It is important to have an actionable definition of any approach in order for it to be successfully implemented in an organization. Therefore, we start our book with this definition of supply market intelligence:

*Supply market intelligence* is created when external information is collected and analyzed to form actionable conclusions that affect a company’s ability to strategically locate, secure, and manage sources of supply.

This book is for procurement practitioners, who are the front line managers and individual contributors working to improve the use of corporate resources, as well as category managers and Chief Procurement Officers (CPOs). As a result, we will balance the book’s focus between execution and management.

In this chapter, we provide a foundational explanation of supply market intelligence by breaking it down into its parts, and then exploring its terms in reverse:

1. Defining *intelligence*,
2. Considering the evolving nature of *markets*, and
3. Transitioning to the multiple perspectives on *supply* management.

Of the three terms, *intelligence* is the most ambiguous, but definitions of markets and best practices for managing sources of supply are rapidly evolving, as well. Despite the challenges associated with capturing and articulating the relevance of supply, markets, and intelligence in their own right, the ultimate goal is for procurement to create an environment where the three intersect to their full potential.
INTELLIGENCE

As stated above, intelligence is an abstract concept. The term has a different meaning in each situation where it is invoked. In the context of procurement, *intelligence* is the strategic, context-sensitive interpretation of information relevant to managing contracts, suppliers, and spend categories. Procurement professionals manage both internal and external intelligence in the regular course of their duties. Internal intelligence is based on a combination of historical spend, forward-looking budgets, and corporate strategies for growth, consolidation, and reorganization. External supply market intelligence is driven by information from outside of the organization, deemed relevant based on each company’s unique perspective. The input required to create external intelligence comes from sources such as incumbent and prospective suppliers, industry analysts, databases, and news resources. When created effectively and applied appropriately, supply market intelligence represents an undeniable competitive advantage for an organization.

Nothing that creates a measurable advantage is easy to come by, and intelligence is no exception. Although source information is often easily and (over) abundantly available, crafting intelligence requires a sustained investment of time and resources. Intelligence is not big, fast, or loud. It cannot be achieved just by collecting vast amounts of data, nor are its advantages revealed quickly or obviously to the casual observer. Information does not become intelligence until it has been read, qualified, and considered. The process of converting information into intelligence is influenced by a number of inputs, and therefore, is often based on trends rather than data that represents a single point in time. This combination of information filtering and analysis takes skill and effort to complete because it is performed in pursuit of a nuanced idea that has not yet materialized in the minds of the professionals seeking it.

The combination of information and analysis that lead to intelligence are not to be taken for granted. Reliable resources and methods are required to gather the relevant, quality information that ultimately provides the spark that becomes intelligence. Information is a raw material that must be collected and processed. The quality of this raw material and procurement’s interpretation of it are just as critical as they would be in any manufacturing or development process. As such, governance standards and processes should be established to ensure that only accurate, verifiable information and objective analysis are incorporated into the intelligence creation process. The pressure to become more strategic may lead procurement teams to turn their backs on tactical efforts, believing that they are less important. A choice does not need to be made between tactical and strategic; effective teams develop a long-term strategy and then outline the short-term, tactical steps required to execute it.
As desirable as intelligence is, it is not knowledge or information, and therefore, cannot be proven accurate in advance of a business decision based on it. There is inherent risk in the process of intelligence creation. There are endless examples of bad intelligence throughout history, many of which proved costly for the people and organizations that acted upon it. For example, in the late 19th century, J. P. Morgan invested heavily in Thomas Edison’s direct current (DC) model for electricity. Nikola Tesla, one of Edison’s former employees, invented a competing model called alternating current (AC). Morgan was a cautious investor, and he asked Edison if the competitive threat from AC was real. Edison disregarded AC as unsafe and assured Morgan that his own invention would be the prevailing technology. As a result of Edison’s assurances, Morgan continued to make sizable investments in DC. Unfortunately for both men, Edison was wrong. In a series of bids where the two technologies competed head to head, including the 1893 World’s Fair in Chicago and the 1895 installation of an electric power generating plant at Niagara Falls, AC was selected as the preferred form of electricity, and remains the standard to the present day.

