

# Supply Market Intelligence: market knowledge as a procurement steering instrument

Supply Market Intelligence refers to the systematic collection, processing and usable preparation of information on procurement markets, suppliers and price formation. It makes market developments visible at an early stage and turns them into concrete recommendations for action for procurement and strategy. For technical buyers, it is therefore a central instrument for not merely reacting to commodity trends, capacity bottlenecks and supplier risks, but actively shaping them.

## Key facts

- Supply Market Intelligence comprises systematic market knowledge about suppliers, prices, capacities and technology developments.
- It differs from classic market research through structure, currency and direct linkage to purchasing decisions.
- Typical sources are price indices, supplier data, tender results, industry reports and internal e-auction data.
- Core tasks are market observation, cost structure analysis, supplier assessment and scenario development.
- In practice, it leads to better negotiating positions, earlier countermeasures against risks and more robust sourcing strategies.
- Its quality depends less on the volume of data than on regularity, data maintenance and internal anchoring.

## Definition: Supply Market Intelligence

Supply Market Intelligence (SMI) is the structured process of continuously observing and evaluating procurement markets and translating them into decision-relevant insights. It provides procurement organisations with a robust picture of the current and future market situation.

## Distinction from market research and spend analytics

Market research primarily looks at sales markets; spend analytics, by contrast, analyses internal spend data. Supply Market Intelligence combines both with external market data and focuses specifically on procurement markets. The internal view shows what is being bought; SMI answers under which market conditions this is possible today and in the future. Only the combination of both perspectives enables sound sourcing decisions, for example when choosing between several countries of supply or technologies.

## Purpose and benefits for technical procurement

Technical buyers face volatile commodity prices, long lead times and specialised supplier markets. SMI provides early transparency here: which capacities are growing or shrinking, how are material prices developing, which regulatory requirements such as REACH or RoHS are changing the value chain?

This yields directly usable implications for negotiations, contract design, category strategies and the evaluation of possible alternatives to outsourcing.

### **Levels of market intelligence**

In practice, a distinction is made between three levels: the macro level (economic conditions, commodity indices, regulation), the industry level (capacities, shifts in demand, technology trends) and the supplier level (financial strength, utilisation, price behaviour). A viable SMI covers all three levels in appropriate depth, as risks often only become apparent in interaction – for example when an industry is booming yet individual suppliers remain structurally weak despite a good market situation.

## **Setting up and organising Supply Market Intelligence**

SMI is not a one-off project but a continuous process with clear responsibility, defined sources and regular evaluation. A prerequisite is a clean data foundation, in particular a well-maintained data catalogue and a functioning master data process, so that market data can be attributed to the correct material groups.

### **Sources and types of information**

Proven sources include commodity and price indices, supplier assessments from internal projects, results from e-auction preparation and execution, tender documents, customs and regulatory data, and public industry reports. Complaint reports and carrier performance data also provide valuable market signals, for example about increasing supply problems in individual regions. A clear separation of facts, estimates and mere opinions is essential.

### **Responsibility and category governance**

Without clear responsibilities, market data quickly disappears into a void. In a functioning category governance, it is defined for each material group who monitors the market, at what intervals it is updated and to whom findings are passed on. A regular market update per category is typical, supplemented by ad-hoc alerts for critical events such as plant closures, force majeure notifications or sudden price movements.

### **Integration into systems and processes**

Market data only unfolds its full value when it flows into operational systems. Seamless ERP integration makes it possible to feed index clauses or price adjustment clauses with current market data and to carry out the should-cost vs. actual price comparison systematically. Likewise, forecast management and order management benefit from reliable capacity and lead time information, since inventory decisions are then based on real market conditions rather than outdated assumptions.

## **Methods and approach in overview**

The methodology ranges from simple observation lists to quantitative cost modelling. In practice, a tiered approach has proven effective, adjusting the analytical effort to the strategic importance of the category.

