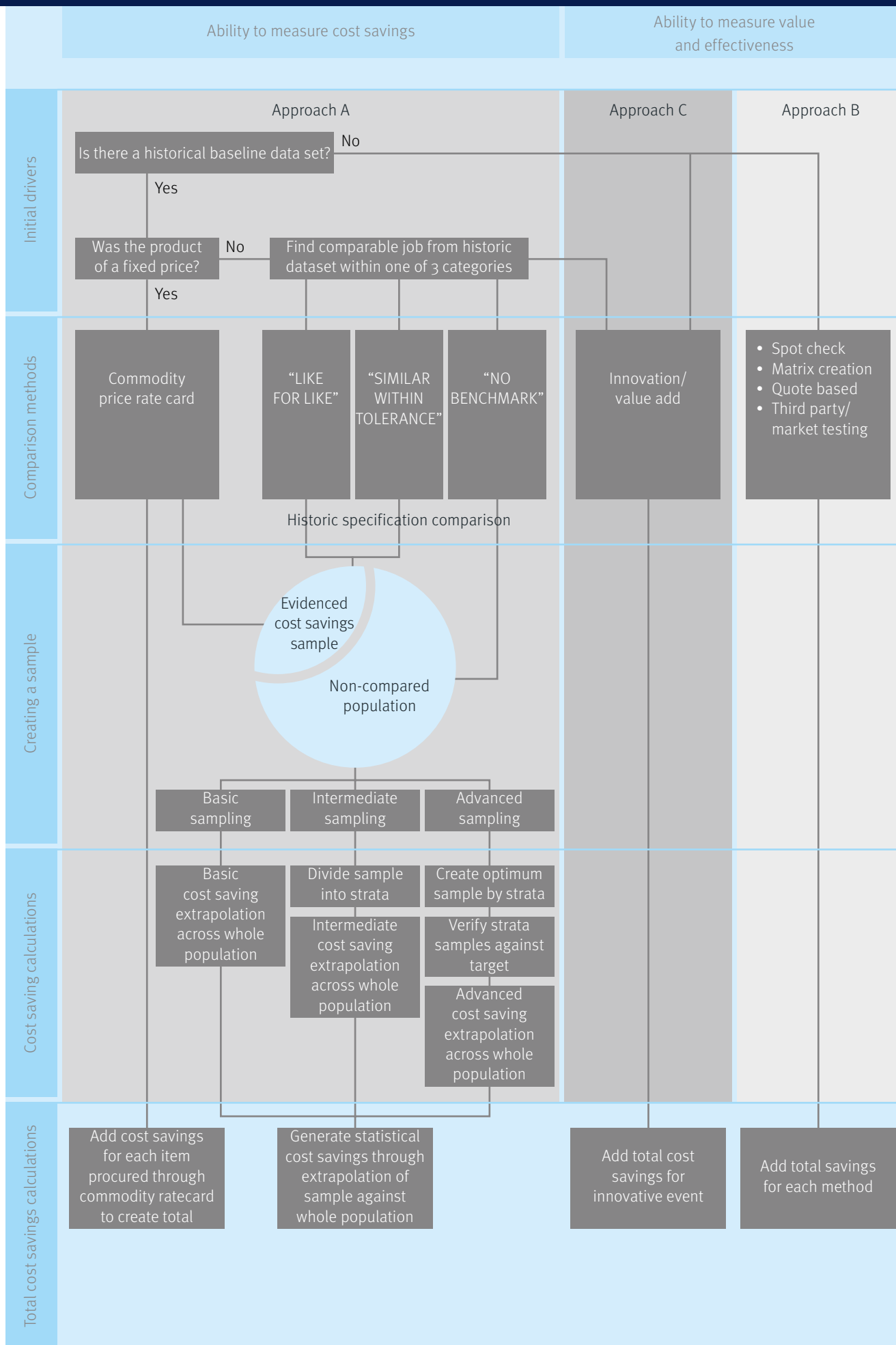
This Publicly Available Specification (PAS) details three approaches for calculating cost savings in the procurement of printed goods and services.

It is applicable to any service provider involved in business process outsourcing (BPO). It could also be of particular interest to client procurement personnel (e.g. category managers).

The PAS specifically addresses calculation methods whereby historical specification comparison can be conducted on a representative sample of the population, the results of which can be statistically used to accurately recognize cost savings against the total population. Other approaches for measuring the value of a service provider are also included.

