DELIVERING FOR QUEENSLAND

Supply market analysis guide

Queensland Government

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Version	Date	Comments
v1.4	March 2018	Published
v1.5	July 2025	Minor updates made – highlights: • DHPW corporate branding • Machinery-of-government changes • Hyperlinks verified and updated or removed • Document date updated • New version history log and ‘Administration’ section added • Updated document title • Removed contextual policy information
v1.6	August 2025	Minor updates made - Queensland Government Corporate Branding

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This document is intended as a guide only for the internal use and benefit of government agencies. It may not be relied on by any other party. It should be read in conjunction with the Queensland Procurement Policy, your agency’s procurement policies and procedures, and any other relevant documents.

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Administration

Version 1.6 of this document replaces all previous versions of this document and takes effect immediately.

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Introduction

Supply market analysis is a technique used to identify market characteristics for specific goods or services. It provides information that is critical to developing effective procurement strategies, in the context of significant procurement planning.

Supply market analysis provides a strategic understanding of:

- how a market works
- the direction in which a market is heading
- the competitiveness of a market
- the capability and capacity of a market
- key suppliers and the value that suppliers place on the agency as a customer
- how suppliers or markets can be developed to better meet agency requirements
- the sustainability performance and capability of the market
- how to manage variances in pricing over time or between suppliers.

Supply market analysis also helps to manage risk by identifying and analysing how favourable the supply market is to buyers compared with suppliers, and the probability of supply market failure. Together with techniques such as market sounding and developing suppliers and markets, such analysis can assist agencies to develop strategies to influence the market, in order to:

- increase the supply base and competition (where possible)
- provide innovative responses to constraints or opportunities.

The potential benefits of supply market analysis increase dramatically as the degree of business risk and/or expenditure for the goods or services increase, and as the size of the market relative to the size of government business increases. Resources invested in supply market analysis for procurement are always more than offset by the benefits gained in improved value for money and reduced risk for the agency.

Purpose

The purpose of this guide is to:

- provide an understanding of supply market analysis, and why it is critical to developing effective procurement strategies for significant procurements
- provide practical advice to Queensland Government agencies regarding how to undertake supply market analysis, including related techniques such as market sounding and developing suppliers and markets.

This guidance should be read together with the Queensland Procurement Policy and your agency’s procurement policies or procedures.

Objectives of supply market analysis

The objective of undertaking supply market analysis is to assist in developing sound procurement strategies for significant procurements. The key outcomes of supply market analysis for the agency are:

- improving value for money
- the identification and management of supply-related risks.

Opportunities for improving value for money

Supply market analysis is critical to developing effective procurement strategies and enable the achievement of value for money. Analysing supply markets may:

- provide information that can be used to explore opportunities to advance government priorities
- provide valuable information about suppliers' strengths and weaknesses for post-offer negotiations, where the outcome may improve value for money
- identify comparable substitute goods and services that offer better value for money
- identify opportunities to better engage with the supply chain—involving less cost and/or improved sustainability outcomes
- identify how to encourage innovative solutions in the market
- identify opportunities to plan and schedule procurement to provide benefits for both suppliers and buyers
- enable the targeting of potential suppliers who may otherwise overlook the invitation to offer (in a market with a limited number of suppliers, it is advantageous for the buying agency to encourage all suitable participants to offer)
- identify opportunities to undertake supplier or market development activities, using techniques such as reverse marketing, to encourage competition for the agency's requirements.

Identification and management of supply-related risks

Determining the nature of the supply market (how favourable the supply market is to buyers compared to suppliers), and the probability of supply failure are key outcomes of supply market analysis.

Supply-related risks should be identified and associated risk management strategies analysed as part of the significant procurement plans. An example of suggested risk treatments arising from low, medium and high levels of supply-related risks is outlined in **Appendix 1**.

Analysing supply markets can assist with managing supply-related risks by:

- identifying early on whether there are supply market factors that could lead to a limited response from the market to the agency's procurement strategy
- identifying substitute goods or services that may be available from more competitive and less risky supply markets
- assisting in the development or redefinition of specifications to encourage competitive offers
- identifying any legislation or Australian Standards to which goods or services must comply

- providing information to assist in negotiations, where this may lead to reduction in the ‘degree of business risk’
- providing a sound understanding of the agency’s attractiveness as a customer; and development of strategies—such as supplier and market development—to either improve attractiveness or to target the appropriate suppliers
- ensuring that procurement activities are not likely to breach the *Competition and Consumer Act 2010* (Cth) or related legislation.

Planning for supply market analysis

Recommended practice

Preliminary steps

A number of preliminary steps should be undertaken before commencing a supply market analysis.

Firstly, the business requirements for the good or service should be clearly understood to ensure that the supply market analysis is focussed on the relevant industries and markets. The sustainability impacts associated with the product or service should also be clearly understood, to ensure that the supply market analysis can examine sustainability responses, options and opportunities within the supply market and supply chain.

Secondly, procurement officers should check whether a supply market analysis has been recently conducted within government (or is planned to be conducted) for the good/services category under consideration. Using existing information and collaborating with other agencies may avoid unnecessary duplication and wasting of time.

Develop a research plan

Before conducting supply market analysis a research plan should be completed, to ensure that the analysis will provide the answers sought within the required timeframe and budget.

When preparing a research plan:

- develop a project schedule outlining the key activities and timelines for finalising the supply market analysis
- clearly define the goals, objectives and scope
- identify key resource requirements (e.g. human, financial, office space, etc.)
- establish a sound framework for undertaking the research
- identify potential information sources and research methods.

The level of detail in the plan will vary with the complexity of the proposed procurement and the supply market.

Prepare a project schedule

As a supply market analysis is performed in the context of planning for significant procurement, it is important to ensure that the outcomes from the supply market analysis are available in a timely manner. As with any complex research project it is important to plan for changes and include contingencies for delays—especially if obtaining input from key stakeholders who may not be available when required. It is recommended that the critical path for the project is identified early on: activities on the critical path are those that will delay the due date of the project. Activities not on the critical path may be delayed without affecting the due date.

The use of project management software is suggested for managing more complex research projects or if there are many tasks being undertaken concurrently, where stakeholders may be engaged in research tasks. Such software can assist procurement officers in monitoring the achievement of key milestones, identifying potential delays with different tasks and their impacts on the critical path, and proactively managing changes to the project.

Define goals, objectives and scope

The overall goals and objectives of the supply market analysis need to be clearly defined prior to commencing the research. These may include determining the number of suppliers, their market share and their business structure. The terms of reference should include a clear understanding of the demand requirements which need to be met by the supply market.

The key stakeholders should also agree to the scope of the supply market analysis project. Well formulated goals and objectives will help to achieve this; however, it is also important that the area of investigation has clear boundaries and that the level of desired detail is defined. Once the scope is agreed to, the project management approaches explained above can be used to quickly identify and manage any changes to it.