J. P. Morgan received nonobjective, inaccurate intelligence from Edison and acted on it in a series of decisions that cost him in excess of $83 million in today’s dollars. The scientific details regarding how the AC and DC systems operated, along with their respective advantages and shortcomings, did not directly motivate Morgan’s investments. It was Edison’s interpretation of the competitive threat from AC as minimal and fleeting that served as the intelligence behind Morgan’s decision to invest. Although Edison was far from objective, his expertise in the emerging technology of electricity qualified him as a source of supply market intelligence. Had there been a less involved third party available to validate the information and Edison’s analysis and recommendations, Morgan might have made a different decision.

This historical example demonstrates the difference between information and intelligence. It also serves as a cautionary tale for creators of supply market intelligence and those who rely upon it. As the authors of the Wright Interface Blog summarized, “If J. P. Morgan would have listened more to his father’s advice and took [sic] more time to get to know Edison’s team at the time, he could have had analysts perform a third-party review that would have saved millions in J. P. Morgan investments and would have resulted in much faster profits for J. P. Morgan.” The perspective of the person responsible for performing the research and analysis has a direct impact on the quality of the intelligence created as a result. That person serves an important role with regard to the information that will become intelligence in the form of risks, recommendations, and trends. The professional in this position filters, analyzes, synthesizes, interprets, and defines action items. As shown later in this chapter, the importance of perspective creates
an opportunity for procurement to amass supply market intelligence even when there is expertise elsewhere in the company.

Although this reliance on the perspective and capabilities of a person or team leaves the door open to the misinterpretation of information, there are few if any comprehensive, viable alternatives. Intelligence will always involve judgment calls, both in the analysis of information and in the execution of the resulting recommendations. The intelligence creation process cannot be automated using technology because of the subjective understanding required to conduct research and process the results. Professionals conducting research must understand the motivating business conditions, as well as the information being considered and how they intersect, in order to arrive at relevant conclusions on behalf of the organization.

Some research can be outsourced or conducted by a consulting firm or services partner, but having an understanding of the relevant nuances gives an edge to an internal resource. Budget limitations may even prevent third parties from being relied upon for ongoing research and analysis. Procurement’s need for supply market intelligence does not end with the signing of a supply contract. Intelligence is regularly relied upon during the term of any agreement to manage supplier performance, evaluate new alternatives, revisit delivery timing, and optimize relationships between the buying organization and suppliers. Building the in-house capability to gather information and convert it into usable intelligence presents an opportunity for the organization as a whole, for procurement as a function, and for the individual possessing or developing the skills.

The subjective, context sensitive nature of intelligence expands the career possibilities for professionals with the skills required to conduct research and then apply critical thought to the information gathered so that it becomes usable intelligence. The internal applications for these skills are numerous. Each opportunity to leverage supply market intelligence improves the abilities of the person creating it and increases their value to the organization. As cited in The Organization for Economic Co-operation and Development (2011), “Leiponen (2000) found that, in contrast to non-innovating firms, innovators’ profitability was significantly influenced by the amount of higher education, higher technical skills and research skills possessed by employees.” When these skills are embedded within the procurement function, the combination of external understanding and internal visibility has direct bottom-line impact. Beyond the financial rewards, the opportunity exists to differentiate the company’s offering in the marketplace, and improve top-line performance, something included in an increasing number of procurement organizations’ performance goals.

It is not unusual for professionals to find themselves in procurement after an unexpected twist in their career path, as opposed to a purposefully selected destination. As a result, talent acquisition, management, and retention are always high
priority challenges for CPOs. In some cases, these professionals had not previously found the right environment for their skills, and they flourish in procurement. They learn to evolve in order to become successful individual contributors. There are a wide range of skills that are assets in procurement, including analysis, cost modeling, and negotiation. In addition to these “hard” skills, soft skills such as communication, creativity, and project management are critical to procurement’s success. When any subset of these capabilities is combined with a general interest in learning how things work and why, empowering a person to answer their own questions through research leads to greatly improved results.

Just as procurement professionals often learn how to source on the job, it is realistic to expect that a person with the desire to develop their skills can learn how to conduct secondary market research in the same way. This is especially true when the motivation for the research is the pursuit of intelligence that can be immediately applied to a task at hand. When supply market intelligence capabilities are layered on top of existing knowledge of the processes and disciplines required to source products and services, the results can be surprisingly good. Research and analysis are best performed with a solid understanding of the end purpose as well as sufficient subject matter expertise.

