

Procurement Market Competitive Analysis: Market Transparency as a Strategic Lever

The procurement market competitive analysis is the systematic examination of the supplier landscape, market prices, capacities and power relationships in the markets from which a company sources its goods and services. It forms the information basis for make-or-buy decisions, award strategies and negotiation planning. It gives buyers verifiable arguments vis-à-vis management and suppliers. The following article explains the methods, KPIs, risks and current developments of this discipline.

Key facts

- The procurement market competitive analysis evaluates the supplier structure, price level, capacities and switching barriers of a procurement market.
- Typical building blocks are Porter-based market positioning, spend analysis, bidder register and network analysis.
- Core questions are dependency risks, price drivers, innovative capability and the number of genuinely competitive suppliers.
- The results feed into procurement strategies, negotiation targets, award decisions and supplier portfolio measures.
- In practice, analyses should typically be updated annually or upon significant market changes.

Definition: procurement market competitive analysis

The procurement market competitive analysis denotes the structured collection and evaluation of all market participants and market forces relevant to procurement. It answers the question of how many capable suppliers exist, how strongly they are positioned, and which price and negotiation criteria apply.

Distinction from supplier evaluation

While supplier evaluation assesses individual, already known suppliers on the basis of their history, the competitive analysis is directed at the entire market, including potential new suppliers. It thus also provides the basis for onboarding new sources and for defining eligibility criteria in tenders. Only the market view makes supplier comparisons fair, because the evaluation is based on objective market benchmarks. The two instruments complement each other and should draw on a uniform set of criteria.

Position within the procurement process

The competitive analysis usually belongs to the procurement strategy development phase, often even before demand bundling and tendering. It draws, among other things, on a spend analysis, on data from the bidder register and on market-side sources such as industry reports, price indices or trade fair and network insights. The results are visualised in a commodity group board and used as the basis for award decisions, negotiation management and the question of vertical integration versus external sourcing.

Methods and approach for the procurement-side market view

For a robust competitive analysis, a multi-stage approach has proven effective: market definition, data collection, supplier evaluation and strategic derivation. The choice of methods depends on commodity group, volume and risk profile.

Market definition and data basis

First, the relevant market is defined in spatial, technological and economic terms: which technologies, standards and approvals constitute participation requirements, and which regions are relevant for logistics or sanctions reasons? Subsequently, data from ERP, spend analysis, catalogues, dealer networks and specialist publications are consolidated. Network analysis techniques also help uncover hidden cross-connections between suppliers, such as common owners or supply relationships. The data basis and market definition must be documented so that results remain traceable later on.

Porter-based market positioning

Porter's Five Forces analysis has proven effective for structuring: the bargaining power of suppliers, the bargaining power of customers, the threat of new entrants, substitute products and competitive intensity. In the procurement context, this is frequently supplemented by market concentration (e.g. the question of how many suppliers cover more than 80 per cent of the volume) and switching barriers. As a rough rule of thumb: if a supplier delivers more than 20 to 30 per cent of the annual trading volume of a critical commodity group, there is already a significant dependency risk in practice.

Structuring the supplier landscape

The identified suppliers are sorted into segments – for example by price level, technological leadership, capacity or regional proximity. A ranking by socio-demographics (size, financial strength), performance capability (technology, certifications, REACH and REACH-related substance topics) and logistics suitability is helpful. Those who later build bidder registers and tenders should derive a prioritisation from this: which three to five suppliers should be actively approached, and which remain as reserves?

Important KPIs and evaluation dimensions

Without measurable quantities, a competitive analysis remains theoretical. The following metrics have proven effective in practice, although benchmarks vary considerably depending on the commodity group.

Price and cost metrics

Central metrics are the price variance between suppliers, the price path over several years and the cost structure (material, labour and energy shares). Typically, prices between comparable suppliers of the same specification are often 10 to 30 per cent apart in practice – an indication of negotiation potential or performance differences. Price indices for raw materials, energy costs (keyword: supplier energy audit) and wage levels in the production countries also belong to the evaluation, because they make the suppliers' value creation traceable.

