Building a market intelligence capability for high performance in procurement

With increasing end-market volatility and financial pressure on companies to do more with less, the need for world-class procurement is more pressing than ever. But building world-class procurement—and the market intelligence capability to support it—is a challenge even for the most resourceful organizations.

As the role of procurement evolves from focusing on cost savings to that of a strategic business enabler, procurement leaders get real negotiating advantage and value by using market information and intelligence for decisions on spending and sourcing strategies. But how do they understand which information is the most valuable? How do leaders differentiate the need for field intelligence versus publicly available information, and where and how do they obtain it? This paper provides answers to these questions within an effective market intelligence framework.

As procurement has evolved, world-class efforts rely on deep market information

Procurement has evolved over several decades from an initial focus on optimizing direct materials to applying rigor and process to drive value in select areas of indirect spend. Leading procurement organizations optimize 100 percent of spend by bringing deep category expertise and market intelligence to bear—across all spend areas—in ways that deliver real informational advantage and bring significant value to business stakeholders. The role of information and intelligence has been critical in this evolution.

Information plays a critical role in optimizing direct materials spending

Given the criticality of supply continuity, the high levels of price volatility and significant volume associated with direct materials purchase, information has always been a key ingredient to optimizing spending. Prior to the development of sophisticated sourcing processes and eSourcing and eProcurement tools, procurement organizations made use of information primarily to support internal forecasting accuracy and to assess supplier capabilities and reliability. Later, organizations moved to monitoring indices and projecting pricing trends, and then to understanding supplier cost structures and total landed costs, with the more advanced companies engaging in hedging strategies. As products have become more specialized and supply chains increasingly global, leading organizations have applied a more nuanced level of market data and intelligence to understand market dynamics, supplier risk exposure (such as supply chain disruption, interdependence and financial risk), and cost and pricing issues on a more global scale. These organizations also use supplier performance information effectively to optimize performance and drive innovation.

Sourcing processes and tools mature and extend into indirect spend categories

As organizations began to see the value possible through information-driven negotiations, demand for professional procurement grew. In response to this demand, new technologies emerged that enabled companies to gain more visibility into organization-wide spending, and take advantage of internal spend aggregation opportunities while scaling and accelerating sourcing activities (for example, eRFX) and improving competitive dynamics (such as eAuctions).

Following success in the direct materials arena, companies naturally looked to extend these processes and tools into the indirect realm. Yet the key ingredients—category expertise and market intelligence—that were key to reducing costs and optimizing value in core commodity areas, proved difficult to obtain across the vast number of indirect markets. While technologies enabled procurement teams to capture and evaluate information more efficiently, the primary source of this data was the suppliers themselves, creating an informational disadvantage for buyers. Without the deep expertise and insight needed to bring value to stakeholders and create advantage, indirect procurement resources were viewed as more tactical process managers. As a result of this perception, procurement was often brought in late in the spend process, or worse, not at all.
Category expertise and intelligence are critical across all areas of spend

Today’s competitive marketplace is driving the need for a new model where procurement effectively addresses 100 percent of spend on a global basis and goes beyond cost savings to enable innovation and growth. But many companies struggle to shift to this new procurement paradigm. The first barrier they face is earning the right to gain access to off-limits areas of spend. Key business stakeholders—particularly in areas like marketing, logistics, IT and HR—tend to be reticent to partner with procurement if they believe that a one-size-fits-all sourcing approach will be executed by someone who does not understand what is important to drive real value in their category.

To address this concern, procurement must demonstrate an understanding of stakeholders’ objectives and needs, a deep appreciation for how suppliers drive value and the markets in which they operate, and knowledge of the risks associated with disrupting these relationships or compromising quality. To develop this level of specialized expertise and gain stakeholder trust, many procurement organizations are moving away from a generalist model and creating dedicated specialists for key spend areas who can align and integrate with functional groups. Dedicated teams of category specialists also provide a basis upon which organizations can begin to capture category-specific market intelligence.