The PAS is not intended to replace service providers' individual contractual obligations to their clients. Nor is it intended to provide the standard by which the quality of a client's policies, products, processes, programmes or strategies can be measured or judged, or compared with standard measurements, or with similar measurements of "best in class" companies.

Figure 1 represents the areas within the scope of this PAS and how they interact, illustrated using printed materials as the procured goods.



For the purposes of this PAS the following terms and definitions apply.

2.1 baseline

original historical data against which newly procured data are compared

2.2 comparison

process by which current procurement activity can be matched against procurement behaviour in the past of a similar nature

2.3 client

organization or individual procuring goods or services

2.4 current data

current information concerning individual job requirements

2.5 data set

historical procurement information contained within the same format

2.6 evidenced cost savings sample

current jobs that have been successfully compared with historical activity to demonstrate calculated cost savings using one of the qualifying methods

2.7 historical matrix rate card

pre-populated template containing specification and historical procurement pricing that can be used as a quick reference against which to compare current pricing

2.8 historical specification comparison

method of accurately measuring cost savings using “like for like” and “similar within tolerance” data, with consideration that there may be no comparison available

2.9 Like for like

job from the historical contractual period that is exactly the same as the current requirement

NOTE “Like for like” is sometimes referred to as exact specification match.

2.10 matrix creation

method by which all information relating to typical procurement information is documented together in one format or database

NOTE Typically, specification information will be detailed alongside quantity bands and budget pricing for each.

2.11 qualifying baseline data set

historical information contained in the same format once it has been agreed and signed off by the client and service provider as being an accurate representation of historical procurement activity

2.12 quote-based

deriving pricing information for a given current job by asking a number of suppliers to respond to RFQ (Request For Quotation)

2.13 representative

sufficient volume and value of included information to warrant effort

2.14 sampling: basic

use of all jobs within the contractual period for which a saving has been successfully identified, to infer the cost savings for the whole population

2.15 sampling: intermediate

categorizing the type of job in the sample, in addition to basic sampling, so as to be representative of the make-up of types of job within the total population

2.16 sampling: advanced

pre-comparison planning of a statistical sample prior to any work being undertaken in the time period, and the subsequent use of a pre-planned evidenced cost savings sample to infer total cost savings for the whole time period

2.17 service provider(s)

organization or individual delivering goods or services

2.18 similar within tolerance

assigning tolerances in relation to certain aspects of specification, jobs that are not “like for like”

NOTE These can still be compared with jobs within the baseline data set widening the search parameters and thus maximizing the opportunity for comparison.

2.19 specification

description or list of the characteristics that can be used to identify an individual sample job to be priced

2.20 specification standardization

grouping or tweaking of a multitude of job specifications so as to create a smaller differential between similar specifications, or even just one type

2.21 strata/stratum

each of the groups in to which a population is divided in the technique of stratified sampling

NOTE The composition of the strata/stratum is to be agreed by the client and service provider at the outset of a project.