An even better approach ensures the person doing the research has a vested interest in applying the resulting intelligence to improve their own job performance. Owning the process of creating intelligence provides procurement with an incentive to dig deeper into relevant supply markets, and for the rest of the organization to support them in their efforts and trust their recommendations.

An important distinction should be made between analyzing information in the context of creating intelligence and the process of conducting spend analysis—a discipline most procurement professionals are familiar with. When internal data sets and third-party data enrichment are combined during spend analysis, the resulting conclusions usually take the same quantitative form as the information on which they are based. Technology and automation are requirements for making spend analysis implementations and timely refreshes possible. With supply market intelligence, qualitative and quantitative elements are combined during the analysis process. The resulting intelligence reflects the qualities of both, creating a context specific combination of data and subjective information. While spend analysis has long been supported by a number of well-designed technology solutions, there is no corresponding tool for analysis in the pursuit of supply market intelligence. The closest resources assist professionals in accessing information (fee for use databases) or in managing the physical deliverables created as a result (knowledge management applications).

The quantitative, or measurable, information commonly used by procurement includes supplier financial data, market growth trends, raw material pricing, and currency conversion rates. Qualitative information is not captured as succinctly,
but carries equal weight in the intelligence creation process. This information
provides insight into emerging markets, competitive technologies, the implications of regulatory requirements, and innovative applications of existing solutions. Qualitative information enables the foresight required to craft a visionary supply management strategy. Neither type of information can be used in isolation to generate supply market intelligence. Qualitative information without data lacks substance and validation. Quantitative information without context does not reflect the full potential or risk level of the situation at hand. It is in their consideration and combination that quantitative and qualitative information are able to inform corporate supply strategy.

As we have said, intelligence is not big, fast, or loud, but it is also not fact. There is inherent risk when a judgment call has to be made that no amount of research or analysis will ever overcome. Within that risk exists the opportunity for differentiation. No other company in a market will see information or perform analysis in the same way because it is tied directly to the long-term strategy, internal view, and market position of the company in question. Certainty is an unreasonable expectation in today’s rapidly evolving business climate, and decisions must be made in accordance with the best intelligence available at each moment. All information gathering and analysis must be done with an eye to the actionability of the conclusions and recommendations because only in its application does intelligence truly exist. When decisions are influenced as a result of research, the supply market intelligence process is complete. The company that does the best job riding the unpredictable tides of their supply markets is the company with the greatest potential for growth, innovation, and shareholder value creation.

MARKETS

In the most general sense, markets are groups of sources where companies locate the products and services they need in order to operate. They are also where companies sell their solutions or finished products. Just as each company must identify their addressable or available market as a way of assessing demand and determining revenue potential, they must also define the relevant markets when looking for a specific source of supply.

In the past, markets have been bound by traditional industry definitions and dominated by large players. Geography and the relative size and corresponding negotiating leverage of the buying and supplying organizations were defining factors, as well. A company’s market share reflects “the percentage that a company has of the total sales for a particular product or service” and demonstrates the strength of the connection between a company’s identity and the sphere in which they actively compete.
In *The End of Competitive Advantage*, Columbia Business School professor and strategy expert Rita Gunther McGrath discussed the requirement that businesses today be dynamic in order to compete, simultaneously looking for new markets to enter and watching for unexpected competitive threats. She illustrated this dynamic by highlighting the contrast between Sony and Apple in the music industry. This case shows how an established player (Sony) can quickly lose control of a market to a newcomer (Apple). According to McGrath (2013), “Sony provides a clear cautionary tale. It yielded dominance in portable music to Apple.”

No one would have expected Apple, a company historically focused on hardware devices and operating systems, to enter the music content business, let alone to undercut the prevailing physical delivery model of CDs with an entirely digital approach.

As electronic commerce improved and logistics costs fell, companies were able to expand their addressable markets. This expansion had a correspondingly positive impact on revenue, as new companies became prospective customers. These changes also required prevailing ideas about market share to become more flexible. Companies started competing in geographies that were previously beyond their reach. They also started marketing their products and solutions based on successful applications rather than remaining bound by traditional industries.

