

Market segmentation in procurement: systematically analyse supply markets and use levers in a targeted manner

Market segmentation in procurement refers to the systematic division of the supply market according to objective criteria such as product groups, regions, supplier structures or cost structures. The aim is to obtain a clear picture of the relevant supply side for each material or commodity group and to derive the right procurement strategy from it. For buyers and supply chain managers, it is the foundation for cost reduction, risk management and supplier portfolio work.

Key facts

- Market segmentation divides supply markets according to criteria such as commodity group, region, technology field or number of suppliers.
- It forms the analytical foundation for make-or-buy decisions, supplier selection and negotiation strategies.
- Typical segments are strategic, lever, bottleneck and non-critical items according to the Kraljic portfolio.
- Cost breakdowns such as clean-sheet costing per segment are frequently used for this purpose.
- As a rule, the segmentation should be updated annually or when relevant market changes occur.
- In the B2B marketplace environment, it supports buyers in specifically identifying suitable manufacturing suppliers for individual segments.

Definition: market segmentation in procurement

Market segmentation in procurement is the analytical decomposition of the supply market into manageable sub-markets (segments) that differ in terms of competitive structure, cost drivers, technology and risk profile. It is typically carried out on the basis of ABC and commodity group analysis and culminates in a supplier and material portfolio. This enables procurement strategy and the negotiation approach to be designed specifically for each segment rather than generically.

Distinction from supplier segmentation

Market segmentation first considers the supply side as a whole: how many suppliers are there, what is the competitive dynamic, which cost structures characterise the segment? The subsequent supplier segmentation then assigns concrete suppliers to this market environment based on criteria such as supplier audit score, process capability or delivery reliability. The two steps interlock: without an understanding of the market, there is no benchmark against which suppliers can be assessed in a meaningful way.

Economic benefit

Segmentation creates transparency about purchase volumes, cost levers and dependencies and makes

it possible to bundle the resources of the procurement organisation where the greatest savings potential or highest risk lies. It is also a prerequisite for a sound procurement business plan, because savings targets can be realistically quantified per segment. In practice, the benefit becomes apparent above all in the prioritisation of negotiations, RFQs and supplier meetings.

Methods and procedure of market segmentation

The build-up usually follows a staged model: first, spend data is consolidated and sorted into commodity groups; then the market structure is analysed for each commodity group; finally, portfolio classification and strategy derivation follow. A uniform data foundation is essential, otherwise segments are not comparable. Sound segmentation is open to iteration – initial assignments are frequently corrected after first market contacts.

Criteria for forming segments

Proven criteria are commodity group and technology, purchase volume and share, regional origin of suppliers, market concentration (number of suppliers, monopoly position of individual suppliers), cost structure, and regulations such as Dual Use Goods or standards. For manufactured purchased parts, manufacturing processes (e.g. CNC machining, castings, electronics manufacturing) and quality-related acceptance criteria are also relevant. Typically, four to eight characteristics are documented per segment.

Portfolio approaches and strategy derivation

In the classic Kraljic portfolio, segments are classified along the axes of profit impact and supply risk into four quadrants: strategic, lever, bottleneck and non-critical. Derived from this: use global tenders and discount scale reviews in the bid comparison for lever items, de-risk bottleneck items through second sources and contractual safeguards (e.g. penalty clauses, liquidated damages), and develop strategic items through long-term partnerships such as Joint Development Manufacturing (JDM). Non-critical items are procured in a standardised and automated manner.

Data sources and cost breakdown

Data sources include spend data from ERP systems, supplier directories, industry directories and marketplaces, catalogue prices and historical contract prices. For the cost side, clean-sheet costings are frequently prepared in order to understand material, manufacturing and overhead shares per segment and to be able to verify quoted prices. For international procurement, sea freight cost components and Incoterms such as CIF are also incorporated into the cost analysis as segment characteristics.

Key KPIs for segmented supply markets

Without measurable targets, segmentation remains a paper exercise. Per segment, metrics should be collected continuously that depict the cost situation, degree of risk and supplier quality. These KPIs are typically derived from inventory, order and quality data and are presented in the plan-actual comparison of inventory and the plan-actual comparison of costs.

Cost and volume metrics

Key metrics are purchase volume per segment, share of total spend, price development indices per material group and the savings achieved against the procurement business plan. For bid comparison, a structured bid evaluation helps to analyse quotes for discount scales, price composition and cost

anomalies. These metrics show in which segment the greatest procurement lever can be brought to bear.

Risk and supplier metrics

Risk-oriented metrics include the number of qualified suppliers per segment, single-source ratio, dependency levels and the supplier audit score. The results summarised in the score from supplier audits document quality and maturity per segment. Further indicators are complaint and return rates as well as chargeback-relevant incidents such as neglected complaints or contract breaches, which serve as an early warning indicator for segment risks.

Risks and controls in market segmentation

Typical risks are outdated segment data, segmentation that is too coarse or too fine, and selective assessments that over- or understate individual suppliers or regions. Without regular review, segments lose their validity and strategies miss their mark. Countermeasures include defined update cycles, four-eyes review and regular market validation.

Common error patterns

Common pitfalls in practice: segments are created once and then no longer maintained, particularly in rapidly shifting markets such as electronics or raw materials. Confusing market with supplier segmentation also leads to wrong conclusions: a strong supplier portfolio in a shrinking market is no indicator of safety. Finally, overly fine segmentation with dozens of single-segment commodity groups risks strategic steering drowning in detail data.