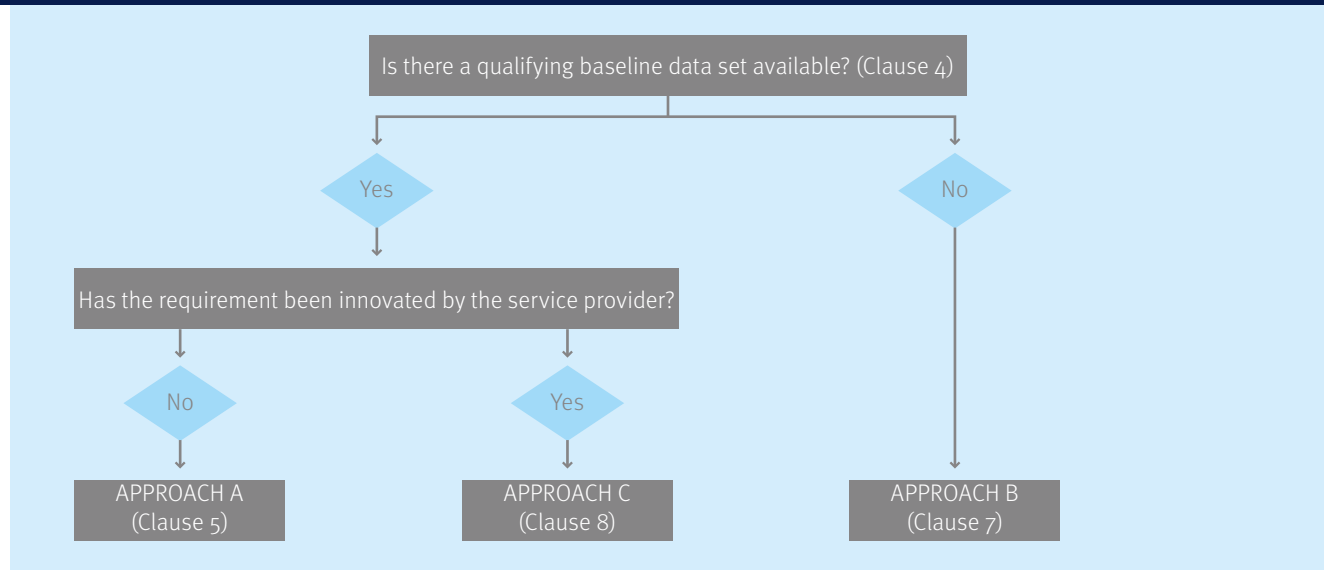
2.22 total population

all activity for the current job that took place, irrespective of whether cost savings were able to be evidenced against each current job or not

There are multiple ways to calculate cost savings with the preferred method determined by the presence, or not, of a historical data set.

Figure 2 shows how the right approach can be identified from simple initial criteria. The type of approach will determine whether cost savings can actually be calculated (Approach A and B). In the case of Approach C, in the absence of data, the procurement effectiveness of a service provider can be evaluated but actual cost savings can not be calculated as there is no comparison data.

Figure 2 – Decision tree to be followed to determine which approach is most suitable



4.1 – Criteria for a qualifying baseline dataset

To calculate cost savings for a current requirement for goods or services, the service provider needs to be able to compare the current requirement with a historical procured requirement, or its equivalent. Historical procurement information is hereafter referred to as a data set.

A number of criteria should be met for historical information to be considered a qualifying data set and therefore fit for purpose in the use of calculating cost savings. These are as follows.

- a) a historical comparable period should be pre-agreed, typically this is a calendar year;
- b) the amount of data should be representative and should consist of all available data from the agreed historical comparable period;
- c) the data should be held electronically (in a format that can be interrogated, as required);
- d) the data set should be provided by the client before commencing work with a service provider;
- e) the specification variables of high significance, detailed in Table 1, should be present in a qualifying baseline data set as applicable.

NOTE 1 What constitutes representative or sufficient data is very difficult to measure. Even if all historically procured items featured within a qualifying data set, whether an appropriate match can be found also depends on client procurement behaviour in the forthcoming contractual period, which a multitude of internal and external factors can influence. The conclusion of this PAS with regard to the availability of enough baseline data set, is that so long as the baseline data set is an accurate representation of historical procurement behaviour within a comparable historical period, it can be considered sufficient.

NOTE 2 It may be possible to consider creating a data set broken into strata, where one category of print may have more data available to qualify as a baseline data set than another. In this instance it may be possible for the client and service provider to agree to compare the non- or under-represented category of print using an alternative method.

NOTE 3 It may be possible for the client and service provider to create an electronic dataset using information that is held in hard copy form in the first instance. For example taking previous invoices, or previous completed articles or work and translating the specification and pricing information into an electronic form for future use.

Table 1 – Variables with high significance to unit cost of detailed types of print

POINT OF SALE	
Variables analysed	Significance to cost
Quantity	HIGH
Product	HIGH
Made up	HIGH
Quantity	HIGH
Per unit	HIGH
Plastic tube	HIGH
Maintain number order	HIGH
Polywrap	HIGH
Shrink wrap	HIGH
Paper tube	HIGH
MARKETING PRINT	
Variables analysed	Significance to cost
APPLICABLE TO SINGLE AND BOUND PIECES	
Quantity	HIGH
Finished size – COVER	HIGH
Finished size – TEXT	HIGH
Number of pages – TEXT	HIGH
Number of colours – COVER	HIGH
Number of colours – TEXT	HIGH
Plate changes – TEXT	HIGH
Plate changes – COVER	HIGH
Cover; paper weight	HIGH
Text; paper weight	HIGH
Finishing details Y/N	HIGH
Die cutting	HIGH
Binding	HIGH
Die cut	HIGH
Single piece	