One of the biggest changes we need to make in our assumptions is that within-industry competition is the most significant competitive threat…. It isn’t that industries have stopped being relevant; it’s just that using industry as a level of analysis is often not fine-grained enough to determine what is really going on at the level at which decisions need to be made.

The changes seen in the strategies, techniques, and technologies of modern companies are reflected in the markets they are a part of, as well as the markets they source from. When growing levels of competition are viewed from procurement’s perspective, they translate into an indication of the potential for price compression. An increase in the number of qualified supply options gives procurement better negotiating leverage, and forces competing suppliers to improve or differentiate their offerings in order to stay competitive. Taking advantage of such an opportunity requires a well-informed procurement function. Procurement must evaluate traditional industry players as well as new entrants and alternative solutions for each bid. New market entrants now include not only startups or emerging economies, but cross industry sources of supply. The resulting competitive pressure can be applied in a number of ways, but only when procurement knows of their existence, and is able to structure bids so that nontraditional solutions are not disadvantaged because they don’t fit in the expected box.
The process for turning information into intelligence through analysis hinges on the perspective of the person conducting the research. In the same way, the definition created for the relevant market reflects the understanding of the individual responsible for managing a category of spend or a group of suppliers. It is no longer sufficient to define a source market by looking at incumbent or well-known suppliers and inviting their primary competitors to bid against them. Rather than basing forward-looking requirements on a historical contract, procurement should allow the business’ needs to serve as the center point, with any viable solution, regardless of industry, and in some cases location, receiving due consideration in the bid process. The market for any spend category should be objectively identified, taking particular care that the definition does not impose artificial limitations on supplier participation resulting from traditional thinking.

Approaching supply markets with an open mind is not easy. It requires a clear understanding of the identified need, as well as all of the solutions that may be qualified options. It also presents a strong opportunity for the application of supply market intelligence in procurement, and since markets continue to change, category expertise is harder to maintain today than it was in the past. Even experienced category managers should strive for a fresh perspective on the suppliers and solutions that are viable candidates for their business, whether they were traditionally considered part of the industry in question or not.

Another impact of changing supply markets takes place in the second tier of the supply chain, which is made up of a company’s suppliers’ suppliers. As shifts occur in how second tier supply partners source and pay for their raw materials and supporting services, there are corresponding changes in the cost drivers of first tier supply partners. An effective bid process increases visibility into all elements of price and cost. Whenever possible, it is ideal to have all prequalified suppliers provide insight into their cost structures and profit margins so that negotiations can take a “cost plus” approach like the model often used with services. Efficient suppliers will make use of the best available supply options just as procurement professionals strive to do on behalf of their own company. Suppliers that hold the same attitudes about resource efficiency as their customers do will make the best business partners.

As procurement looks to identify the suppliers that offer them a competitive edge, they need to build their understanding of the markets in play. Depending on the context, and their level of experience in managing a given spend category, procurement may examine a market from the top down or bottom up. There are other authoritative perspectives of markets that come into play as procurement seeks to become better informed. Analysts provide an outside in view of a market by building a broad understanding of all the players in a space, and tracking changes in the influence and innovation associated with long-time market dominators, as well as new market disruptors. Suppliers, including incumbent and
prospective business partners, have an inside out view of a market, and have their own incentives for understanding the competitive pressures from traditional sources and new market entrants. The extent to which procurement can combine these four approaches to define a market—up, down, in, out—as shown in Figure 1.1, will determine their ability to maximize the potential of the associated spend and to consider all possible alternatives.

When procurement looks at a market from the top down, they start with a general understanding of an industry or broad group of well-known suppliers. This approach is common in spend categories new to the company, where there are no incumbent suppliers under contract, or when procurement has not previously had access to manage the spend. If the spend has not been contracted in the past, the intelligence opportunity for procurement is significantly larger, as there may not be experience with the market elsewhere in the company. This means that their internal stakeholders are free from the “baggage” associated with traditional thinking and incumbent supplier relationships. As the market comes into focus, procurement will segment the suppliers into groups or types of companies and compile knowledge about relevant associations, cost drivers, and new developments or substantiated risks. This learning is weighed against corporate requirements to better define minimum qualifications for supplier participation. Finally, procurement selects the subset of the market that best fits their business requirements, and continues to develop an increasingly granular understanding, until they have identified the suppliers that will be invited to compete for a contract and gathered the necessary information to collect pricing.

