

Market Monitoring: Keeping Procurement Markets Systematically in View

Market monitoring refers to the systematic and continuous collection, evaluation and interpretation of information on procurement markets, suppliers, technologies and price developments. In industrial procurement, it provides a sound basis for decision-making in materials planning, negotiation and strategic procurement planning. Those who monitor markets in a structured way recognise price shifts, supply bottlenecks and innovation impulses earlier than competitors. Market monitoring thereby becomes a central building block for procurement objectives and supply chain resilience.

Key facts

- Market monitoring comprises the systematic collection of market prices, supplier structures, technology and demand developments in the procurement field.
- It differs from one-off market enquiries through its continuity, defined methodology and documented evaluation.
- Typical information sources include commodity indices, supplier surveys, customs and statistics data, and quotation comparisons from ongoing tenders.
- Findings feed directly into procurement objectives, negotiation strategies, framework agreements and supplier evaluation.
- Metrics commonly used in practice include price index deviations, supplier concentration and the accuracy of a company's own price forecasts.
- Legal limits arise particularly in the handling of competitive information; data sources must be reviewed on a case-by-case basis.

Definition: Market Monitoring

Market monitoring is the ongoing, structured collection and evaluation of information on markets relevant to one's own procurement. It forms the information basis for operational and strategic purchasing decisions and is closely interlinked with price formation and supplier strategy.

Distinction from Market Research

While market research is usually event-driven – for example before a tender or contract renewal – market monitoring is a continuous process with defined observation fields, time points and responsibilities. It does not produce a one-off report but an ongoing data basis from which trends and early warning signals are derived. In practice, the two are often combined: continuous monitoring provides the background signal, while event-driven research provides the level of detail needed for concrete decisions.

- Continuity rather than one-off analysis
- Defined observation fields and KPIs

- Early warning function for bottlenecks and price risks

Observation Objects in the Procurement Context

In addition to prices and price volatility of raw materials, the subjects of market monitoring are above all supply and capacity structures, technological developments, regulatory changes and demand signals from one's own industry. Supplier news such as takeovers, plant closures or insolvency warnings also belong to this, as they directly influence supply chain resilience. Procurement should additionally monitor its own demand side, for example by comparing delivery schedule call-offs with forecast errors, in order to be able to make realistic market enquiries.

Methods and Approach of Market Monitoring

An effective market monitoring system combines internal data with external sources and assigns clear responsibility to both. The effort should be tiered on a risk basis: critical material groups are monitored more closely than C-parts.

Using Internal Data Sources

Evaluations from ongoing tenders, quotation comparisons and completed framework agreements provide the most reliable indications of the actual market situation. KPIs from operational procurement – such as variance analyses between planned and actual prices, the catalogue share or error rates in invoice verification – also provide insights into market dynamics and process quality. This data is available at no cost and should serve as the first evaluation stage of any market monitoring.

External Sources and Instruments

Externally, commodity and price indices, port and logistics data, customs statistics, supplier surveys and regular enquiries via tendering platforms are suitable. Price volatility of raw materials can be detected early through regular index comparisons with the company's own contract prices. For technological developments, patent analyses, trade fair visits and structured supplier discussions are suitable, for example as part of a supplier feasibility review before new part awards.

- Commodity and price indices as early indicators
- Regular supplier surveys and audit results
- Quotation comparison from ongoing tender processes

Organisation and Cadence

In practice, commodity group ownership has proven effective, whereby the indicators to be reviewed and their cadence are defined per commodity group – critical raw materials frequently monthly, stable series parts quarterly. Results are documented in a standardised format and shared in regular coordination meetings with development, planning and sales. The four-eyes principle (P2P) from the process environment can be transferred here to data release in order to avoid misinterpretations.

Important KPIs of Market Monitoring

Market monitoring only becomes measurable when observation fields are underpinned by metrics. These should be limited to a few decision-relevant quantities.

Price and Cost Indicators

Key metrics are the deviation between market price and purchase price, the development of raw

material surcharges and the price development per unit of quantity over several quarters. Comparing this with existing volume tiers and terms shows whether contracts are still market-compliant. If deviations rise, an adjustment of framework agreements or a re-award is indicated.

Supplier and Risk Indicators

The number of available suppliers per commodity group, the order-book utilisation of central suppliers and the second-sourcing level describe the supply structure. High supplier concentration is regarded as a risk signal, as are rising lead times or more frequent emergency orders, which indicate capacity bottlenecks. Supplier quality – for example measured via Cpk/process capability for delivered parts – also belongs in the overall assessment of the supply market.

Measuring Forecast Quality

How well one's own market monitoring works is shown by the accuracy of the forecasts derived from it. Price forecasts can be compared retrospectively with actually concluded prices; demand forecasts with the actual quantities from delivery schedule call-offs. A systematically measured forecast error makes visible whether the monitoring instruments need to be improved.

Anchoring Market Monitoring in the Procurement Process

Insights from market monitoring only take effect when they flow into firmly defined process interfaces – from demand planning to contract renewal.

Interface with Strategic Planning

Monitoring results feed into the annual procurement strategy and the annual procurement objectives. Concrete measures are derived here from market trends: building a dual source, adjusting contract terms, substituting materials or measuring the depth of value creation to decide on outsourcing. Without current market data, these objectives remain theoretical.

Interface with Operational Materials Planning

Operationally, market monitoring influences order quantities, call-off patterns and safety stocks. When price increases are recognisable, it can make sense to pull quantities forward or define a freeze fence for changes in order to maintain planning certainty. Conversely, a relaxed market signals room for negotiation on new volume tiers or extended warranty agreements. Warranty claims and contract terms should also be renegotiated periodically when the market situation is favourable.

