



## SUPPLY MARKET INTELLIGENCE – A SUCCESS FACTOR FOR THE NEW ERA OF PROCUREMENT

### Abstract

Supply market intelligence (SMI), procurement intelligence, sourcing intelligence, or simply put - market intelligence (MI) - is one of the most critical inputs for the sourcing process. Best in class organizations have embedded supply market intelligence as an integral part of their sourcing process to reduce risk and enhance savings. Read on to know how a robust and effective SMI strategy can be a competitive advantage for procurement organizations.

## Introduction

The prominence of SMI has grown steadily over the years, which can be directly related to the maturing supply management function and the mounting need for it to contribute and improve the competitiveness of an organization. Ever increasing volatility, unpredictable global markets, and supply chain disruptions have further emphasized the importance of MI amongst the procurement community. As a result, SMI has a firm foot in supply management organizations as a critical input to category management and sourcing process. In fact, a recent Hackett survey points out that SMI is one of the top 3 focus areas for procurement centers of excellence (CoE).



## The dilemma – ideal resources or best strategy?

This strategic and complex supply management function is also one of the least tangible functions, which has left many procurement organizations pondering over to have an ideal allocation of spend/resources and the best management strategy. This dilemma around SMI is further compounded by the current approaches towards this function. While some organizations have created a well-defined SMI strategy, many still have an inconsistent, ad-hoc, and reactive approach to MI. Further inefficiencies result from redundancy and lack of a research policy or a robust prioritization strategy. Whether a supply management team

develops the capability to monitor markets, competition, and prices in-house or seeks external support, they observe major shortcomings in the current format. The current format of gathering and managing SMI activities generally provide access to a wide range of information. This information could, at best, provide a high-level understanding of markets, however, may have limitations around its practical implementation. Further, supply management professionals often resort to procuring off-the shelf reports. These ready reports come handy when constrained for time, but may not provide ready solutions for business challenges. It is therefore, essential for supply management to invest in the right mix of different types of research deliverables (off-the shelf, custom

reports, commodity reports, market alerts) to meet the diverse requirements of sourcing and procurement (S&P) organization.

## Growing expectations with MI

As the supply management function matures and its role evolves, the expectations from MI teams also transform from mere information gathering to insights delivery. There is a growing need to tightly integrate deep MI with sourcing decisions, negotiations, and supplier management. With every dollar spent on gathering and analyzing MI, there is a mounting need to optimize the spend and a demonstrate how the insights are applied within the supply management function.



## Key considerations for best-in-class SMI

Organizations can transform SMI as a competitive advantage and drive maximum value by formulating a clear strategy around this function. The basic premise of an optimized SMI program is that, it needs to be contextual, relevant, and outcome focused. A well designed SMI program will also ensure optimization by

focusing on critical/strategic categories and high impact sourcing projects to drive maximum value.

Following are a few key strategies that can be considered to optimize the SMI function:

### **1. Plan and prioritize using a robust SMI strategy framework**

Focus on the key organizational needs and priorities to build the SMI strategy.

There is no particular method of building the SMI strategy, and every organization could create one that suits its objectives and priorities. A useful method is to base the SMI strategy by plotting the key spend across the matrix, where organizations can determine the best framework for strategic, leverage, routine and bottleneck categories.

For strategic categories, it is essential to proactively build comprehensive intelligence that is ready to consume based on key sourcing activities planned for the year. For example, if marketing is considered strategic and has an upcoming contract renewal, it could be effective to proactively gather the relevant insights ahead of the event. This could also provide enough room for a two-way conversation between the sourcing and SMI teams, and

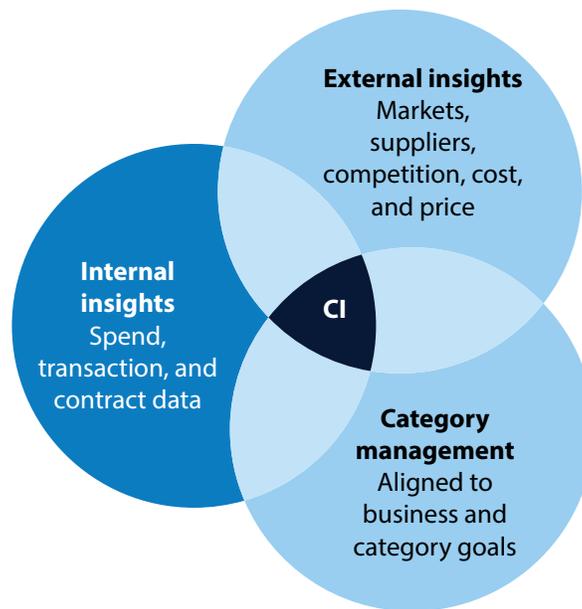
ensure appropriate depth and breadth of on-time insights for the sourcing activities. This would eliminate last minute rush jobs, which could be a major challenge and promote early involvement of the SMI team.