The opposite approach is taken when procurement defines a market from the bottom up. This is a supply- or supplier-driven exercise, and starts with the companies that are known to be relevant. Procurement then backs up to increasingly higher-level perspectives that not only include other qualified companies and products, but also reveals the forces at play in the market as a whole. It is those

Figure 1.1 Supply market perspectives
forces that procurement will need to understand in their effort to document the risk profile, cost structure, negotiating leverage, and relative opportunity represented by the category of spend. When procurement is compiling intelligence about a market where contracts already exist, the day-to-day managers of the contract are likely to have relevant expertise that should be taken into account. This is not, however, a substitute for procurement developing their own understanding. As in the example of J. P. Morgan, Edison, and DC electricity, the perspective of the person providing market intelligence is crucial. Procurement’s objectivity may open the door to savings and value that internal stakeholders would rather not have to consider. As Payne and Dorn (2012), the authors of Managing Indirect Spend, wrote, “What end users probably cannot give you, but may think they can, is an objective perspective of the marketplace as a whole.” Balancing the need to build relevant intelligence with the politically savvy ability to make internal stakeholders feel respected is a constant challenge for procurement.

Procurement teams are often organized around categories of spend. These are high-level portions of the company’s expenditures, and they loosely match the organizational structure of the operations portion of the company. Examples of these categories are maintenance, repair, and operations (MRO), logistics, hired services, marketing, capital equipment, information technology, and indirect (or not for resale) goods. Each company has their own category structure and places more emphasis on the categories of particular importance to them in the form of increased granularity and procurement headcount. For example, a freight company will have far more purchasing activity around equipment parts, repair, and fuel than a banking or pharmaceutical company.

Procurement professionals associate themselves with a category of spend much like the company as a whole does with their target customers. While building up this expertise is critical, as soon as it prevents a person from objectively evaluating potential sources of supply, it has become more of a liability than an advantage. Individuals should beware of the same pitfalls that prevent companies from being flexible enough to survive shifts in consumer demand. If procurement is to be objective, while also maintaining good working relationships with their operational category counterparts, they need to strike the right balance of industry knowledge and reliance on process discipline.

The very idea of a market is in flux, and all indications are that we should expect nothing but continued change in the years to come. Companies must learn to adapt to more dynamic environments just as they have learned to take advantage of additional sources of supply in the form of new materials and emerging economies. The extension of modern supply chains has created a globally competitive landscape. This raises new challenges and opportunities that are felt on both the sales and procurement sides of every organization.
As competition for business increases, profit margins are driven down. In response, innovative companies look to increase efficiencies or experiment with alternate materials and delivery models. When this is not enough to fuel healthy revenue growth, companies must look further and with an open mind to increase their addressable market, finding new applications for the products and services they sell. This not only puts pressure on the sales force, it creates a competitive dynamic that well-informed procurement professionals can leverage to the benefit of the whole organization in the quest to manage their sources of supply better than the competition.

**SUPPLY**

From procurement’s perspective, a company’s spend is evidenced by the transactions for all of the products and services purchased in the course of operation. Since each organization has a finite amount of working capital that they are able to spend or invest in the most strategic way possible, procurement—as the steward of that capital—is best positioned to create a competitive advantage through its use.

At a high level, procurement is tasked with bringing as much spend under management as possible. The conditions required to consider spend ‘under management’ vary by organization. At a minimum, spend that is under management has been analyzed, competitively bid, and put under contract. Lower company margins demand elevated requirements for spend management techniques. “Broadly speaking, professional cost management practices have been adopted by industrial sectors in the sequence one might have expected. That is, the higher the proportion of a company’s revenues that are spent with third parties, the greater the need to manage the spend professionally.”\(^8\) Bringing spend under management is so critical to the success of organizations that it is one of the top metrics used to track procurement’s performance, in many cases second only to realized savings. That being said, not all spend is addressable, or eligible to be affected through the competitive bid process. Examples of non-addressable spend are taxes, tolls, postage, and some salaries. These categories of spend should be designated and isolated immediately when spend management strategies and baselines are established.