Market and supplier concentration

Metrics such as the number of active suppliers, the largest supplier's share of volume and the number of qualified alternative sources provide statements about dependency risk. In addition, it is possible to measure how quickly a replenishment lead time (recovery time) would be required in the event of the

main supplier's failure. A common target value is that critical commodity groups should have at least two qualified alternative sources within four to twelve weeks – a rule of thumb that must be refined depending on industry and product.

Performance and risk metrics

Typical performance indicators include on-time delivery, scrap and complaint rates, the expedite rate and the rate of compliance with agreed Incoterms EXW or other delivery clauses. On the risk side, the result of sanctions list screening, certification status, regional risk index and the degree of spare parts availability (obsolescence management) are of interest. These metrics are ideally consolidated in a dashboard per commodity group and reconciled with the market knowledge from the competitive analysis.

Risks, controls and compliance aspects

A competitive analysis is only as good as its data and governance quality. Flawed market pictures lead to wrong sourcing decisions and negotiating positions.

Data quality and competition law

Common weaknesses are outdated market data, sham competition through informal collusion, and the underestimation of entry barriers. In tenders, it should be noted that the exchange of competitively sensitive information with individual suppliers carries cartel law risks; tender documents, eligibility criteria and evaluations should be traceably documented, for example in the award file. For public contracts, the public procurement law requirements must be observed – in individual cases, a legal review should be carried out.

Compliance and supply chain

The competitive analysis increasingly includes the review of compliance risks: sanctions list screening, financial and reputational risks, REACH conformity for chemical substances, and supply chain due diligence obligations. The long-term supplier declaration (LTS declaration) for products from conflict minerals is also a frequently requested element. These checks are ideally carried out before the first contact and later deepened during supplier onboarding. This avoids late-binding surprises, where a suitable supplier fails on compliance only after the award.

Ensuring supply continuity

Concrete control mechanisms can be derived from the findings of the competitive analysis: establishing safety capacity for critical items, qualifying second sources and a clear escalation process for supply incidents. Contract compliance provisions (such as index clauses, volume commitments, exit clauses) should also be derived from the market picture. Those who know only one capable supplier negotiate from a weak position – the market knowledge is the basis for negotiation.

Current developments and digital tools

The procurement market competitive analysis is being significantly transformed by digitalisation, data analytics and geopolitics. Buyers must continuously adapt their methods.

Data analysis and AI support

Modern tools automate data collection: web crawling on supplier websites, automatic classification of

spend analysis data, AI-supported summarisation of market reports. Bid matrix logics and digital auction platforms are also based on a clean competitive picture. Professional validation remains decisive: algorithms recognise patterns, but cannot replace business models, delivery capability or innovative strength. In practice, a hybrid of data analysis and direct market contact via trade fairs, audits and technical discussions has proven effective.

Geopolitics, energy and regulation

Trade conflicts, export controls, energy price volatility and supply chain laws are changing procurement markets faster than before. Competitive analyses therefore need to be updated more frequently – in some cases quarterly in volatile commodity groups. Topics such as regionalisation, dual sourcing, vertical integration and the establishment of safety capacity are gaining in importance. Monitoring the energy efficiency and energy audits of energy-intensive suppliers is also becoming part of the market picture, because energy prices are direct price drivers.

Sustainability as a competitive factor

Ecological and social criteria are increasingly becoming hard award criteria. Buyers evaluate suppliers not only on price and delivery capability, but also on CO intensity, recyclability and labour standards. Competitive analyses should therefore systematically capture suppliers' sustainability data and reconcile it with technical performance capability. This also opens up opportunities: those who identify sustainable and innovative suppliers early secure supply advantages and proactively meet regulatory requirements.

Competitive analysis in interaction with other procurement instruments

The competitive analysis does not operate in isolation but is interlinked with awarding, supplier development and risk management. Its value only materialises through the consistent implementation of its findings into processes.

Interlinking with tendering and award

Insights from the competitive analysis feed directly into the design of tenders: the selection of eligibility criteria, the degree of bundling (demand bundling), duration and price negotiation mechanics. The bidder register shows which suppliers actually submitted bids in comparable awards – a more realistic competitive indicator than pure market data. After the award, the award file serves as the basis for later analyses and audit evidence.