### **Cost structure and should-cost analysis**

Central is the understanding of suppliers' cost structures: material shares, production hourly rates, energy costs, logistics shares. A product cost calculation based on these drivers – often referred to as a

should-cost analysis – shows how market movements should be reflected in prices. Deviations between market-based cost models and actually requested prices are thereby made visible in a negotiation-ready manner.

### **Porter analysis and supplier profile**

For strategic categories, a structured market analysis based on the five competitive forces has proven effective: supplier power, customer power, substitutes, new entrants and competitive intensity. This is complemented by a supplier profile with financial indicators, capacity data, references and dependencies. This makes it possible, for example, to assess whether a planned e-auction in a category is actually based on sufficient functional competition or whether alternative suppliers must first be qualified.

### **Scenarios, early warning indicators and alerting**

Scenarios are derived from the data: what happens to availability and price if demand rises, new tariffs are introduced, or a main supplier fails? Early warning indicators such as industry order intake, capacity utilisation or planned investments provide hints before market movements manifest themselves in prices. In addition, established metrics such as the First Pass Yield (FPY) of suppliers or the invoice error rate help to continuously monitor the operational quality of the market.

## **Key KPIs and evaluation of Supply Market Intelligence**

The success of SMI can be measured using output metrics and impact metrics. Output metrics describe the process; impact metrics describe the contribution to procurement results.

### **Process and quality metrics**

Typical process metrics are the proportion of strategic categories with current market analyses, the currency of data holdings and the number of market updates carried out per year. The master data coverage rate – i.e. how completely material groups are assigned to a market profile – is also a reliable indicator of basic quality. Gaps in data maintenance are known to lead to distorted market pictures.

### **Impact on procurement and the value chain**

At impact level, the negotiation result against the should-cost vs. actual price comparison counts, the number of supply risks identified and mitigated at an early stage, and cost avoidance through timely countermeasures. Soft effects are also measurable: shorter decision-making paths for category strategies, better negotiation preparation and greater precision in supplier selection under the preferred supplier policy.

### **Typical guideline values**

Generally applicable benchmarks should be used with caution, as dependence on industry, product complexity and market situation is high. In practice, the following orders of magnitude frequently serve as a guide: strategic categories are typically formally updated once to twice a year, whereas critical commodities are monitored monthly. More meaningful than absolute values is the trend over several periods, for example within a regular should-cost vs. actual price comparison.

## **Risks, limitations and controls**

SMI is a powerful but not error-free instrument. Misinterpreted or outdated data can lead to wrong

decisions that are more expensive than missing information.

### **Data quality and interpretation errors**

Common sources of error are outdated indices, non-comparable market definitions and the transfer of average values to specific parts. An evaluation that applies global steel price indices unfiltered to customer-specific precision components will inevitably lead to wrong conclusions. Checks remedy this: plausibility testing against internal purchase prices, comparison with current tender results and documented assumptions in every analysis.

### **Legal limits of information gathering**

When collecting supplier information, legal limits must be observed, such as data protection requirements, competition law and confidentiality obligations under contracts such as works contracts or framework agreements. Statements on compliance obligations such as REACH or RoHS should always be checked on a case-by-case basis, as regulatory requirements can change. Generalised legal advice is no substitute for SMI.

### **Strategic pitfalls**

A further risk is false precision: detailed cost models convey objectivity but are often based on assumptions. Likewise, an excessive focus on price data can crowd out qualitative signals such as growing quality problems or diminishing technology competence. Checks here include regular reconciliation with cross-functional sourcing rounds, in which design, quality and logistics contribute their perspective.

## **Current developments and digitalisation**

The availability of market data has increased significantly in recent years. At the same time, the expectation is rising to translate information into decisions more quickly and more specifically.

### **Automated market monitoring**

Modern SMI increasingly uses automated data feeds, for example for commodity indices, freight rates and lead times. Supplemented by tools for freight audit and carrier performance analysis, this creates a near real-time picture of own procurement costs. As a result, index clauses in contracts can be designed more precisely and deviations clarified more quickly.