Identify resource requirements

This activity includes identifying the human, financial and physical resources required to undertake the supply market analysis. The first task is to determine which people are available to conduct the analysis and ensure that they have appropriate levels of knowledge and skills in research and analysis techniques. If there are inadequate internal resources then additional assistance may be needed—for example from other agencies or via external consultants. Funding requirements for the engagement of external consultants will need to be communicated to budget holders as early as possible. Other resource requirements that need to be identified and budgeted for might include:

- subscriptions to reports specialising in supply market topics
- travel
- software
- organisational memberships.

These resource requirements require funding and need to be included in the project plan.

Supply market analysis framework

The supply market analysis framework illustrated in **Figure 1** provides a logical approach for conducting a supply market analysis, based on five key dimensions. The key dimensions are adapted from Michael Porter's 'Five Forces Model'[1] and are as follows:

1. market structure
2. competition
3. supply chains
4. substitute goods and services
5. agency's value as a customer (supplier preferencing).

[1] Porter's Five Forces explained, The Chartered Institute of Procurement and Supply , https://www.cips.org/intelligence-hub/procurement/porters-five-forces.

Figure 1: The supply market analysis framework

In addition, economic, socio-cultural, technological, environmental, sustainability and legal factors should be analysed. This will assist in identifying supply-related risks and opportunities.

In the sections that follow, this guide outlines key areas to research for each dimension of the framework, together with examples (where applicable) to illustrate the key points.

Examples provided in this guide are provided as illustration only and should not be treated as specific advice.

Sources of information and research methods

Several information sources are available, including but not limited to:

- end users and buyers of goods and services
- suppliers and industry associations
- quality assurance auditors, online databases and media sources
- specialist public sector organisations
- private sector research organisations, internet searches and company-specific publications.

A detailed list of information sources is provided later in this guide.

It is important to remain impartial in relation to suppliers' behaviour towards each other or to buyers during the process of gathering information. Procurement officers should be mindful of the purpose of supplier-prepared promotional/informative material. The issue of 'supplier conditioning' is also addressed in the later in this guide.

Much information can be obtained from an initial ‘desktop’ analysis. The internet is a rich source of information, but information gathered from internet sources should be checked against other sources such as published journals for accuracy and veracity. The credibility and perspective of the author should also be reviewed to assist in evaluating the accuracy and veracity of the information. The departmental library can be of assistance in finding information on specific topics.

Reviewing the literature and conducting desktop and library research may yield a substantial amount of background information; this should be complemented by field research. Such work would include use of the techniques suggested in the ‘Market sounding’ section of this guidance material, whereby buyers interview specific suppliers, customers, or government officials within the industry. Field research often provides an insight into key issues and developments occurring in the industry/market under consideration.

Finally, software tools and packages—ranging from spread sheets to specific databases—can be highly useful in uncovering patterns, simulating scenarios, and conducting statistical analyses. Use of such tools is advised where substantial and detailed data is involved. As discussed in the ‘Identify resource requirements’ section, as early as possible in the planning process it is important to identify people with the requisite skills in interpreting and analysing supply market data using different software tools and packages.

Conducting supply market analysis

Market structure

Recommended practice

Overview

This stage includes determining the relevant market or market segments, total size of the market, key suppliers in the market and their respective market shares, existing ownership structures in the market and profitability of the different suppliers.

Defining the market

The first step in analysing the market structure is to define the relevant market or market segments under consideration, as this will help to focus the supply market analysis and is important in order to target the relevant suppliers. Defining the market entails determining the key characteristics of the market, such as whether it is purely a product or service or a combination, and determining whether the market is divided into commercial, technical and/or geographic segments. An example of defining the IT software market is provided in Table 1.

Table 1: Defining the market using the IT software industry as an example
The IT software market can be broken into two main segments: • retail software • custom software. **Retail software** can be further divided into system software and applications. System software represents desktop operating systems as well as server systems. Applications include all other software that is reliant on system software, such as office productivity packages, content creation tools, human resource databases and games. **Custom software** refers to individual projects to create new applications for a specific purpose, such as travel booking systems. Often, as demand for this type of software increases, it may be on-sold as retail software. Large enterprise resource planning systems are not usually considered custom software, even though significant programming may be required to implement them.

Market size and market shares

Once the market is defined a number of logical metric formulations are necessary to gain an overall understanding of the market structure. Firstly, the size of the total market should be determined, both in terms of sales (dollar value) and volume/turnover. Depending on the way the market has been defined, the total size of the market may then be broken down at an international, national or regional level—depending on the level of detail warranted. It is recommended that the total market size is also analysed in terms of the private sector versus the public sector contribution. An example of how these metrics might be expressed using the hypothetical example of ‘Product Z’ is provided in Table 2.

Table 2: Example of expressing total market size
The total Australian market for ‘Product Z’ is $220 million p.a. of which the Queensland market is fifteen per cent or $33 million per annum. The public sector contribution to sales nationally for ‘Product Z’ is twenty-five per cent or $55 million, of which the Queensland Government contribution is twelve per cent or $6.6 million.

Having determined the total market size, the next step is to determine who the key suppliers are and their respective market shares. In the government context it is important to compare the overall market shares of suppliers with their market shares in respect to government sales. This may indicate whether a supplier is dominant across the market segment or just in terms of the public sector, and may also hint at potential dependency issues.

This step is particularly important in determining the level of market concentration. It is recommended that the combined market share of at least the top four suppliers is determined at a national and at a state level, to determine whether the market is dominated by a small number of suppliers. The number, size, and distribution of competitors in a market affect the negotiating power of the buyer. Markets with numerous competitors, which are approximately the same size (in terms of market share) and with a high degree of rivalry, usually result in buyers having improved negotiating power. An example of how these metrics might be expressed using the hypothetical example of ‘Company A’ and ‘Product Z’ is provided in Table 3.

Table 3: Example of expressing total market shares – top four companies
The firm with the largest market share for ‘Product Z’ is ‘Company A’ with approximately 35 per cent of the Australian market, or $77 million in sales per annum. The combined market share of the top four Australian companies for ‘Product Z’ is approximately 92 per cent or $202 million per annum.

Market concentration

There are four generic levels of market concentration. These range from the extreme situation of low concentration—where there are many firms each selling an identical product (perfect competition)—to the extreme situation of high concentration, where only one supplier exists that is able to meet the needs of the agency (monopoly). Markets in between these two extremes are referred to as oligopolies or are characterised by monopolistic competition.

The degree of market concentration can be calculated as a ratio by dividing the total market share of the largest four firms by the total size of the market. The closer the outcome is to 1.0, the higher the concentration of the market and the likelihood that the market is an oligopoly, duopoly or monopoly. If the outcome is less than 0.25 the concentration is low and the market most likely competitive. In a developed economy the majority of markets are characterised by monopolistic competition or oligopolies. Table 4 provides guidance on the different levels of market concentration.