Supplier development and risk management

Where the analysis reveals weaknesses in competition – such as too few qualified suppliers or high switching costs – supplier development comes into play: technical support, process improvement, joint small-series production to qualify new suppliers, or the establishment of second sources. In risk management, the results are condensed into early warning indicators: dependency ratios, replenishment lead time, sanctions and legal risks. Supplemented by continuous network analysis, indirect risks via upstream suppliers can also be identified.

Data maintenance and master data quality

For competitive analyses to remain reliable, up-to-date supplier and material master data are indispensable. Concepts such as the golden record – a cleansed, unambiguous data record per supplier

and material – ensure that spend analysis, bidder registers and market data are mutually consistent. Without this data hygiene, duplicates, incorrect volume allocations and distorted market pictures arise. Responsibility for data quality should be clearly assigned and reviewed regularly.

Typical metrics

Number of qualified suppliers per commodity group: typically $\geq 2-3$

Fewer than two qualified sources are regarded in practice as a dependency risk

Price variance between suppliers: frequently 10–30 %

A wide spread indicates negotiation potential or performance differences

Volume share of the largest supplier: $< 25-30$ %

Higher shares in critical commodity groups require second sources or safety capacity

Update interval of the analysis: annually, quarterly in volatile commodity groups

Geopolitics and raw material prices may necessitate more frequent reviews

Practical example

A medium-sized mechanical engineering company with around 350 employees previously sourced precision cast parts from two European suppliers. A procurement market competitive analysis revealed that both were connected through a common upstream supplier and that several qualified, previously unused suppliers existed in Eastern Europe. On this basis, the procurement strategy was adjusted.

- Spend analysis over three years to identify critical commodity groups and volume bundling
- Establishment of a structured bidder register with eight qualified suppliers including sanctions list screening
- Tendering with defined eligibility criteria and subsequent bid matrix evaluation
- Qualification of two second sources via exemplary small-series production and establishment of safety capacity for critical parts

Conclusion

The procurement market competitive analysis turns gut feeling into sound procurement decisions. It shows how many suppliers are genuinely competitive, where price potential lies and where dependency risks exist. Its value does not arise from a one-off run, but from regular updating and interlinking with tendering, supplier development and risk management. Companies that systematically monitor their procurement markets negotiate from an informed position and respond more quickly to market changes. For technical buyers, it is therefore an indispensable foundational instrument of strategic sourcing.

Frequently asked questions

What belongs in a competitive analysis in procurement?

Typical components are the supplier landscape (number, size, regional distribution), price levels and cost structures, capacities and technologies, switching barriers, and supply chain and compliance risks. These are supplemented by metrics such as price variance, supplier concentration and replenishment lead time. The results feed into a procurement strategy for each commodity group.

How do you conduct a competitive analysis of the procurement market step by step?

First, the relevant market is defined (technology, region, standards), then a data basis is built up from spend analysis, bidder registers and external market data. This is followed by the assessment of suppliers in terms of performance, price and risk, as well as a Porter's Five Forces analysis. Finally, concrete measures are derived: award strategy, negotiation targets, second sources or safety capacity.

Which methods are suitable for analysing procurement markets?

Proven methods include Porter's Five Forces analysis, ABC and spend analyses, network analysis to uncover supplier interconnections, and benchmarking using price indices and bidder registers. For critical commodity groups, scenario analyses and supply risk scoring supplement the picture. The choice of method depends on commodity group, volume and risk profile.

How often should a competitive analysis of the procurement market be updated?

In stable commodity groups, an annual update is generally sufficient in practice. In volatile markets – such as energy prices, raw materials or electronic components with obsolescence risks – quarterly reviews are recommended. Triggers for an unscheduled update also include market consolidations, geopolitical events or an imminent supplier failure.

What is the difference between competitive analysis and supplier evaluation?

Supplier evaluation assesses known, already active suppliers on the basis of performance history, quality and reliability. The competitive analysis, by contrast, looks at the entire procurement market, including potential new suppliers and market forces. It provides the basis for classifying supplier evaluations fairly and identifying new sources.

Why is competitive analysis important for buyers?

It creates market transparency as a basis for negotiation, uncovers dependencies on individual suppliers and reveals potential through new sources or demand bundling. Without a market picture, buyers cannot realistically evaluate price proposals and fail to recognise sham competition. It also provides the basis for arguments vis-à-vis management, auditors and suppliers.