(Table 1, continued)

LABELS	
Variables analysed	Significance to cost
Paper and laminates	HIGH (due to high paper content and current paper costs. The same applied to laminate)
Type; coated/uncoated	HIGH
GSM	HIGH
Quantity	LOW/HIGH (lower volumes will generate higher prices)
Low volume	HIGH
Size	LOW/HIGH (dependant on use of standard sizes e.g. address label)
Non-standard form depths and reel widths	HIGH (odd shapes i.e. key format, piggyback format etc)
Number of versions/colours	LOW/HIGH (dependant on volume and number of versions/colours)
High number of low volume versions	HIGH
High number of plate and colour changes	HIGH
Personalised simplex method	MEDIUM/HIGH
Type of glue (peelable/low tack etc)	MEDIUM/HIGH
Reel direction	HIGH
Kiss cut	HIGH
Die cut (number and position)	MEDIUM/HIGH
CONTINUOUS STATIONERY	
Variables analysed	Significance to cost
Paper	HIGH (due to high paper content and current paper costs)
Type; coated/uncoated	HIGH
GSM	HIGH
Quantity	LOW/HIGH (lower volumes will generate higher prices)
Low volume	HIGH
Size	LOW/HIGH (dependant on use of standard sizes e.g. 12"×450mm)
Non-standard form depths and reel widths	HIGH
Number of versions/colours	LOW/HIGH (dependant on volume and number of versions/colours)
High number of low volume versions	HIGH
High number of plate and colour changes	HIGH
Finishing and ancillary requirements	MEDIUM/HIGH (dependant on complexity of ancillary requirement)
Personalised simplex/duplex	MEDIUM/HIGH
Labels: number and position of (front and/or reverse)	MEDIUM/HIGH
Perforations: number and position of (horizontal, vertical, pattern)	MEDIUM/HIGH
Suction holes: number and position of (size)	MEDIUM/HIGH
Re-moist glue: position of (front and/or reverse)	MEDIUM/HIGH
Die cut: number and position	MEDIUM/HIGH
Scratch off: number and position of (front and/or reverse)	MEDIUM/HIGH

(Table 1, continued)

DIRECT MAIL	
Variables analysed	Significance to cost
Pack style	HIGH
Number of records	HIGH
Number of inserts in pack	HIGH
Finishing (= template within a template / expanded below) YES / NO	HIGH
Data preparation	
Estimated records	HIGH
Quantity	HIGH
Finishing	
Versions	HIGH
Number up	HIGH
Finished size – width	HIGH
Finished size – length	HIGH
Slit / nest	HIGH
Re-moist	HIGH
Label tip on	HIGH
Enclosing	
Pack size	HIGH
Versions	HIGH
Quantity	HIGH
ENVELOPES	
Variables analysed	Significance to cost
Quantity	HIGH
Size	HIGH
Format (pocket / wallet)	HIGH
FORMAT – BANG TAIL	HIGH
FORMAT – DEEP FLAP	HIGH
Flap (gummed or self sealed)	HIGH
WINDOW: number, front or back	HIGH
W window type	HIGH
Label Tip on and quality	HIGH
PtIE face total number of colours	HIGH
PtIE face 4 colour process	HIGH
PtIE reverse total number of colours	HIGH
PtIE reverse 4 colour process	HIGH
Print method	HIGH
Paper weight	HIGH
Plate changes	HIGH

NOTE The detail contained within Table 1 has been concluded as a result of significant statistical testing. Please refer to Annex A for further details on the source data, the statistical tests that were performed and the full results including additionally variables with low and medium significance.

It is necessary for both the client and service provider to find a mutually acceptable method of agreeing to and signing off the data set as being accurate and fulfilling the criteria outlined in 4.1. This may be in the form of a contractual annex, or other formal agreement. Following mutual acceptance of the accuracy of the historical data set it can thereafter be described as the “qualifying baseline data set.”