Table 4: Levels of market concentration				
	Perfect competition	**Monopolistic competition**	**Oligopoly**	**Monopoly**
Number of suppliers	Many	Many	Typically 2 to 10	One
Product differentiation	Homogenous (identical)	Some product differentiation	Substantial product differentiation	No close substitutes
Barriers to entry	None	None or very limited	Substantial scale and scope economies	Substantial
Concentration of market power	Zero concentration	Low	Medium to high	Maximum (perfect concentration)
Price determinants	Purely by supply and demand No individual buyer or seller can influence market price	Price as function of supply and demand, and the ability of a firm to change more due to product differentiation	Ability to influence market prices by restricting output	Ability to set price by restricting output

Ownership

Ownership structures can influence the manner in which firms compete in the market and the products/services they may offer in the future. Understanding the ownership of firms can explain their behaviour: for example, an agency may think that they are dealing with competing suppliers in a market when in fact one is a subsidiary of the other. It is important to find out if there are any ownership transfers looming on the horizon for the key suppliers. Changes in ownership, such as through takeovers, can be evidence of further consolidation and hence concentration in the market. Also knowing whether a supplier is purely local or a part of a large national or international firm may indicate whether major decisions are made in-country or overseas.

Profitability

Profitability may indicate the viability of a supplier; whether a supplier will contribute to a continuing competitive market; or whether a supplier will withdraw, leading to a more concentrated market. Signs that the business is not profitable include products, services or competition being withdrawn from the market. Alternatively, an increase in the supply of products/services and competition may be evidence of high profitability. To determine why some firms are more profitable than others, it may be useful to investigate whether they have a competitive advantage based on low cost structures (lower cost and same price as other firms) or product differentiation (better product and higher price than other firms).

Table 5: Key research questions
• Is the market divided into commercial, technical or geographic segments? What is the relevant market segment to be analysed?

• How many suppliers are there in the market and what is the size of the total market in terms of dollar sales or volume (whichever is more appropriate)? • What is the relative market share of each supplier (e.g. in terms of turnover, volume, employee numbers or production capabilities)? • Does the market contain distinguishable product segments (product differentiation)? • Are there dominant suppliers, or is the market evenly distributed (market concentration)? • Is the market self-reliant for its inputs, or is there a multi-level supply chain (vertical integration)? • Does the market have significant links to other markets? For example, does the market supply key goods or services to other markets? • Who are the significant market participants, in terms of buyers, suppliers and the supply chain?

Competition

Recommended practice

Overview

A sound understanding of how suppliers compete in the market provides essential information about supply market dynamics, including the availability and pricing of products and services now and in the future. Following trends, and examining the likelihood of competitors entering or leaving the market, can help agencies to make more informed decisions and plan more effectively.

The basis of competition

Analysing competition requires examining the way in which the suppliers in the market compete. Examples of different features suppliers compete on are:

- price
- service
- distribution
- product types
- brand image.

Some industries consist of suppliers that will compete heavily on price, offering the same generic product and service levels. Other industries differentiate between competitors by quality, level of support service, and distribution arrangements. Suppliers within these industries may be less likely to negotiate on price, in the belief that the quality of their product may be compromised. If firms in a market are competing based on buyers' perceptions of brand image, it is worth investigating whether these perceptions of brand image are warranted. Table 6 shows the characteristics of a market where competition is intensifying.

Table 6: When does competition intensify
According to Porter's Five Forces (see the 'Supply market analysis framework' section, above in this guide), rivalry/competition generally intensifies when: • the number of competing firms increases

- the market is declining, not growing or growing at a slow rate
- there are high fixed costs that need to be covered
- storage costs are high or when perishables are involved
- switching costs are low
- exit and entry barriers are low
- being competitive is strategically important.

Barriers to entry and exit

The level of competition will be greatly affected by the type and level of barriers to entry and exit in a particular market. High barriers to entry result in fewer competitors. When barriers to entry are high, suppliers are likely to compete on product type and brand image rather than price. Supply markets with low barriers are likely to result in a greater number of competitors and price-based competition is more prevalent.

For a market to remain competitive there must be potential for new entrants. In many cases, even where one supplier has a near monopoly status, the potential for an alternative supplier to enter the market can achieve competitive price and service outcomes. Under the scenario of 'no barriers to entry and no penalties for exiting' a market, suppliers have to produce at the lowest cost and highest quality that customers are willing to pay for. As the potential for new suppliers diminishes, incumbent suppliers can raise prices or restrict output to maximise their profit.

It is important to remember that a potential entrant will evaluate all costs involved in entering a new market, including the costs of exiting in the event of poor performance. Therefore, the competitiveness of a market can be assessed by examining the severity of barriers to entry and exit, as illustrated in Table 7.

Table 7: Some examples of barriers to entry and exit

Barriers to entry	Barriers to exit
• Licensing restrictions (limits) • Intellectual property/patents • Economies of scale • Limited customer base (or customers locked in to existing suppliers) • Large start-up capital requirements • Government regulation • Scarce inputs (labour or materials)	• Long term contracts with customers • Government regulation • Low asset salvage value • Financial obligation to creditors and employees

Changes to competition

Forecasting the future competitive environment can assist agencies to plan for changes in the market and, in some instances, to wait for circumstances to change in order to get a better outcome. For example, the electricity industry has undergone a process of deregulation. Prior to this, one firm supplied all electricity. Barriers to entry for the retail of electricity have been sequentially reduced, resulting in more choices for buyers. This can place the agency in a better position to seek the best deal.

If it is strategically important, large firms may use their size and diversity of operations to subsidise loss-making ventures and attempt to reduce competition. This may occur in a new market in order to develop market share, or in an established market to price competitors out of the market. Being aware of such activities may help to ensure that the agency is not assisting a dominant supplier in gaining a monopoly position in a market.

An example of the changes in the stationery market is examined in Table 8.

Table 8: Assessing the competitive dynamics of the stationery market
Competition in the stationery wholesaling industry is based heavily on two main elements: price and services offered. Price is vital to large firms tendering for arrangements with corporations or business. Services offered by companies have expanded rapidly in recent years. The most notable of these is online ordering. Another good example is the variety of products offered. Many stationers are becoming one-stop shops for all office needs by branching into IT, furniture, cleaning products, food, promotional products, and printing. Larger stationery wholesaler firms gain a significant portion of their revenue through whole-of-organisation arrangements and have distribution capabilities to service large geographical areas. Smaller regional firms are often part of a buying group so as to gain volume discounts on their product range. They also look to gain a competitive advantage via convenience and faster response time. The stationery supply market is also characterised by numerous competitors operating to serve niche segments. Barriers to entry are low at the small scale end of the market. The main costs for new entrants are for inventory and premises. However, if a firm intends to compete with the larger participants, there would be significant financial costs relating to the distribution network, online ordering system, inventory and marketing.