### **AI-supported evaluation and digital marketplaces**

Artificial intelligence helps to systematically evaluate unstructured sources such as news, customs data or tender portals. Digital B2B marketplaces complement this with direct market contact: they make suppliers, capacities and price signals visible and thus provide primary market data from genuine transaction contexts. Agile procurement benefits because short-term market information can flow directly into ongoing sourcing cycles.

### **Resilience and sustainability as new information dimensions**

Alongside price and availability, resilience and sustainability data are moving into the foreground: emission values, recycling rates of materials, regional value creation and compliance evidence are becoming regular components of market profiles. Procurement organisations are increasingly building these dimensions into their supplier assessments and tender preparations, as customers and regulators demand such evidence more frequently.

## Typical metrics

### **Coverage of strategic categories with market analysis: > 90%**

typical guideline for more mature procurement organisations

### **Currency of category profiles: <= 12 months**

critical commodities often monthly

### **Negotiation result vs. cost-model benchmark: 0 to 5% deviation**

deviation from the should-cost value as a guide

### **Number of supply risks identified early: Documented per quarter**

trend more meaningful than absolute value

## Practical example

A medium-sized mechanical engineering company with an outsourced manufacturing share of around 60 per cent observed rising prices for precision steel tubes without being able to classify the causes. The company subsequently built up a structured market intelligence capability for the category: it defined the raw steel cost driver, established an index comparison and qualified two additional suppliers from other regions.

- Development of a cost model with material, energy and logistics shares as the basis for the should-cost vs. actual price comparison
- Monthly monitoring of commodity indices and capacity reports with defined escalation thresholds
- Qualification of two alternative suppliers including piloting in order to reduce dependence on the main supplier
- Negotiations based on the cost structure analysis instead of blanket price rounds, with results documented in the category strategy

## Conclusion

Supply Market Intelligence transforms scattered market information into a robust steering instrument for procurement. Its value arises not from the volume of data but from regularity, clear responsibility and the linkage to concrete processes such as negotiation, supplier selection and risk management. Technical buyers benefit in particular because specialised supplier markets are often opaque and require rapid response. Those who build up SMI systematically demonstrably improve their negotiating position and identify risks earlier. The effort should be guided by the strategic weight of the category – not every material group needs the same depth of analysis.

## Frequently asked questions

### **What does Supply Market Intelligence mean?**

Supply Market Intelligence refers to the systematic observation and evaluation of procurement markets, suppliers and price drivers. The aim is to identify market developments at an early stage and translate them into purchasing decisions such as negotiations, sourcing strategies and risk management. It combines external market data with internal spend and supplier data.

### **How does Supply Market Intelligence differ from Spend Analysis?**

Spend Analysis examines internal spend data: what is being purchased, from whom and at what prices.

Supply Market Intelligence adds the external view: how is the market developing, what capacities and price drivers exist, and how is bargaining power distributed? The two approaches complement each other and are usually combined in practice.

### **Which data sources are used for Supply Market Intelligence?**

Typical sources include commodity and price indices, industry reports, customs and regulatory data, supplier assessments as well as internal tender and e-auction results. Operational data such as complaint reports and delivery reliability also provide valuable market signals. A clear separation of facts and estimates is essential.

### **How do you establish a market intelligence function in procurement?**

A step-by-step approach has proven effective: start with the strategically most important categories, define responsibilities and an update cycle, and select a few reliable sources. At the same time, master data and material grouping should be well maintained so that market data remains attributable. A regular market update per category is a pragmatic way to start.

### **What role does Supply Market Intelligence play in e-auctions?**

An e-auction requires functional competition – this can only be assessed with market knowledge. SMI shows whether enough qualified suppliers exist, what their cost structures look like and whether the e-auction preparation allows for realistic tender documents. Without this foundation, sham competition and subsequent price adjustments threaten.

### **How can the value of Supply Market Intelligence be measured?**

Possible metrics include the proportion of strategic categories with current market analyses, data currency, the negotiation result against cost-model benchmarks, and the number of supply risks identified at an early stage. The trend over several periods is more meaningful than individual absolute values. In qualitative terms, decision quality in category strategies also counts.