These are cost-influencing drivers that may be unique to circumstances surrounding the historical requirement and importantly may, or may not, be present and comparable within the new requirements. Such cost influencing drivers can often generate premium pricing and can include the following examples:

- Time-restricted requirements (e.g. premiums paid for a quick turnaround);
- Quality-restricted requirements (e.g. premiums paid for a specific end result);
- Client-driven manufacturer choice (e.g. premium paid for a specific supplier, not best price);
- Freight (e.g. multiple deliveries or national/international destinations for finished goods).

For these reasons, it is essential that the full cost breakdown for each job within the data set is present and historical data is only used for comparison to the present day requirement if the circumstances are the same or similar to ensure savings are not overstated. A good example of this is where a premium has been paid in the past to meet a tight deadline, and such deadline is not valid in the present requirement. If the premium price was used to compare to the present day regular price an over inflated saving would be recorded.

NOTE The cost-influencing drivers are not limited to this list. Other factors that may distort accurate calculation of the service provider's cost savings performance can include fluctuations in commodity prices and macro-economic factors. Full details and the recommended means of mitigating the distorting impact of these key factors are detailed in Annex B.

4.3 – Annual evolving baseline data set

To maximize the relevance of the comparison data set to the profile of work undertaken in any given period, the client and service provider may agree that during the course of a contractual period the baseline should be reset periodically (usually each year), with matching taking place against the current data set.

The qualifying baseline data set should evolve in line with the contractual period, to ensure comparison with the most relevant historical data. Usually, for a new contractual period the client would provide the baseline data set for the service provider to use initially. When a new contractual period is entered (usually after a year), the data gathered during this first initial period would be presented (in accordance with the guidance in 4.1) by the service provider as the baseline data set for the subsequent period (usually Contract Year 2).

The client and service provider should agree at the outset of the contractual relationship how cost savings should be measured over the duration of the contractual period with an annual evolving baseline dataset. One common method is described below:

Worked example:

Cost savings in Year 1 measured at 10%. Year 1 purchases become the current baseline.

Year-on-year cost savings may then be measured at a further 10%. This represents a cumulative 19% saving versus the pre-contract baseline, being:

$$\{100 \times (1 - 10\%) \times (1 - 10\%)\}$$

This PAS recognizes two different types of data sets, which can be categorized by their characteristics and use.

1) Historical specification baseline data set

A data set of this nature has the following characteristics:

- It contains specification information in full;
- It conforms to all the requirements detailed in **4.1** (highly significant variables).

It should be used where a matrix data set is not applicable due to the restricted characteristics of a matrix.

2) Historical matrix rate card data set

A historical matrix rate card data set takes on exactly the same principles as a historical specification baseline data set except for the following key differences:

- Matrix rate cards are suited for listing the cost of similar jobs with fixed specification procured on a regular basis, or jobs that will not materially change in specification year on year;
- The procured quantity for matrix jobs can vary and, as such, all costs can either be calculated from a unit cost or listed in quantity bands within the matrix;
- The current matrix will hold the historical baseline cost for each job together with the current cost incorporating the cost savings targets;
- The jobs and costs are often listed by name without the need to detail and filter out full specification information (specification information can be held separately);
- The need for full quotation process to procure the goods is negated and, as such, procurement administration can be reduced;
- The goods detailed on a rate card do not necessarily need to have been procured previously but the client and service provider can agree to include them in the baseline data set;
- Typically, the service provider will pre-agree suppliers against matrix rate card items to secure and hold costs for a fixed period;
- Items are often held or requested in (electronic) catalogue form;
- Typical matrix examples can include, but are not limited to envelopes, 2D POS, leaflets, stationery and business cards.

NOTE 1 Comparison for matrix jobs can be simplified through acceptance of the data set with cost and cost savings percentage already built in. A report of all jobs produced from the matrix rate card, identifying the total quantity purchased and the cost savings delivered, should be run by the service provider to generate the total cost savings.

NOTE 2 Due to the similarities of pricing and specifications on a historical matrix, together with “like for like” historical specification comparisons it may be possible for cost savings evidenced from matrix procurement to form part of a sample.

NOTE 3 It is possible for the service provider to create a new matrix rate card based on client requirements and work profile.

In addition to any specific considerations when using or producing a historical specification or matrix data set, the following should be taken into account:

- The service provider and client should formalize acceptance of the data set;
- Jobs produced in conjunction with another job are permitted to stay within the data set; however, they should be clearly signposted for an accurate comparison to be made;
- Circumstances which may impact the price should be recorded as detailed in 4.2;
- It may be prudent to invest in data cleansing services to ensure the data set is as robust and accurate as possible.
- The client and the service provider should ensure the data is provided in a consistent format.