Product life cycle considerations

Understanding the position of the good or service in the product life cycle will help the agency consider suppliers' likely marketing strategies and how the supplier will compete. The product life cycle model consists of four stages:

- introduction
- growth
- maturity
- decline.

Each phase of the product life cycle tends to be characterised by different marketing strategies. For example, during the introduction phase, firms may seek partnerships with buyers to help develop their product. During growth and maturity phases, firms will endeavour to improve efficiencies and be cost competitive. In the decline phase, firms will seek to exit the market, find niche markets or attempt to revive interest.[2]

However, it can be difficult to accurately identify the stage of the life cycle that a particular product is in. The length of each stage can differ widely between products. For example, office furniture experiences a very long maturity stage, whereas waterbeds had a very short product life cycle.

Table 9 below highlights the key areas to research when analysing how suppliers compete in the market.

Table 9: Key areas to research
• What is the basis of competition between suppliers in the market—for example, price, service, quality or other factors?

[2] For further information about marketing strategies tailored to a product lifecycle, refer to Product life cycle: Product life cycle strategies, Invest Northern Ireland, https://www.nibusinessinfo.co.uk/content/product-life-cycle-strategies.

- What are the type and level of barriers to entry and exit for potential suppliers—in other words, with what level of ease can new firms enter and secure a place in a viable market?
- What are the trends in the supply market—for example, has product price consistently been reducing?
- Are there any dominant supplier(s) in the market? (For example, a dominant supplier may be one that leads in price changes or the release of new models.)
- How cooperative, or how hostile, are suppliers towards one another? Is there a possibility of collusion?
- Has there been any consolidation in the market in the number of suppliers (horizontal integration)? Alternately, are there many new suppliers entering this market?
- Does any trade, consumer or environmental legislation have an impact on the competition in the market?
- At what stage of its product life cycle is the product in?

Supply chains

Recommended practice

Overview

A supply chain consists of all parties involved in the process of creating a good or service: progressing from inputs through production, distribution and marketing to the end user. The purpose of analysing the supply chain is to attain a good understanding of:

- what value is added by the different parties of the supply chain
- possible unnecessary costs within the supply chain
- dependencies in the supply chain and the potential risks they pose
- how these dependencies and risks can be managed now and in the future.

This knowledge is essential to assist the agency develop a sound procurement strategy for managing the supply chain value, risks and costs.

Identify the level of value-adding

Supply chains need to be examined to identify whether each element in the chain is value-adding and to determine whether the level of added value is worth the resultant cost increase.

The supply chain parties (resource suppliers, manufacturers, importers, wholesalers, and distributors) have to decide:

- their location and what they produce
- how, and where, they source their key inputs to production
- how they manage inventories
- how they organise transportation.

All of these decisions are associated with risks, costs, the value they add, and the price charged for these activities. It is important that agencies analyse supply chain participants, map what each member does, where each is situated and the goals of each member.

Procurement officers should not underestimate the value added within the supply chain by suppliers or their expertise. In some cases it may seem that it would be cheaper for the agency to undertake an activity themselves and bypass a member of the supply chain. However, procurement officers need to carefully evaluate whether the opportunity cost of managing the activity internally – with the associated risks – is less than paying a supplier to undertake the activity. This point is examined in Table 10.

Table 10: Example of managing risk at the right place
An Australian distributor of a chemical produced overseas would be expected to mark up the price to cover the importation and handling costs. The value-adding component is the supplier’s management of the risks associated with importing and handling the chemical. Although it may be cheaper for a buyer to procure the chemical directly from the overseas supplier, the buyer would need to manage the importation and handling costs themselves and also manage the associated risks. The trade-off between the increase in cost and the value added by introducing another element to the supply chain needs to be considered by the buyer.

Supply chain dependencies

Any stage of the supply chain in which a single supplier is dominant represents a risk to the final buyer. Often, the customer is unable to fully recoup losses that are due to supply chain failure—as they do not have supply agreements with suppliers further up the supply chain.

Procurement officers need to be aware of such dependencies, and investigate the impact a dominant supplier may have on the supply chain if the supplier restricts supply, or if their performance becomes unsatisfactory. Subsequently, the agency would need to manage the risk itself, or develop alternative approaches to ensuring that an external supply chain manages the risk effectively. This might include facilitating improvement in the existing supply chain; buying from a different level within the supply chain; or choosing a supplier with a different supply chain.

Sustainable procurement

Sustainability impacts of products and services occur throughout the supply chain. Therefore, in order to identify and to develop an understanding of areas of sustainability impact, the complete supply chain of the products or services should be examined.

An understanding of the supply chain and the relevant players within it will assist in identifying sustainability risks as well as opportunities for improved sustainability outcomes.

Where to buy in the supply chain

Many goods and services required for day-to-day operations are purchased from a retailer. However, there may be circumstances where the agency could realise better value for money by approaching the wholesale market or the manufacturer directly, and negotiating terms of delivery. The ultimate test of where in the chain the purchase should be made is whether the price mark-up at the subsequent stage is outweighed by the value added at that stage.

Even when a decision is made to purchase from a retailer, the whole supply chain should be analysed and understood to ensure that this decision is, and remains, appropriate.

Table 11: Key areas to research[3]
• What firms make up the supply chain? • What does each member of the supply chain contribute to the end product or service (what is their level of value-adding)? • What are the key sustainability impacts along the supply chain?

3 Former UK Office of Government Commerce, *Supply Chain Management in Public Sector Procurement: a Guide.*

- What is each member of the supply chain doing to address key sustainability impacts and to improve their sustainability performance?
- How complex is the supply chain?
- Are suppliers dependent on other suppliers for key components?
- Is the supply chain risk best managed where it is currently managed?
- What are the delivery or transportation methods in the supply chain and are there any associated risks, including products or services having high transport intensity?
- Is the current storage location the most appropriate? Are stock levels too high or low?
- Are there any areas of supply vulnerability within the chain?
- Are there more efficient or more sustainable sources of supply?
- Is the agency buying at the correct level in the supply chain?

Substitute goods and services

Recommended practice

Overview

Analysing substitute goods or services provides an insight into alternative ways of realising the agency's demand requirements. The availability of suitable substitute goods or services may be especially important in situations such as the following: monopoly markets; where there are significant sustainability impacts and/or opportunities; or where there are needs to be evaluated based on value for money criteria such as suitability (for example fitness for purpose) and costs (for example switching costs). Sourcing substitute goods or services may also reduce the overall 'degree of business risk'.

