

Market Analysis: A Sound Basis for Decision-Making in Strategic Sourcing

The market analysis is the systematic examination of a supply market in terms of suppliers, prices, capacities, technologies and market dynamics. It forms the basis for sourcing decisions, tenders and the long-term supplier strategy. In practice, the quality of a market analysis determines whether buyers can exploit negotiation potential, identify supply chain risks at an early stage and make sound make-or-buy decisions.

Key facts

- The market analysis systematically examines supply structure, price levels, capacities and trends in a supply market.
- Typical methods include Porter's Five Forces model, SWOT analyses, supplier segmentation and cost driver analyses.
- It is a prerequisite for sound sourcing strategies, tendering procedures and category playbooks.
- Key KPIs are supplier concentration, price indices, lead time variability and coverage of the purchase volume.
- A market analysis document is frequently a mandatory part of the procedure in public tenders.
- Current drivers include supply chain dynamics, the nearshoring debate and the digitalisation of procurement data.

Definition: Market Analysis

A market analysis is the structured collection and assessment of all relevant information about a supply or sales market. In the procurement context, the focus is on the supply side: How many suitable suppliers are there, what prices and terms are customary in the market, and what capacities, technologies and alternatives are available?

Distinguishing It from Market Research

While classic market research primarily examines sales markets and customer needs, market analysis in procurement focuses on supplier and input markets. It answers the question of from where, at what conditions and with what risks the required materials and services can be sourced. In practice, the two disciplines overlap, for example when material costs depend on end-market developments.

Position in the Procurement Process

The market analysis typically takes place at the beginning of the strategic sourcing cycle. Its findings feed into the sourcing strategy, the ABC-XYZ analysis and supplier segmentation. Only on this basis can tendering procedures be meaningfully designed, category playbooks created and negotiation targets derived. Without reliable market data, such tools remain theoretical.

Objectives and Benefits of Market Analysis in Procurement

The main objective is to create certainty for decision-making: buyers should know what options the market offers, what prices are appropriate and where dependency risks exist. This gives rise to concrete benefits in terms of cost, risk and innovation.

Cost Optimisation and Negotiating Position

Those who know price indices, cost drivers and reference prices do not negotiate blindly. A sound market analysis makes clear whether a quoted price is market-standard, excessive or suspiciously cheap. Typically, competitive bids based on valid market knowledge allow price advantages in the low to mid single-digit percentage range of the purchase volume to be realised – depending on market structure and starting position.

Early Risk Detection and Security of Supply

Market analyses uncover concentration risks, for example when a few suppliers dominate a critical material. Such findings feed into supply chain resilience management: they lead to second sources, safety stocks or nearshoring options before a disruption occurs. Lead time variability and incoming quality can also be assessed from the market side.

Innovation and Technology Trends

In addition to price and risk, the market analysis shows which technologies, processes or materials are becoming established in the market. This is relevant for technical procurement in order to discuss material approvals, alternative materials or new manufacturing processes at an early stage and to leverage the innovation potential of suppliers.

Methods and Procedure of a Market Analysis

In practice, a multi-stage approach has proven effective: preparation, data collection, evaluation and strategy derivation. The effort should match the value of the material group – a critical core component deserves a deeper analysis than a C item.

Demand and Material Group Analysis

The starting point is the internal data basis: which material groups are sourced, in what quantities, with what purchase volume and with what critical importance? The ABC-XYZ analysis and materials planning provide the basis here. Only those who know their own demand can address the market in a targeted manner.

External Market and Supplier Survey

The second step captures the supply side: the number and structure of potential suppliers, market concentration, capacity situation, price level and regional distribution. Sources typically include supplier and industry databases, trade fairs, certification registers, trade press and structured supplier surveys. A documented, reproducible approach is important.

Assessment and Strategy Derivation

The collected data is assessed, often using established instruments such as Porter's Five Forces model, SWOT analyses or portfolio matrices. The result flows into the supplier strategy: bottleneck materials receive second-source strategies, leverage items competitive tenders, and strategic

components partnership approaches. Results should be documented in the category playbook and updated regularly.

Key KPIs and Assessment Dimensions

To prevent a market analysis from fizzling out as a one-off study, measurable metrics should be defined that reflect the state of the market and are monitored periodically. Which metrics are specifically relevant depends on the material group.

Supplier and Market Metrics

Key figures include the number of qualified suppliers per material group, the degree to which the purchase volume is covered by the top suppliers, and regional distribution. A high concentration – in practice, values above 60 to 70 per cent of the volume with a single supplier are considered risky – indicates monopoly risks.

Price and Performance Metrics

Price indices, cost driver analyses and reference prices show the price dynamics of the market. In addition, lead time variability, incoming quality and service levels provide statements about the market's performance capability. These metrics should be kept up to date through supplier master data management and incorporated into supplier evaluations.

Capacity and Demand Metrics

For material groups with long lead times, the key question is: how fully utilised is the market, and how flexibly do suppliers respond to demand peaks? Capacity data and lead times are crucial analytical dimensions, particularly for electronic components, cast and welded parts or special substrates.