NOTE 1 Table 2 shows the various ways in which the specification element “colours” may be recorded in any one data field.

Table 2 – Examples of variances in specification data

Example 1	Example 2	Example 3	Example 4	Example 5
4c	Four Colours	4 Colours	4col	4COL
2c	Two Colours	2 Colours	2col	2COL
Black	+ Special			

NOTE 2 Even with the presence of a comprehensive historical data set, it is impossible to find a comparison match (either “like for like” or “similar within tolerance”) for every job the client wishes the service provider to procure. Typical reasons can include, but are not limited to:

- A new product design;
- Changing quantity or specification significantly for a repeat job so as to fall outside of tolerances;
- Innovative specification enhancements;
- A critical prioritization on price/time or quality.

Critically, the reason for not being able to compare a job should be recorded.

4.6 – Use of a historical comparison tool

Some historical specification data sets may contain significant data. Hence, speed and accuracy are key, and every effort should be made to automate the search process.

A historical comparison tool should be used to assist in the identification of historical jobs to match against current requirements within a historical specification data set.

Use of such a tool has a number of potential benefits. It can:

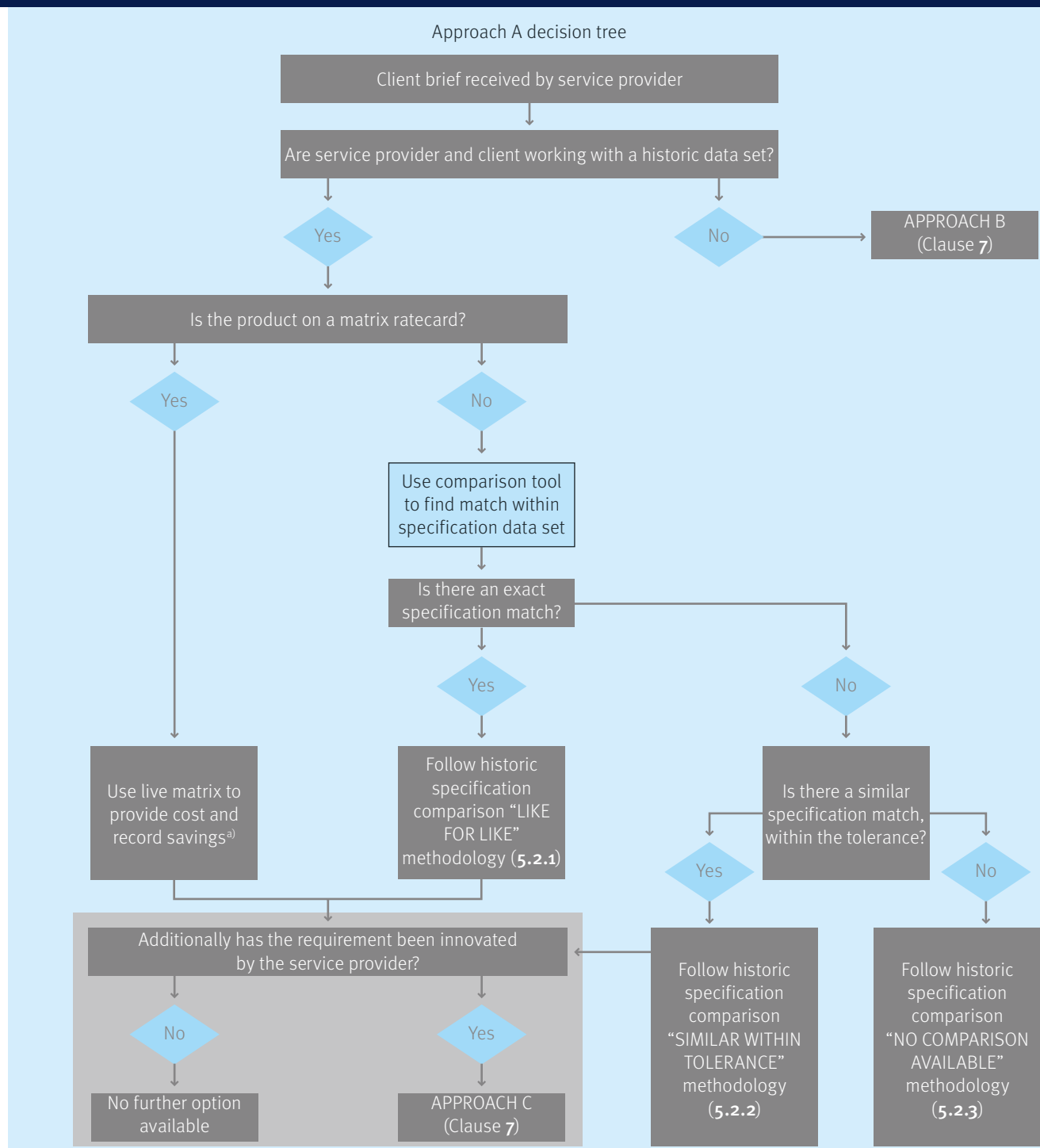
- Make the matching process more efficient;
- Reduce administration and resource;
- Increase the potential to find a comparison match (“like for like” or “similar within tolerance”);
- Reduce bias;
- Reduce the potential for human error through oversight or misinterpretation of the data set.