However, engaging stakeholders and gaining access to off-limits spend areas is just the first step. To deliver real value and create sustainable relationships with business leaders, procurement must bring valuable information and intelligence that optimizes spending strategies and outcomes. This means mitigating the information imbalance that favors suppliers. Suppliers have a comprehensive view of their cost and margin profiles. On the demand side, they have the benefit of seeing orders and forecasts from multiple customers, allowing them to leverage that knowledge to achieve optimal price and contract terms. Procurement has the opportunity to level the playing field and reduce this informational disadvantage by applying rigor to the process of monitoring market dynamics and pricing and capturing best practices from sourcing events. The remainder of this paper describes an approach for developing a world-class market intelligence strategy and capability.
Building market intelligence capabilities for world-class procurement

As stakeholders know and often fear, the outcomes of procurement decisions can have significant implications. These decisions not only impact supply continuity and cost, but also brand, customer service levels, time-to-market and innovation efforts. Making the right decision requires extensive information about markets and suppliers. Access to the right information reduces risk and uncertainty and optimizes costs and value—all while contributing to corporate strategic objectives.

The types of information required to make optimal procurement decisions vary from broad macro data on economic and price trends to highly granular information on specific suppliers. Critical information also varies by type—from publicly available data to difficult-to-obtain field intelligence.

Four critical types of market intelligence: To develop world-class market intelligence, procurement organizations should aspire to develop depth in each of the four major categories of market intelligence (see Figure 1).

Supply market information: Supply market information broadly focuses on understanding the overall supply market and its key drivers. Key insights to be gained include deep understanding of new market entrants and exits, competitive trends and innovation. This type of information is critical when establishing broader category strategies, embarking upon specific sourcing activities, and for ongoing risk and opportunity monitoring. Much of this information is publically available via disparate sources but requires some effort to synthesize and make useful. Additionally, developing insights into a particular supply market requires ongoing monitoring to identify new technologies and innovations, merger and acquisition activities, geo-political risks and regulatory changes.

Supplier information: Supplier information is an extension of supply market information, focused on getting detailed information on the financial health, capabilities, past performance and other relevant characteristics of specific suppliers. This type of information is easier to obtain in the case of larger supplier organizations. However, as companies continue to expand into emerging markets, take advantage of low-cost sources, and develop smaller and more diverse supply bases, even seemingly basic information becomes harder to acquire. The real value comes from more qualitative insight into suppliers’ capabilities, strengths and weaknesses. Most organizations have historically relied on suppliers to provide this information along with a few customer references. World-class organizations are finding independent and multiple sources for this information, validated by experience from multiple sourcing events.

<table>
<thead>
<tr>
<th>Kind of Information</th>
<th>Description</th>
<th>Questions Answered</th>
</tr>
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<tbody>
<tr>
<td>Supply Market</td>
<td>Knowledge of current supply-market landscape including key players, competitors, buyer and supplier power (e.g., Porters Five Forces) and potential changes.</td>
<td>What's happening (and what's going to happen) in this market at a regional level? How could changes (i.e., consolidation) impact my company/sourcing strategy?</td>
</tr>
<tr>
<td>Supplier</td>
<td>Supplier-level information on capabilities, financial health, risk, strengths and weaknesses, diversity status.</td>
<td>Which suppliers should I be evaluating? Which meet my specific needs?</td>
</tr>
<tr>
<td>Cost, Price and Commercial</td>
<td>Sub-category level information on typical margins and costs structures, product/unit pricing trends and benchmarks; best-in-class commercial structures.</td>
<td>What should I be paying for the desired product and/or service and how do I structure and agreement to optimize value?</td>
</tr>
<tr>
<td>Contract</td>
<td>Best-in-class contract terms and conditions (e.g., clauses, terms, warranties, etc.).</td>
<td>What are the most important terms and conditions for this category/sub-category? What are best in-class terms and conditions?</td>
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Source: Accenture.
Cost, price and commercial information: Perhaps the most sought-after market intelligence is that which helps procurement understand supplier costs, margins, and how pricing policies differ across different product/service lines, regions and customer classes. Although volatile and never easy to predict, monitoring pricing trends and ensuring fair market value can be relatively straightforward for core commodities or other materials that are directly tied to these commodities. Understanding fair market value for indirect categories, however, is often much more difficult and can vary widely based on service requirements and geographic regions. This challenge is further compounded by the large number of indirect categories. Leaders seek specific pricing benchmarks and insights into best-in-class commercial structures for key areas of spend beyond their direct materials.

