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Abstract
Understanding the supply market is a key step towards making sound business decisions not only for procurement function but also all functions across the organization that deal with suppliers at different capacities. This paper discusses how to conduct thorough and usable market analyses which allow organizations deal with suppliers more effectively.

Market Analysis is a Key Component of a Successful Sourcing Strategy
appropriate commodity-specific sourcing strategies and A good strategic market analysis is a structured, fact-based, rigorous approach to help develop tactics that match user requirements with industry market capabilities. Understanding supply market dynamics is as important for developing a successful sourcing strategy as defining internal requirements.

A well-conducted market analysis enables organizations to develop the fact base they need to identify opportunities to improve total cost of ownership as well as suppliers best positioned to meet the requirements.

Key Tenets of Strategic Market Analysis:
The following seven tenets of strategic market analysis outline the crucial steps to be taken to develop a complete and usable picture of the industry market:

1. **Access multiple, diverse market data sources to develop an accurate, un-biased market view**
   In order to develop a comprehensive and un-biased analysis of a market, you should utilize multiple market research sources providing access to leading analyst and research reports. These sources include Wall Street analyst reports on industries and companies (e.g. Thomson, a consolidated resource for analyst reports), 10K and annual reports, research providers such as Gartner, AMR Research, Dataquest, Forrester, etc., industry publications/journals, industry associations as well as general Internet research. Some market analysis efforts warrant outreach through targeted interviews where published data is not available or may be too limited.

2. **Understand which suppliers have the capabilities to meet your needs**
   It may be necessary to devise your own market segmentation parameters based on your organization’s needs as there are many ways to segment a market with respect to suppliers’ varying capabilities. Effective market segmentation highlights differences in supplier capabilities relative to business needs. It is important that an understanding of market segments is carried into the overall market analysis, building greater insights on capabilities, relevance, and competitive dynamics within and among the various segments.
3. Create a clear and insightful picture of the market related to size, growth, share, competition, and market-specific dynamics
   You can set the foundation for developing fact-based market insights through an understanding of “top level” market data such as, year-to-year market growth, major players’ market shares, revenue distribution, etc. In addition to market basics, you should try to understand the market nuances – all markets have industry-specific issues and factors that go beyond a basic understanding of market share and growth.

4. Understand the overall economics of your suppliers’ market, including profitability, cost structure, and related drivers
   The intelligence related to the economics of the market and the factors driving supplier economics is used to better understand context for suppliers’ competitive behavior as well as better inform key business decisions. Identifying supplier cost structures and focusing on the largest supplier cost elements are critical components of market knowledge as they can be affected through the supplier-buyer relationship and/or through industry engagement.

5. Identify key trends that will influence the market in the future, including competition, technology, pricing, and M&A activity
   It is critical to understand how the market may change as changes in the market related to technology, competition, pricing etc. may impact key business decisions that need to be made in the short- or near-term. Building on an understanding of potential market trends, your next step should be identifying risks that may affect pending business decisions.

6. Identify how different suppliers compete and the level of intensity in market competition
   Since markets vary significantly along the factors upon which they compete, it is necessary to identify all bases of competition (e.g. price, quality, service, etc.) to be able to grasp the industry and competitive dynamics. Once you identify the bases of competition, then you need to rank them based on their relative importance. While suppliers may compete along several competitive dimensions, some may be more important than others. Ability to understand the relative importance of these competitive dimensions will help you devise a more refined approach for engaging suppliers.

7. Synthesize the market analysis into clear and concise implications with supporting rationale for making strategic decisions
   Once you fully understand the market dynamics, you need to develop clear and pragmatic strategy implications to put the data you gathered into work. Your end product will be most useful and usable if you can identify very clearly and concisely all implications related to developing sourcing strategies and tactics with clear and specific supporting rationale from the market analysis findings. Once you identify the implications of the data gathered, you are ready to identify potential next steps in further validating or carrying forward the strategy implications. These next steps can include either further refining the strategy implications directly with the supplier community, or specific actions/tactics to incorporate as part of an overall sourcing strategy.