Substitute goods or services may initially meet with resistance from some stakeholders, or may have a higher switching/start-up cost. There can be significant change management issues in proposing alternative solutions in place of those specified by end users in the past.

Identifying substitutes

Focussing on the outcome required from the procurement, and not on existing goods or services, often opens the market to a wider range of solutions and suppliers. A clear (unbiased) specification of the business need and a 'whole-of-market' focus are essential starting points. Often substitute goods or services are missed because of a narrow focus or because the existing specifications are too rigid. The identification of substitutes should be conducted in consultation with the end users of the goods or services to ensure that their needs will be met by any proposed substitutes.

See Table 12 for key areas to research and an example of considering substitute solutions for a product.

Table 12: Key areas to research and an example of identifying substitutes
Key areas to research • What goods and services are currently available to meet the needs of the end user? • Are there any alternative viable substitute goods or services currently under development that could be considered in the future? ***Example of identifying substitutes for standalone office printers*** A multi-function device (MFD) may be purchased as an alternative to a number of network printers in some circumstances. MFDs combine multiple functions such as printing, photocopying and facsimile and often include sophisticated service arrangements, which can greatly reduce whole-of-life costs. The opportunity to purchase such a machine may be missed if the buyer goes to the market specifically for a number of network printers.

Agency's value as a customer

Recommended practice

Overview

By understanding the agency's value to the supply market, and to individual suppliers within the market, different strategies can be developed based on the willingness or reluctance of suppliers to meet the needs of the agency. This analysis may identify changes the agency needs to make in order to be seen as a more attractive customer, and therefore increase the competition for its demand requirements.

Supplier preferencing

Many businesses evaluate their customer's worth in order to determine the amount of effort they wish to exert to maintain the account. Suppliers will assess the total costs of doing business with the agency in order to determine if it is a profitable account. A procurement management tool called supplier preferencing (or customer segmentation) can assist procurement officers to examine how a supplier may view their agency's business.

The supplier will look at the dollar value of the agency's account (by expenditure) and then classify the 'attractiveness' of the account.

Expenditure considerations include:

- the percentage of a supplier's business that the agency currently represents (if the agency is an existing customer)

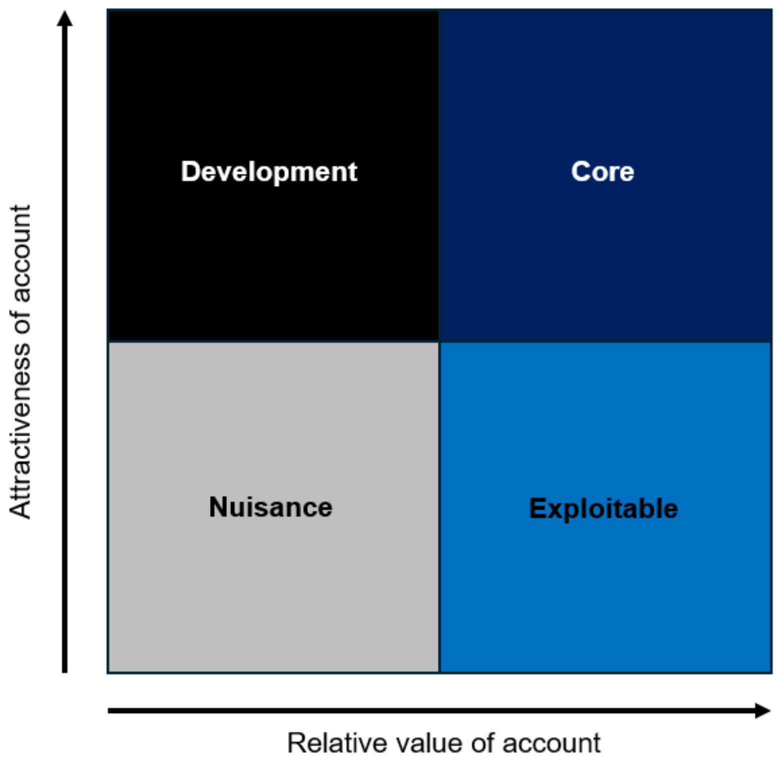
- the percentage of a supplier's business that the agency could represent (if the agency was looking for a supplier and the agency's business was to be won)
- the agency's spending relative to total market turnover: a buyer is generally considered significant if its business is 0.5 per cent or greater of turnover in the market.

Attractiveness considerations include:

- the profitability of selling to the agency: sales revenue less any costs of selling the product
- the reputation of the agency
- the ease of managing the agency's accounts
- potential for agency's use of good or service to grow
- the potential to use the agency as a marketing platform for the supplier (that is, the level of on-sell potential)
- the level at which the agency contributes to the development of the industry or specific businesses.

Supplier preferencing entails the supplier categorising the agency's account in terms of the following four general categories, as demonstrated in **Figure 2**:

Figure 2: How suppliers may perceive agencies as a customer



Supplier account strategies

If the agency is viewed as a **nuisance** account, the supplier may show little interest in the agency's business. The aim of both parties should be to reduce transaction costs and risks. In some cases, the agency may wish to consider sourcing from other suppliers that may value the agency's business more highly. Potential exists here for agencies to develop local or regional suppliers.

The supplier may regard the agency as an account with **development** potential. For example, it may be seen as attractive because of possible opportunities for more valuable business in future, or because the account is a high profile one. For these reasons, the supplier may be willing (at least in the short term) to meet the agency's requirements in order to win more business. In such situations there can be many supplier development opportunities, including improving the capacity and performance of these suppliers.

Where the agency is seen as an **exploitable** account, the supplier may have a high volume of sales but the account is still regarded as unattractive. This may be due to low profitability, or other factors such as location or inconvenience. Where suppliers are keen to increase prices, the agency may wish to seek alternative suppliers or try to make the relationship more attractive by considering more efficient ways to transact business.

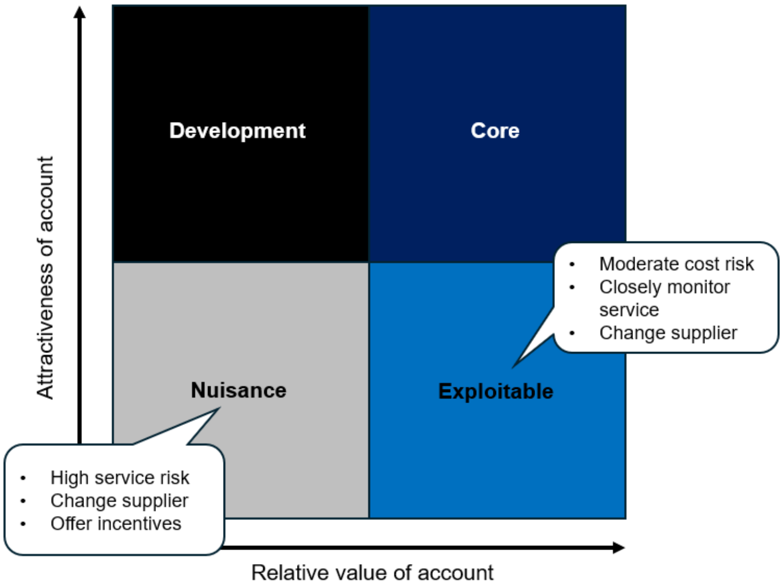
If the agency's account is seen as a **core** part of the supplier's business, in most cases it is possible to establish a rewarding business relationship in which the supplier continually seeks to add value. The supplier is generally keen to meet the buyer's requests and provide a high level of service in order to retain their business.