Contract information: Pricing and service levels are only part of the equation. Including the right category-specific contract terms and conditions that will help ensure supplier performance and value while mitigating the buying organization’s risk is equally important. Leading organizations are seeking to build knowledge of best-in-class terms, conditions and clauses for each specific category. While this information is also important across a large number of categories, it does not change as frequently or require constant monitoring of supplier and pricing related information.

Degrees of information: Public data versus real proprietary field intelligence

In addition to different kinds of information there are different levels of information, ranging from easy to access public data to the more difficult to access detailed knowledge, which we call field intelligence. Generally, the harder data is to acquire the more valuable it is and the more advantage it provides. For example, contrast the position of a retail investor, with access only to free online tools trying to compete against institutional traders with proprietary data feeds, custom analysis tools, visibility to real-time order flow and news, and advanced execution services. The retail investor is out-gunned and at a major disadvantage to respond to changing market conditions. Below is a continuum of information and examples:

Table 2: Market intelligence and access

<table>
<thead>
<tr>
<th>Kind</th>
<th>Public Data</th>
<th>Semi-Public Information</th>
<th>Field Intelligence</th>
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<tbody>
<tr>
<td></td>
<td>General Free</td>
<td>Project or subscription fee</td>
<td>Infrastructure or partnership investment</td>
</tr>
<tr>
<td>Cost: Free or very low</td>
<td></td>
<td>Cost: Moderate to expensive</td>
<td></td>
</tr>
<tr>
<td>Ease: Easy to acquire</td>
<td></td>
<td>Ease: Moderate</td>
<td>Cost: Expensive/High Priced</td>
</tr>
<tr>
<td>Value: Generic; limited value</td>
<td></td>
<td>Value: Less generic; more valuable</td>
<td>Ease: Difficult, therefore expensive</td>
</tr>
</tbody>
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Supply Market Insights
- Macro economic data (e.g., GDP, BLS, BLS)
- Sector data (e.g., ISM report on manufacturing)
- Customer one-time industry/supply market research studies (done on paid consulting basis)
- Synthesized industry-specific news and data (e.g., MetaMiner, The Plastics Exchange)
- Private supplier database with qualitative capability and performance insight based upon multiple buyer/supplier relationships

Supplier Intelligence
- Public marketing collateral (website, RFx responses)
- Company profiles focusing on financials, structure and lines of business (e.g., Hoovers, Onesource)
- Financial risk data and monitoring (e.g., Forseva, D&B)
- Diversity of MWBE status data (e.g., CVM)
- Price, rate and commercial structure intelligence gathered from multiple sourcing efforts across same sub-category

Cost, Price and Commercial Information
- Public Indices for traded commodities
- Synthesized industry-specific news and data via paid subscription for commodities and other (e.g., MetalMiner, The Plastics Exchange, DisplaySearch)
- Best in-class-terms and conditions developed from multiple contracting events across same sub-category

Contract Intelligence
- Not available
- Niche negotiation/benchmarking services; niche contract analysis software tools
- Projections and insights into M&A, new technology innovations based upon in-market experiences

Source: Accenture.
In an ideal world, every procurement organization would have access to real market intelligence for each of the categories they buy. The reality is that this is a difficult and costly endeavor. Companies must first assess where they need intelligence most (and whether data or supplier provided information will suffice), and then how to best acquire the right levels of information based on costs and expected value. We suggest evaluating each sub-category of spend and developing a strategy based upon the combination of two key factors: the importance of the sub-category and the importance of creating informational advantage within that sub-category; and access to real insight for that particular category. Real insight and intelligence often comes from engaging with many suppliers, considering numerous pricing, commercial and contract data points, and seeing supplier performance in action. Figure 1 provides a framework and suggested approaches to applying and acquiring information with these variables.