Risks, Controls and Legal Aspects

Market analyses are only as good as their data basis. Outdated data, one-sided supplier information or missing documentation lead to wrong strategic decisions. In addition, legal framework conditions must be observed.

Data Quality and Currency

Market data becomes outdated quickly, especially with volatile commodity and logistics prices. In practice, a regular update cycle has proven effective – often every six months or annually per material group. Changes in the market situation, such as capacity bottlenecks or price erosion, should be defined as triggers for an unscheduled update.

Antitrust Limits

When gathering market information, antitrust limits must be observed: exchanging price and terms data with competitors or suppliers can be problematic under competition law. Sensitive data should be collected in aggregated and anonymised form. If in doubt, a legal review of the individual case is advisable.

Documentation and Compliance

In public tenders and regulated procurement, a documented market analysis is often mandatory, for example to justify an open procedure or restricted tendering procedure. Internally, too, the

documentation protects against allegations such as favouritism or negligence. It should comprehensively record coverage, selection criteria and the assessment of alternatives.

Current Developments and Digitalisation

Market analyses are changing from one-off projects to ongoing processes. Digitalisation, data integration and supply chain risks are significantly changing the approach and the tools.

Data-Based Market Monitoring

Modern procurement organisations use data from ERP systems, inventory management, procure-to-pay (P2P) and supplier evaluations to monitor market developments continuously. Instead of one-off analyses, dashboard and alert systems are emerging that continuously evaluate price indices, lead times and quality metrics.

Resilience and Regional Diversification

Supply chain disruptions in recent years have sharpened awareness of market analysis as a risk management tool. Topics such as nearshoring, supplier segmentation according to resilience criteria and cross-functional sourcing are now an integral part of many market analyses. Not just price but availability across the entire cycle moves into focus.

AI-Supported Evaluation

Artificial intelligence increasingly supports the screening of market data, the classification of material groups and the identification of alternative suppliers. In practice, this does not replace expert assessment but accelerates the data basis. Strategic interpretation remains the buyer's task.

Typical metrics

Number of qualified suppliers per material group: typically ≥ 3

Lower figures indicate concentration or bottleneck risks.

Share of purchase volume held by top-1 supplier: $< 60\text{--}70\%$

In practice, higher shares are considered uncritically risky.

Lead time variability: $< \pm 10\%$

High variability indicates unstable market capacities or performance problems.

Currency of the market analysis: ≤ 12 months

Strategic material groups should be updated more frequently.

Price deviation from the reference price: $< \pm 5\%$

Larger deviations require negotiation or market measures.

Practical Example

A medium-sized mechanical engineering company sourced around 80 per cent of its purchase volume of precision-machined steel parts from a single supplier. A structured market analysis revealed not only the concentration risk but also significant price deviations from market-standard reference prices and high lead time variability. Based on the findings, the manufacturer derived concrete measures.

- Systematic search for and qualification of two to three second sources in other regions
- Tendering of the largest line items with validated reference prices as negotiation anchors

- Building increased minimum stock levels for critical components as a transitional buffer
- Inclusion of market KPIs in quarterly reporting to the management board

Conclusion

The market analysis is not an end in itself but the foundation of almost all strategic sourcing decisions – from the sourcing strategy to tendering procedures to risk management. Its quality determines negotiation success, security of supply and cost levels. What matters is the transition from a one-off project to an ongoing process with defined KPIs and update routines. Companies that systematically process market data and feed it into tools such as the ABC-XYZ analysis and category playbooks decide faster and more robustly. The effort should always be guided by the value and risk of the respective material group.

Frequently asked questions

What is a market analysis in procurement?

A market analysis in procurement is the systematic examination of a supply market in terms of suppliers, prices, capacities, technologies and risks. It provides the factual basis for sourcing strategies, negotiations and supplier selection. The focus is on the question of which sources of supply and terms the market realistically offers.

How does a market analysis proceed step by step?

Typically, the analysis begins with an internal view of demand and material groups, for example based on an ABC-XYZ analysis. This is followed by the external survey of suppliers, prices, capacities and trends. The data is then assessed, documented and translated into a sourcing strategy.

Which methods are part of a market analysis?

Commonly used tools include Porter's Five Forces model, SWOT analyses, portfolio matrices and cost driver analyses. In addition, supplier segmentation, benchmarking and structured supplier surveys provide valuable data. The choice of method should be guided by the effort involved and the strategic importance of the material group.

Why does procurement need a market analysis?

It creates certainty for decision-making in negotiations, supplier selection and make-or-buy questions. It also reveals dependency and concentration risks before they manifest as supply difficulties. In public tenders, it is often formally required, for example to justify the choice of procedure.

How often should a market analysis be updated?

In practice, a regular update cycle has proven effective, typically every six months to a year per strategic material group. In addition, defined triggers such as strong price movements, capacity bottlenecks or supplier failures should trigger an unscheduled update. Routine and C items require significantly longer intervals.

What is the difference between market analysis and market research?

Market research classically focuses on sales markets and customer needs, whereas market analysis in procurement focuses on supply and supplier markets. Both sometimes use the same methods but differ in object and objective. In the procurement context, market analysis serves to identify sources of supply and determine prices.