Control and review mechanisms

Six-monthly or annual segment reviews have proven effective, in which volume, price and supplier data are reconciled per segment. For tenders, e-sourcing supports the structured comparison of quotes per segment and, where appropriate, the systematic application of discount scale reviews and clean-sheet costing. Changes of supplier or contract adjustments are recorded via a documented change order process so that segment changes remain traceable. Legal aspects such as competition law or Dual Use Goods are examined on a case-by-case basis.

Current developments and digital support

Segmentation is increasingly shifting from one-off Excel portfolios to continuously updated digital models. Spend analysis tools, AI-supported market data research and B2B marketplaces make it possible to identify segments more quickly and compare suppliers more efficiently. At the same time, requirements are growing due to supply chain due diligence obligations and sustainability criteria, which must be reviewed per segment.

Digitalisation of segment work

E-sourcing platforms and digital RFQ workflows make it possible to send standardised requests per segment to a broad pool of suppliers and to compare quotes automatically. B2B marketplaces for manufacturing suppliers help to identify new suppliers in bottleneck or lever segments and thereby broaden the segment structure. Bid evaluation is also becoming increasingly digital, for example through automated comparisons of discount scales or cost breakdowns.

Sustainability, risk management and regionalisation

Sustainability and compliance criteria are increasingly being taken into account as segment characteristics, for example CO intensity of manufacturing, supply traceability or local production capacity. In practice, regionalisation strategies mean that segments are analysed separately by region more frequently than was previously the norm. Risk management and segmentation are increasingly merging: disruptions in critical segments are met with defined escalation paths and alternative sources.

Typical metrics

Purchase volume per segment: Share of total spend, frequently > 5% for strategic segments

Basis for prioritisation; smaller segments are typically procured in a standardised manner.

Number of suppliers per segment: ≥ 3 qualified suppliers

A lower number indicates a bottleneck or monopoly position with increased risk.

Single-source ratio per segment: < 10% of volume

Benchmark value; higher figures require a second-source strategy.

Savings compared with the procurement business plan: 3–5% p.a. in lever segments

Usual benchmark; varies depending on market phase and negotiation potential.

Practical example

A medium-sized mechanical engineering company with an annual purchase volume of around €60 million introduced systematic market segmentation for the first time. The prerequisite was a consolidated spend analysis across all sites, from which 42 commodity groups were derived. The portfolio quickly revealed that a large proportion of the volume was concentrated in only a few segments, while bottleneck items – hydraulic valves in particular – had no second source. The segment review and subsequent measures delivered noticeable savings in the lever area in practice within twelve months and significantly reduced single-source risks.

- Consolidation of all spend data and creation of 42 commodity group segments by technology and volume
- Prioritisation of negotiations in three lever segments with structured bid evaluation and discount scale review
- Establishment of second sources for bottleneck items, including supplier audits and supplier audit score
- Introduction of an annual segment review with reconciliation of volumes, prices and supplier risks

Conclusion

Market segmentation in procurement is not an end in itself, but the analytical foundation of any well-founded procurement strategy. It makes visible where volume, risk and procurement levers lie, and enables negotiation approaches, supplier portfolio work and risk management to be tailored precisely to each segment. What is decisive is that segmentation is not a one-off exercise but is regularly updated and adapted to changing market and product conditions. With a solid data foundation and clear KPIs, it becomes a steering instrument that concentrates procurement resources where they create the greatest value. Those who apply it systematically measurably improve their cost position, supply capability and negotiating power.

Frequently asked questions

What is market segmentation in procurement?

Market segmentation in procurement is the systematic division of the supply market into sub-markets that differ by commodity group, region, technology, supplier structure or cost profile. It provides the basis for deriving the appropriate procurement strategy for each segment. In practice, this is usually followed by the supplier portfolio according to Kraljic.

Which criteria are used for market segmentation in procurement?

Common criteria include purchase volume, technology and manufacturing processes, regional origin of suppliers, number of competing suppliers, cost structure, and compliance and quality-related requirements. Depending on the segment, regulations such as Dual Use Goods or international Incoterms may also be taken into account. The selection should be made so that the segments differ meaningfully from one another in strategic terms.

What benefit does market segmentation offer to buyers?

It creates transparency about volumes, cost levers and dependencies and makes it possible to concentrate procurement resources where savings potential or risk is greatest. From this, concrete measures can be derived, such as tendering in lever segments or establishing second sources in bottleneck segments. It also forms the basis for a sound procurement business plan.

How often should market segmentation be updated?

In practice, annual or six-monthly segment reviews have proven effective, supplemented by ad-hoc updates in the event of relevant market changes such as raw material price movements, supplier failures or technological disruption. Particularly volatile segments such as electronics or raw materials require closer monitoring. Without regular maintenance, segmentation quickly loses its validity.

What is the difference between market segmentation and supplier segmentation?

Market segmentation looks at the supply market as a whole – competitive structure, cost profiles and risk situation across sub-markets. Supplier segmentation then assigns concrete suppliers to this environment, typically based on performance and quality criteria such as the supplier audit score. The two steps interlock and build logically on one another.

What role does market segmentation play in tenders and RFQs?

It determines who tenders are addressed to and which award or negotiation strategy is appropriate for each segment. In lever segments with many suppliers, a broad RFQ tender with structured bid evaluation is recommended; in bottleneck segments, targeted second sourcing is more suitable. Discount scale reviews and cost breakdowns can also be applied uniformly per segment.