## 2. Integrate with data analytics

MI being a singular data source provides only a limited value, as procurement teams are looking for more impactful insights

with recommendations and suggestions on next steps. Data is the most powerful tool to uncover opportunities. While usually data and market insights are used in isolation, combining both along with a category context would result in powerful insights that could highlight viable opportunities and potential actions that could be considered as next steps.

### Building Category Intelligence



\*CI – Category Intelligence

Best-in-class organizations also integrate cost modelling as a key capability within SMI. Cost models are a key input to budgeting activities and savings projects. These are those effective tools that not only support negotiations, but also provide

crucial inputs to budgeting process and supplier switching decisions. Cost modelling is a specialized capability where many organizations find major gaps due to the lack of resources and capacity in existing category and sourcing teams.

Convergence of MI, cost models, and internal data could help drive powerful insights in decision making and could prove to be a competitive advantage to most organizations.



### 3. Drive end-to-end sourcing support

Most organizations including those considered to have a mature SMI function, do not follow a sourcing life-cycle support approach as far as SMI is concerned. Most utilize it to obtain an initial understanding of the market as a first step in the sourcing

process. The use of SMI in the execution stage is rare or limited to a cursory collection of supplier related data. An effective approach to this would be to utilize SMI throughout the sourcing lifecycle. It can offer valuable insights at various stages of sourcing including strategy development, supplier identification, negotiation, contracting, and

supplier management. This approach could also promote greater collaboration and understanding of the final goal and help tailor research and analysis that are 'fit for purpose'. This model integrates SMI tightly with the key sourcing steps and drives value by increasing the relevance of research and analysis.

#### Supply Market Intelligence (MI) – Sourcing Lifecycle Support

A robust MI program should be designed to provide support throughout the sourcing cycle

	 Sourcing Strategy Support 1	 RFX Process Support 2	 Contracting Support 3	 Supplier Management Support 4	 Ad-hoc/Event Based 5
Deliverables	Global and Regional Market Dynamics	Supplier Identification	SLAs and KPIs	KPIs and Benchmarks	MI support to assess business impact and mitigation strategies on disruption in supply market; supporting new internal requirements/ strategies
	Sourcing Best Practices	Supplier Capability Assessment	Contract Best Practices	Supplier Financial Health Monitoring	
	Engagement Models Benchmarking	Pre-qualification / ranking Scorecard	Negotiation Support – Cost models and cost driver analysis	Supplier Risk Monitoring	
	Pricing Models Analysis	Supplier Shortlisting and Segmentation	Commodity Analysis – Price trend analysis, impact analysis, Outlook		
	Case Studies	Supplier Risk Analysis			



#### 4. Continuous education and change management

SMI resources can be viewed as the research and development support of supply management teams. The resources will always be limited, and requirements will be unlimited within an organization. Regular workshops and education sessions are a few powerful tools to build regular connects with the supply management teams with the intent of updating them on the appropriate usage of SMI. Such sessions could also include short training sessions that would help improve the

research skills of the supply management teams. This would enable them to perform simple researches independently including supplier searches, simple profiles and macroeconomic updates. Regular workshops and sessions could help build a 'self-service' culture within the organization for simpler requests and would free up SMI time for more strategic support.

#### 5. Knowledge Management

Finally, knowledge management is a critical component of a successful SMI program. A centrally managed SMI knowledge

repository confers great value to the supply management organization. It helps with:

- i. Driving self-service for quick access
- ii. Reducing redundancy for improved productivity
- iii. Improving utilization of existing work
- iv. Acting as a reference for future research





## Conclusion and recommendations

Building an outcome focused SMI practice can provide a competitive advantage to procurement organizations. Following is a checklist for an effective SMI program that could enable to utilize this as a value lever in strategic sourcing:

- Have a dedicated and central team for specialized SMI requirements
- Create a central knowledge repository and actively maintain it
- Define your SMI strategy based on organizational and category requirements
- Integrate SMI with data and strategic sourcing as standalone inputs not linked with outcomes are no longer effective
- Have the right mix of SMI resources – off-the shelf reports, customized reports, cost models, market feeds, supplier intelligence

The above considerations would enable a shift in SMI programs from a reactive to proactive service. A defined SMI strategy would also encourage early engagement of the SMI teams, which could ensure on-time and fit for purpose insights and enable a defined prioritization. In addition, having a compelling strategy around SMI would ensure the effective utilization of resources for strategic and critical projects for driving better returns.

## Author



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Arthi is a domain expert for supply market intelligence (SMI) and helps clients by strategizing and setting up market insights services. With over 14 years of experience in market intelligence, she has been instrumental in leading numerous SMI projects for client across industries and categories. In recent years, her work has been focused on delivering outcome driven market intelligence by combining data analytics and market insights – Infosys MI+.

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