5.1 – General

Once the presence of a qualifying dataset has been established and agreed between the service provider and client, the method to which cost savings can now be calculated needs to be considered and agreed. This approach details the options and provides guidance to their use

The decision tree (Figure 3) illustrates the various options available with the presence of the qualifying baseline dataset and each job may follow a different route dependent on the circumstances. Alternatively the service provider and client may agree from the outset of a contractual relationship that one or two specific options will be valid.

The remainder of Clause 5 will explore each option in detail.



^{a)} See 4.2. For live matrix follow same process as "Like for Like" substituting historical data set for historical matrix if applicable

Whilst acknowledging that not all jobs can possibly be compared, this PAS will look at the methodology behind historical specification comparison in detail due to its significant advantages to both the client and service provider as a method of accurately measuring cost savings using a data set. There are three types of historical specification comparison:

- 1) “Like for like”
In this category, the specifications of the current job are exactly the same as those of a match within the historical data set. A +/- 10% quantity tolerance is permitted providing the production method is consistent.
- 2) “Similar within tolerance”
In this category, the specifications of the current job are outside the quantity tolerance in “like for like” but are within the specification tolerances of the material variables for the job, so the job can still be regarded as technically similar to an equivalent match within the data set.
- 3) “No comparison available”
In this category, the specifications of the current job are outside both the quantity and specification tolerances of the previous two categories such that the job is regarded as materially and technically different from any other job available within the data set and, as such, no comparison is possible.

5.2.1 – “Like for Like”

The principles behind “like for like” historical comparisons are fairly straightforward. By searching the historical specification data set, the service provider will be able to locate a job from the historical contractual period that is “like for like”. Reprints of a historical job are typical of “like for like” matches.

The specification of variables with high significance, as listed in Table 1, for each type of print should be matched exactly.

In a current job, +/- 10% quantity tolerance of an otherwise exact match for all other specification variables is allowed. This is due to the ability to calculate an accurate unit price that can be simply calculated using run-on / run-back theory. In this instance, a unit price from the baseline match is calculated by dividing the total cost by the number of units. This is then multiplied by the current job quantity to establish a “like for like” baseline, including an exact quantity match as well as the other specification variables.

If the quantity variance falls outside the +/- 10% tolerance, the job is not considered a “like for like” match and therefore a “similar within tolerance” methodology should be applied. It is essential, however, where a +/- 10% quantity tolerance is utilized, to find an otherwise exact comparison match; the production method of the historical job and the present job should be the same.

The process flow for “like for like” (as shown in Figure 4) can be described as follows:

- a) Search for “like for like” from the historical data set using the comparison tool.
- b) Should there be more than one potentially suitable match after ranking the specification tolerances, the most appropriate match, taking into consideration seasonality and external influencing factors (Annex B), should be picked to reduce potential bias.
- c) Record the historical job unique reference/name and price from the historical contractual period (see 5.6).
- d) Where +/- 10% quantity tolerance is utilized, calculate the unit price for the current quantity.
- e) Determine and record the current cost for the same job.
- f) The difference between the historical price and the current price can be recorded as the saving for the job.
- g) This job will form part of the sample for the current contractual period.