It is important that agencies accurately gauge their value as a customer—as this will determine the extent to which they can influence a market and achieve better procurement outcomes for the agency. An ideal situation is one in which the agency (perhaps in combination with other agencies) is valued highly as a customer and is seen as core business to the supplier. Then the agency is in a position to negotiate a better procurement outcome.

Table 13 is an example in which an agency is regarded as a nuisance account by suppliers.

Table 13: Example of agency regarded as a 'nuisance' account
An agency has established a panel arrangement for the engagement of contractors who are provided via recruitment companies. Becoming a panellist requires the recruitment companies to meet stringent prequalification criteria and contractual conditions. However, there are a large number of other companies on the panel and there is no guarantee of the agency requesting candidates from all suppliers. Obtaining work from the panel is regarded as 'hit and miss'. The agency also has a reputation for requesting resumes for candidates from suppliers on short notice, but then taking lengthy periods of time to advise on selections and often not proceeding at all. This is frustrating for companies which go to the trouble to source candidates in response to the agency's request. The agency also tends to give very short warning when terminating the services of individual contract staff. For these reasons, while companies stay on the panel, they regard the agency as a 'nuisance' account, and often build in additional costs to offset the inconvenience of dealing with the agency.

Figure 3: Strategies for ‘nuisance’ or ‘exploitable’ accounts



A good match may be to source a good or service in the agency’s ‘specialised’ category from a supplier that classifies the agency as ‘development’: they may pay particular attention to the agency’s needs and the risks associated with the procurement.

Matching supply positioning to supplier preferencing

Once the agency has determined how it is perceived as a customer by suppliers, the resultant plot (**Figure 2**) can be overlaid with specific significant procurement. In this way ‘mismatches’ can be identified between significant procurement categories and supplier perspectives[4].

Serious supply vulnerabilities may need to be addressed if the proposed procurement falls into the ‘high degree of business risk and/or high expenditure’ categories (i.e. the ‘specialised’ or ‘critical’ supply positioning categories), but the supplier identifies the agency as being either a ‘nuisance’ or ‘exploitable’ account in terms of the procurement category. In such circumstances the agency will need to develop strategies to remedy the vulnerability, as shown in **Figure 3**.

Supplier dependence

Procurement officers need to be aware of situations where a supplier is highly dependent on the agency. This can result in a high risk situation for that supplier, if the agency decides to use other suppliers. If the supplier is making no real effort to extend its clientele, then it may also indicate that the agency is paying more than it needs to.

[4] P Steele & B Court, *Profitable Purchasing Strategies*, McGraw-Hill School Education Group, 1996, pp. 82–83.

Table 14: Key areas to research
• What is the turnover of individual suppliers that supply the good/service? (This information will need to be compared to the agency's current and predicted annual spend, in order to determine its relative value as a customer) • What is the agency's market share as a customer? • Does the way the agency conducts its business make it attractive (or unattractive) as a customer (e.g. efficient or burdensome procurement processes)? • Does the agency provide a platform for suppliers to increase their sales to other customers? • How can the agency contribute to the development of the industry or individual firms?

Market context factors

Mandatory requirements

An agency must comply with the *Competition and Consumer Act 2010* (Cth). The agency must identify the extent to which its procurement activity has a substantial impact in the market for a particular good or service. Agencies must not enter into any anti-competitive arrangements with suppliers that may amount to exclusion of other potential suppliers from the market. The agency may need to obtain specific legal advice on whether a proposed procurement activity is impacted by the *Competition and Consumer Act 2010* (Cth).

Recommended practice

Overview

The agency needs to have an overall view of the external context factors affecting the supply market, and assess their impact on the market under review. This may highlight vulnerabilities that otherwise may be overlooked. Of particular importance is recognising the limits to market behaviour due to contextual factors, especially the influence of industry and regulatory bodies. Context factors include any Political, Economic, Social/cultural, Technological, Environmental/sustainability or Legal (PESTEL) elements that affect the supply market. Table 15 provides suggested key questions to consider using the PESTEL framework.

Table 15: 'PESTEL' approach to analysing context factors	
Factors	**Key questions**
Political	Are there any changes to government assistance or restrictions to trade which will have impact on this industry and marketplace, such as international trade obligations?
Economic	What impact does the local and overseas economic climate have on this industry? This may include exposure to exchange rate and interest rate fluctuations.
Social / cultural	Are any specific social groups that may have a significant impact on marketplace? Are there any culture-related sensitivities or issues that may influence the outcome of procurement?
Technological	How fast is the rate of technological change in the industry and what is the impact on product lifecycles? What suppliers are leading the introduction of new technologies and products to market?
Environmental / sustainability	Is this industry inspected by government to ensure compliance with environmental standards? What are the key environmental impacts or issues of the industry? What suppliers are leading the introduction of more sustainable / environmentally friendly products to market? Sustainability impacts though the whole life of a product or service should be considered. This may include: • CO2 emissions entailed in the life cycle of the product • use of recycled or recovered materials • extent that product can be reused, recycled and/or remanufactured • durability • energy efficiency and consumption • water efficiency • waste prevention • end-of-life disposal method.
Legal	What federal or state legislation impact on this industry? For example, workplace health and safety, or environmental legislation. What specific government policies apply to this industry? Consider any *Competition and Consumer Act 2010* (Cth) implications of actions which may potentially reduce competition in the industry.

The 'Sources of information section' in this guidance material provides some links to industry groups and legislation. Procurement officers should also keep up to date with information in news media and trade publications about industries and markets relating to significant areas of procurement in their agencies.

Evaluating the results of supply market analysis

Recommended practice

As discussed in previous sections, the ultimate objective of supply market analysis is to assist the development of effective significant procurement plans and procurement strategies. The results of the preceding research and analysis need to be summarised, and the key outcomes determined. This requires a two-step approach.

Firstly, the overall results of the analysis should be summarised against the five dimensions of the Supply market analysis framework (see **Figure 1**). Consideration of the market context should also be included. **Appendix 2** shows how to summarise the key findings from the supply market analysis, using Product Z as a hypothetical example.