Figure 1. A market intelligence strategy framework

<table>
<thead>
<tr>
<th>Sub Category Signification (e.g., size of spend, impact of disruption)</th>
<th>Market Frequency (number of annual sourcing events for this sub-category)</th>
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<tbody>
<tr>
<td>High</td>
<td>Med to large, infrequently sourced categories</td>
</tr>
<tr>
<td></td>
<td>Leverage 3rd-Party Experts with category-specific intelligence</td>
</tr>
<tr>
<td>Low</td>
<td>Smaller, infrequently sourced categories (large spot-buys)</td>
</tr>
<tr>
<td></td>
<td>Buy ad-hoc research or leverage 3rd party</td>
</tr>
</tbody>
</table>

Source: Accenture.
1. **Build robust intelligence unit for large, frequently sourced core categories:** For the most important categories, in terms of size of spend and criticality to the business, which are frequently sourced and/or actively managed (think direct materials), a robust, internal intelligence unit often makes sense. Building this capability requires investment in specialist professionals to focus exclusively on a particular supply market. In addition to human capital investments, intelligence units require investments in data, including a combination of key public data and category-specific content sources, market monitoring and analysis tools. Many organizations have made such investments but can further enhance them by building an information infrastructure for capturing and sharing market intelligence across the broader procurement organization.

2. **Leverage third party experts and category-specific intelligence for medium-to-large, but infrequently sourced categories:** In high-dollar but less frequently sourced categories (many indirect categories, like logistics or marketing), the opportunity for driving business value is large. However, the cost and difficulty of building an internal intelligence capability is high. The diversity of categories of this type is vast, ranging from media to IT equipment to ocean freight. Therefore, investing in the human capital and expertise to cover every category of this type is prohibitive for all but the largest procurement organizations. Secondly, lower frequency in the market makes it more difficult for a single firm to leverage these sourcing events to aggregate pricing, rate data and supplier intelligence on a scale that could be useful. In this case, leveraging a third-party solution that brings market intelligence derived from frequent market activities across multiple customers can be the most cost-effective strategy.

3. **Buy ad hoc research for smaller, infrequently sourced categories:** Finally, in the case of lower dollar-value categories that are less frequently sourced, there is little business case to be made for developing deep internal expertise. The best approach in these areas is to either leverage third-party solutions (which often brings value and scale that goes beyond market intelligence), or acquire the necessary market intelligence by purchasing market analysis reports on an as-needed basis from research providers. This type of research typically provides general reconnaissance information and not true field intelligence but may be adequate given the smaller size of spend.

4. **Build basic intelligence capability for smaller, frequently sourced categories:** For categories that are frequently sourced, but less material in terms of dollar spend or impact to the business, a basic intelligence capability that leverages real-time market activity is likely to be sufficient. In this case, given high market frequency, there is an opportunity to add value by developing basic processes to capture intelligence from frequent sourcing activity and then populating simple supplier and rate databases with information about both supplier capabilities and past performance, as well as a price and rate information.
Conclusion

The opportunity for procurement to play a role as a key strategic business enabler is now bigger than ever. Market intelligence is a critical driver of world-class procurement organizations. However, developing a leading market intelligence capability is challenging even for the most resourceful organizations. This paper introduces a framework for examining strategies for developing market intelligence capabilities and makes the case that developing a strong foundation in market intelligence can deliver breakthrough business value and elevate the role of procurement by helping them gain access to 100 percent of an organization’s spend. Whether companies chose to build this capability with internal resources, partner with third-party providers or consider a hybrid approach, the market intelligence opportunity should be seized.
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