Interface with Data and Systems

In digitalised procurement functions, monitoring data is linked with supplier master data and catalogue content. Content enrichment supplements item master data with market price references and availability information, thereby supporting catalogue buying. The invoice error rate often falls when master data and terms are consistently maintained on the basis of current market insights.

Risks, Limits and Controls

Market monitoring is only as good as its data basis and its legal safeguards. Without clear rules, poor decisions and compliance risks arise.

Data Quality and Bias

Common weaknesses are outdated indices, one-sided supplier information and confirmation bias in interpretation. A comparison of several independent sources and documented assumptions significantly reduce these risks. Regular plausibility checks against the company's own quotation data prevent index values and real prices from drifting apart.

Legal and Ethical Limits

Cartel law and data protection apply when collecting market information. The exchange of sensitive price and volume data with competitors is taboo; even indirect coordination via joint suppliers can be problematic. Permissible data use should be reviewed on a case-by-case basis – for example by the legal department or external advisers – since the assessment depends on the specific circumstances.

Controls and the Four-Eyes Principle

Evaluations and the recommendations derived from them should be reviewed by a second person, analogous to the four-eyes principle (P2P) in the ordering process. Documented assumptions, source references and release protocols create traceability and protect against later audits. Anyone wishing to avoid savings leakage should also check whether negotiated terms actually arrive in orders and invoices.

Current Developments and Digitalisation

Digitalisation is fundamentally changing market monitoring: data becomes available faster, evaluation becomes more automated, but also more demanding.

Automated Data Collection

In practice, automated comparisons between price indices, supplier portals and the company's own order data are gaining in importance. Systems can flag price deviations, trigger alarm thresholds and alert buyers to the need for action. This significantly reduces manual effort and increases response speed, but does not replace expert assessment.

Supply Chain Resilience as a Driver

The experiences of recent years have intensified the demand for structured supplier monitoring. Early warning indicators for capacity bottlenecks, logistics disruptions or geopolitical risks are becoming part of market monitoring and supply chain resilience. Emergency orders can thus be triggered less frequently and in a more controlled manner.

Integration into Platforms and Marketplaces

B2B marketplaces continuously generate up-to-date quotation and price information and thus offer a practical complement to classical monitoring sources. Those who compare regularly obtain a robust picture of market prices and available supply capacities. Internationally, Incoterms such as FCA are also relevant, since transport and customs costs significantly influence the comparative prices observed.

Typical metrics

Purchase price vs. market price deviation: < 5 %

Common target corridor in practice for market-compliant contract prices.

Suppliers per critical commodity group: ≥ 2 qualified sources

Frequent minimum for risk reduction and supply chain resilience.

Price forecast accuracy: $> 85\%$

Benchmark for the quality of market monitoring over one quarter.

Monitoring frequency for critical commodities: monthly

Usual cadence in practice for volatile raw materials.

Practical Example

A mid-sized mechanical engineering company with around 120 procurement staff established structured market monitoring for its critical commodities: steel, electric motors and castings. A commodity group manager reviewed price indices, the order-book utilisation of key suppliers and the company's own variance analyses from completed purchase orders on a monthly basis. After the monitoring signalled a sustained rise in electric steel prices, the existing framework agreement with the main supplier was adjusted ahead of schedule and a second source was qualified. In the following year, the company was thereby able to partially cushion a price increase and maintain delivery reliability in a tight market position.

- Monthly index comparison for three critical commodities with documented variance analysis
- Early warning indicators for lead times and supplier utilisation per plant
- Combination of framework agreement, volume tiers and a qualified second source
- Quarterly reports to executive management and development for deriving procurement objectives

Conclusion

Market monitoring transforms procurement from reaction to shaping: those who continuously keep prices, suppliers and technologies in view negotiate better, identify risks earlier and set procurement objectives more realistically. The prerequisites are clearly defined observation fields, a sound data basis and fixed process interfaces in strategy and materials planning. The effort should be concentrated on a risk basis on the critical material groups. Digital tools and marketplace data significantly lower the barrier and make structured market monitoring practicable even for mid-sized procurement functions. Those who pursue it consistently strengthen competitiveness and supply chain resilience in the long term alike.

Frequently asked questions

What does market monitoring mean in procurement?

Market monitoring is the continuous, systematic collection and evaluation of information on procurement markets, suppliers and price developments. It provides the data basis for materials planning, negotiation and strategic procurement planning. Unlike one-off market research, it runs on a permanent basis and with defined indicators.

Which methods belong to market monitoring in procurement?

Typical methods include comparing commodity and price indices, evaluating a company's own quotation and order data, supplier surveys, and customs and logistics data. Trade fair visits, patent analyses and ongoing tenders serve as additional information sources. A risk-based cadence is important: monitor critical commodities more frequently, C-parts less often.

Why is market monitoring important for the supply chain?

It identifies shortages, price increases and supplier failures at an early stage, before they lead to production stoppages. Early warning indicators such as rising lead times or market concentration support targeted measures such as second sourcing. Market monitoring thereby directly strengthens supply chain resilience.

Which KPIs are used for market monitoring?

Common metrics include price index deviations, the development of purchase prices compared with market prices, the number of available suppliers per material group and the accuracy of a company's own forecasts. KPIs such as lead times or the frequency of emergency orders also provide relevant signals. What matters is consistently tracking a small number of measurable indicators.

How often should procurement markets be monitored?

The cadence depends on volatility and criticality: for volatile raw materials and individual parts, monthly monitoring has proven effective; for stable series parts, quarterly. After major market events, ad-hoc reviews make sense. Constancy with documented results is more important than frequency.

What are the legal limits of market monitoring?

Cartel law prohibits the exchange of competitively sensitive price and volume data with competitors, including via joint suppliers. Data protection rules apply to information about individuals. Permissible data use depends on the individual case and should be reviewed legally.