Secondly, having summarised the results (key findings) of the analysis, the key outcomes for the development of effective procurement strategies need to be determined. These outcomes will refer to:

- supply-related risks, in terms of the nature of the supply market (how favourable the supply market is to buyers versus suppliers), and the probability of supply failure
- opportunities for improving value for money.

Appendix 3 shows the key outcomes for the hypothetical example, Product Z, in terms of supply-related risks, and opportunities for improving value for money.

The results and outcomes of supply market analysis, as illustrated in **Appendices 2 and 3**, can then be used in the ‘Supply market analysis’ section of the significant procurement plan.

Market sounding

Recommended practice

Market sounding is a technique used to assess the reaction of the market to the proposed procurement activity and approach. In practice market sounding is conducted in parallel with supply market analysis and brings early collective perspectives from suppliers. In contrast to supply market analysis (which uses primary documentation and secondary sources to gain information) market sounding obtains knowledge through direct communication with potential suppliers.

Market sounding should lead to an understanding of the attitudes, thoughts and likely responses of the market to the proposed procurement activity. It can involve issues such as:

- supplier levels of interest
- technical or business feasibility
- the potential impact on suppliers and markets
- innovative proposals to meet the requirement
- options for improved sustainability outcomes
- feedback on the size and scope of the requirement
- alternative products or service models.

Market sounding provides the potential benefits of making the procurement process shorter and more specific, accurate and efficient. It assists in determining the appropriate size, scope and specification of requirements. It also helps to identify potential industry impacts relating to significant procurement activities, particularly in the procurement of Information and Communications Technology (ICT).

Market sounding does not include elements of supplier selection or offer evaluation, nor does it create commitments of any kind on the part of the agency or agencies managing the significant procurement, or the suppliers involved (i.e. discussions are conducted on a ‘without prejudice’ basis).

Procurement officers also need to be aware of the risk of ‘buyer conditioning’ of the agency occurring as part of this process. For example, a supplier may try to persuade the agency to adopt their perspective of the market, which the agency then relies upon as being fact. When formulating strategies the results of market sounding should be critically evaluated, along with other sources of information.

Market sounding should be considered if the answer is ‘yes’ to any of the sample questions listed below.

Table 16: Trigger questions for market sounding

Questions to consider in deciding whether to market sound	Yes	No
Are there any doubts over the existence of a market for the identified business need or market capacity, capability or maturity?		
Is there any uncertainty about the level of supplier interest?		
Is the desired outcome likely to involve significant business change? Is it unprecedented?		
Is there a need to manage the expectations of the supply market in relation to the significant procurement?		
Is the requirement very unusual? Is the solution likely to be complex or innovative?		

Table 17 includes sample market sounding questions to provide to suppliers.

Table 17: Sample market sounding questions for suppliers
1. Are the objectives provided by the agency realistic and achievable?
2. Is the procurement attractive? Could you see a long-term benefit to your company in the procurement?
3. What are the barriers that may prevent your company from participating in the procurement process?
4. How can the agency assist you to overcome those problems?
5. Given your understanding of the procurement, are there any other or better approaches you would recommend?
6. Would you consider competing for the procurement? If not, why not?
7. How can we change our approach to make the procurement more attractive?
8. Would you consider providing additional investment for the procurement if required?
9. Do you have suggestions regarding the size, scope and specification of requirements for the procurement?
10. Do you have suggestions regarding the way the procurement is structured: for example, aggregated as a single procurement, or broken up into discrete stages?

Where possible, market sounding should involve a broad cross-section of the market. In some cases, industry representative bodies may provide a useful vehicle. In all cases, those persons facilitating the market sounding exercise should be appropriately skilled and experienced.

When conducting market sounding, procurement teams should:

- ensure wide consultation is conducted, by considering a broad range of interested and targeted parties
- provide sufficient information about the proposed significant procurement to enable respondents to gain an understanding of the procurement and/or provide meaningful feedback
- ensure participants recognise any discussions as informal, and not part of the formal procurement process
- respect the confidentiality of intellectual property.

Whatever process is adopted, agencies must be able to justify their decisions and it must be open, documented and auditable. Any pertinent information that is provided to individual suppliers during market sounding should be reflected in the final offer documentation and made available to all prospective tenderers.

At all times, care should be taken to preserve a level, competitive playing field in accordance with the provisions of the *Competition and Consumer Act 2010* (Cth).

Findings from supply market analysis and market sounding are evaluated and used to devise strategies to address any opportunities or risks identified.

Table 18: Key areas to research[5]
• **Feasibility:** whether what is sought is actually feasible, or has ever been done before. • **Capability:** the ability of the market (whether through a single supplier or a consortium) to achieve what is required. • **Maturity:** whether there is an established market for the requirement. • **Capacity:** whether the market can achieve what is required quickly enough, or on a large enough scale. • **Competition:** whether there are enough firms to ensure that a procurement process in this area will be sufficiently competitive. • **Working together:** whether firms have worked together previously and how they interacted. • **Supply chain and subcontracting:** the nature of supply chains and their organisation in this market. • **Traditions, attitudes and practices:** the culture, management structures and styles prevalent in the market. • **Attitudes to customers:** the likely attitudes to sharing information and whether there is evidence of suppliers adopting or promoting partnering approaches.

Developing suppliers and markets

Recommended practice

There are several situations in which an agency may find that there is not, or is not likely to be, a competitive supply market for its requirements. This may be because:

- suppliers perceive the agency as an ‘unattractive’ customer—for example due to over-complicated and burdensome tendering procedures
- the inherent market structure is uncompetitive—for example a monopoly situation
- a situation of market failure exists—for example, there may not be a market or the market may be insufficiently developed to meet the requirement
- there are issues relating to the requirement itself and the specifications—such as the size, scope, complexity of the requirement.

[5] Project Assurance Framework (Queensland Treasury) *Supply Strategy Development Guidelines*.

In these situations, if the risk and expenditure are significant the agency may need to undertake activities to develop the supplier base. A number of techniques exist to develop suppliers and markets, including[6]:

- **procurement marketing:** a common technique for improving the profile/leverage of the agency in the supply market
- **reverse marketing:** creating a supply capability where one does not exist or the market is distorted
- **supplier development programs:** a technique used to help suppliers upgrade their performance
- **partnering:** working with suppliers closely over the long-term to achieve joint objectives.

Procurement marketing tactics focus on improving suppliers' perceptions of the desirability of the agency as a 'favoured customer'. By selling the full range of benefits of supplying to the agency, procurement marketing can establish the buyer organisation as a preferred customer in key supply markets. Tactics may include offering awards for top performing suppliers, or contributing to/assisting with the development of a supplier. This may also be an opportunity to address negative supplier perceptions of the agency as customer. Note that while procurement marketing is a technique commonly used by procurement officers to improve the status of their agency with suppliers, this does not change the actual capability or capacity of the market.