All of the remaining addressable spend is divided up using a category hierarchy and then associated with the appropriate function in the organization. The goal of this process is to ensure that, at least in theory, all spend is being actively managed by someone: procurement or otherwise. Ideally, procurement should have some role in managing all addressable spend, even if they are not responsible for making award decisions. Procurement is an objective internal third party, that
can identify and enable spend management improvement opportunities through consistent processes, centralized technology, and of course, supply market intelligence. In some cases, the goal may be to include the same payment terms, service level agreements, and liability limitations in all contracts. In others, the benefits of having procurement manage all spend are associated with the solutions they administer, such as eSourcing, eProcurement, or ERP systems.

The benefit of having procurement serve as an internal consultancy, has led to the prevalence of the Center of Excellence (COE) model. This organizational model enables a relatively small yet strategic and empowered group of professionals to serve as a central anchor for the procurement processes, solutions, and results that allow purchases to be made in a distributed fashion throughout the organization. In a COE, procurement professionals may be dedicated to an industry or category of spend. Alternately, they may be industry generalists but process experts that are able to work across any number of categories. Often, procurement professionals combine strong general business skills with high-level category understanding. They then acquire relevant, highly-detailed category knowledge at the outset of each project. During the ramp-up for each sourcing effort, procurement benefits from the experience of their operational colleagues. They must also be prepared to investigate cost drivers, new solutions, and alternative sources of supply on their own for the purposes of validation and improvement.

There are common types of supply, although the categories of spend associated with each type vary by company and industry. There are also a variety of organizational models to be considered for procurement, and the size of the team relative to the amount of spend to be managed often determines how much ownership they will have. Indirect spend, or not for resale, is almost always owned by a centralized procurement function. Indirect spend is necessary for running the company, but does not go into the product or solution delivered to the company’s customer base. Direct spend, on the other hand, is associated specifically with producing, manufacturing, and delivering the company’s offerings to clients. Many companies also separate the handling of products and services, citing complexity concerns with services, although both types of spend benefit equally from strategic sourcing. Each type of spend or supply has unique internal requirements and is bid out, negotiated, and purchased in the context of relevant external markets.

Indirect spend includes office supplies, facility maintenance services, and temporary labor. These categories of spend are usually owned by procurement, and are often considered low-hanging fruit because they require relatively little effort to source and negotiate, but may deliver significant results through increased visibility and simple efficiencies. There is also less risk associated with switching suppliers and less internal attachment to incumbents. Despite this relative simplicity and ease of access, strategy and intelligence must play a role in indirect
spend management. In many companies, categories of indirect spend have been overlooked as opportunities for value creation. As a result, completely new approaches to contract structure or materials use are available, resulting in significant savings for the organization from an unexpected source.

As an example of strategic results generated from an indirect spend category, the relationship between Procter & Gamble (P&G) and Jones Lang LaSalle, a commercial real estate services provider, was so transformational that it was featured in the book *Vested* by Kate Vitasek and Karl Manrodt (2012). Within that relationship, a “reinvention of the approach to facilities management potentially could save P&G a great deal of money, generate efficiencies and process standardization, and enable resources to focus on key priorities.”

No one would say that P&G, a global consumer packaged-goods company, is in the facilities management business. Most of their customers interface with them through third-party retailers. However, this did not stop P&G from seeing the potential impact of a more strategic approach to managing this indirect spend category or from taking a risk to approach it in a truly innovative way.

Unlike indirect spend, direct spend is used in the creation or delivery of a company’s core product or service. In P&G’s case, this would include the chemicals, paper, and pulp used to make their products, as well as their consumer packaging. Due to the fact that direct spend categories and suppliers are critical to the operation, there are likely to be non-procurement professionals in the company that have deep experience in the relevant markets. In direct material sourcing projects, procurement needs to fully exercise their supply market intelligence capabilities in order to hold their own with internal stakeholders and to stand on equal footing with suppliers that understand their value to the business. While intelligence about a market may already exist internally, applying that understanding using a process as detailed as strategic sourcing or supplier relationship management may require additional research specific to the purpose, and procurement is best positioned to meet this need.

Beyond the ownership of a spend category by an internal function for operational reasons, products and services are often addressed differently. Products, whether they are part of direct or indirect spend, can be described quantitatively with specific measurements and specifications. Demand quantities are tied directly to sales projections or production estimates. Inventory management can be improved through internal efficiencies and properly structured restocking agreements with suppliers to provide further opportunities to save money and optimize working capital. Quality measures are a critical aspect of any material contract, as squeezing suppliers on price without specifying quality and design will result in unacceptably high levels of unusable product. The relevant supply market intelligence will be material, supplier, and source location focused.
Research must cover price volatility and product availability, as well as new materials and their impact on in-place processes and equipment.

Services, on the other hand, give many experienced procurement professionals pause. Yet with the right understanding and effort, services can be sourced like materials. Skills or capability requirements parallel the specifications seen with items. Demand is based on headcount or hourly effort estimates in place of unit count quantities. Quality measures are equally important, as are cost structures, and demand management is handled not through inventory but through internal approval processes and human resource policies. Just as pressing too hard on supplier margins results in poor quality products, forcing services contract pricing too low results in suppliers that hire minimally qualified people at lower rates in order to preserve their margins. For this reason, many services are bid using a “cost plus” model where the hourly wage paid to the worker is established up front but not negotiated between the buyer and supplier. Research and supply market intelligence for services includes skills shortages, new program management models, alternate source geographies, and going rates for the services and skills required.

One services model that requires a considerable amount of time from procurement is outsourcing. When an organization decides to outsource a function, they hand the associated tasks—and sometimes the employees—to a third-party provider. Usually, this is done because the third party can manage the function better and more cost effectively, leaving the company’s direct employees to focus on the core business. When possible, the contract and cost structure governing such agreements should be tied to fixed deliverables. This properly motivates the supply partner to ensure a successful outcome with minimal administrative overhead. Supply market intelligence may include if and how other companies have outsourced a specific function, and what the benefits and complications are. Although outsourcing does not always mean offshoring, procurement must research the locations, both domestically and abroad, that can provide the skills required at a competitive cost, and balance the outsourcing against the risks and complications associated with time differences, language barriers, and intellectual property concerns.

Every type of supply that is purchased and used by an organization, whether a product or service, is better managed with an understanding of relevant markets. Many companies have grown through acquisition, as well as through organic means. As a result, procurement’s first task is often to centralize corporate spend in order to get better visibility into current supply practices. The processes, agreements, and suppliers in place represent one half of the opportunity associated with the spend category in question. Alternative approaches, structures, and providers represent the other half of the opportunity. When procurement can assess the as-is situation and compare it to qualified alternatives in place outside
of the company, the resulting gap between the two represents the value creation opportunity for the organization. Part of the effort required to get the company to consider changing its current practices is informing internal stakeholders about them, something procurement can not do without a good understanding of the practices themselves.

CONCLUSION

In this initial consideration of supply market intelligence, there are a number of moving pieces, processes, and resources that must align for intelligence to be created. This effort takes place at the strategic level of a project, and as such, the desired results may be hard to visualize until the moment that alignment takes place. For procurement departments or professionals looking to elevate themselves and their performance, making an investment in developing the necessary research and analytical skills may present the value creation opportunity they seek.

Fortunately for the professionals who have these skills, there are a variety of applications in any business along with a scarcity of automated substitutes. Even when supporting talent is available for hire from external firms, having an internal perspective not only improves results, it brings with it a long-term, vested interest in the organization’s success.

As markets continue to evolve, information and intelligence need to be refreshed and kept current. Emerging sources of supply and competition provide simultaneous pressure to manage the company’s working capital as efficiently and strategically as possible. The process of gathering and maintaining supply market intelligence is never complete. This means that there are perpetual opportunities to improve the ways that resources are spent and requirements are fulfilled.

When procurement continually refines its interpretation and application of intelligence, intellectual property and a competitive advantage are created. These increase procurement’s contributions to the organization and increase how much we are valued in return.

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6. Ibid., 9.