Conversely, reverse marketing, supplier development programs and partnering techniques change the capability or capacity of the market to meet the agency's demand. These techniques require high level procurement skills and detailed planning. They generally involve joint problem-solving, complex negotiations, and ongoing intensive relationship management. These initiatives are usually complex projects, requiring the close involvement of key stakeholders, including end users and technical experts from within the organisation.

Reverse marketing and partnering may involve financial incentives and risk-sharing arrangements. They should be undertaken in conjunction with expert advice. Refer to the 'Sources of information' section for sources of assistance about these techniques.

Further guidance to assist agencies in identifying situations where developing suppliers and markets may be necessary is provided in Table 19.

[6] P Steele & B Court, *Profitable Purchasing Strategies*, McGraw-Hill School Education Group, 1996, pp. 82–83.

Table 19: When to develop suppliers and markets	
Type	**Characteristics**
1. No suppliers, or limited number, exist in the market place	• The agency has a non-standard requirement. • There is no current offering in the marketplace which meets the requirement. • Suppliers show little or no interest in the project.
2. Lack of market interest	• Suppliers see the agency as an unattractive customer and give minimal attention to winning its business. • Not enough bidders meet the scale of the requirements. • There are geographical barriers.
3. Incumbent supplier	• An existing service or product supply is being re-competed but suppliers in the market perceive the incumbent supplier as being in an entrenched position. • Suppliers show a lack of interest in the procurement because they are sceptical as to whether the contract is winnable for all prospective bidders.
4. Supplier perceives the agency as a ‘development’ customer	• Suppliers see the agency as an opportunity for development. • Supplier works very hard to gain or retain the organisation’s business and looks to build strong relationships with the organisation. • Supplier will be willing to give its best deal.

Sources of information

Market and industry information is available from a variety of sources.

It is suggested that secondary sources (material already published) are researched before conducting primary research (seeking new information, for example by conducting interviews or surveys). Secondary sources provide an overview of the supply market. Once a broad understanding of the goods or services and the supply market is achieved, talking to suppliers and product users (primary research) will help generate a clearer, more detailed understanding.

Secondary information

Overview

Secondary research usually provides good background information about the market and specific issues and/or suppliers. In terms of general market information this may include overall market size and other statistics, and key suppliers in the market. Specific supplier information may include goods and services supplied by particular firms; company reports; and information about future plans.

Sources of secondary information

Internet search engines

These are recommended as a first step in research and can be used to source a great wealth of information.

Private sector research providers

Some specialist market research organisations provide information for a fee, or can be paid to conduct research into a particular market on behalf of the department/agency.

Online databases

These are available through subscription. Most departmental libraries will have access to some research databases.

Online legislation

The following websites offer Adobe PDF formats of current and past Acts of Parliament:

- Queensland Government legislation: https://www.legislation.qld.gov.au.
- Commonwealth of Australia legislation: https://www.legislation.gov.au/.

Media sources

Media monitoring is a useful mechanism for obtaining information about newsworthy activities occurring in the supply market.

Specialist organisations

These organisations have data that may be useful when gathering supply market information:

- Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES): http://www.agriculture.gov.au/abares.
- Australian Bureau of Statistics (ABS): http://abs.gov.au.
- Australian Securities and Investments Commission (ASIC): http://www.asic.gov.au/.
- Industry Capability Network Queensland (ICN QLD): http://www.icn.org.au/qld_home.

Company-specific details

Most public companies publish information that can be useful in identifying market directions and strategies. This may include:

- annual reports
- company websites
- marketing material
- previous tender information.

Primary information sources

Overview

Secondary research needs to be combined with primary research. This involves interviewing those in the best position to understand the issues associated with the goods and services required to meet the agency's needs, as detailed in the 'Market sounding' section. A range of suppliers – both current and prospective – need to be interviewed in order to understand the supplier perspective.

In terms of internal stakeholders, it is recommended that end users of the goods or services, technical staff, managers and procurement staff are interviewed to obtain a good understanding of the issues.

When interviewing suppliers, it is important to target the appropriate level of management and to consult operational staff. The information each source provides may be different. Procurement officers should be careful not to make any representations or promises to suppliers on behalf of the agency, or release any information that is commercially valuable to the agency. All information needs to be verifiable or reconcilable to ensure that the research is unbiased and objective.

Sources of primary information

Suppliers

Suppliers are usually willing to discuss their business and industry. A well-prepared interview with industry participants will generally provide more current information than hours of secondary research. Site visits can help understand cost drivers in the industry and supply chain issues. However, there is a need for some caution, as suppliers' views are likely to be biased towards their own systems and products.

End-users of the goods and services, and procurement staff

Consult with officers in an agency that has been dealing with the suppliers. They may have knowledge about suppliers' performance and supply markets, and can serve as a reality check on the information gleaned from the supply market and media searches. Procurement and technical officers in other agencies who purchase similar goods and services can also provide valuable information.

Quality assurance auditors

Quality assurance auditors regularly deal with a variety of organisations and usually develop a good knowledge of products available from various companies, of a particular organisation's capabilities, and how firms in the market operate.

Definitions

Term or abbreviation	Definition
Procurement marketing	A commonly used technique for improving the profile / leverage of the agency in the supply market.
Reverse marketing	The creation of a supply capability where either one does not exist or the market is distorted.
Supplier development program	A technique used to help suppliers upgrade their performance, such as working with suppliers towards achieving improved levels of quality and delivery performance.
Supplier preferencing	Suppliers categorise the agency's account in terms of its value and attractiveness to them.
Supply positioning	Analysing an organisation's total annual spending on categories of goods and services against the degree of business risk. Supply positioning helps identify general buying strategies that are cost-effective and efficient. It also flags potential risk exposures that could result from supply difficulties—thus enabling contingency planning.

Appendices

Appendix 1 – Generic strategies for supply-related risks

Risk dimension	Level of risk		
	Low [1-4] Focus is on maintaining the risk factor	**Medium [5-7]** Focus is to manage the underlying causes of risk and influence to reduce wherever possible	**High [8-10]** Focus is to proactively reduce the underlying risk
Nature of supply market	**Favourable to buyer:** • Leverage buying power and maintain competitive tension between suppliers to maximise value for money to the agency. • Avoid over-dependency and other practices which may result in reducing competition. • Maintain effective supplier performance management and test market frequently.	**Marginally favourable to either the buyer or supplier:** • Customise strategies and tactics to match the market characteristics and in particular the value suppliers place on the agency as a customer. • Encourage substitute goods and services and beware of supplier conditioning and dependencies developing. • Conduct frequent market soundings.	**Favourable to supplier:** • Address highly concentrated and/or distorted markets by improving the agency's perceived value as a customer; increasing mutual dependency; considering sourcing in-house; and undertaking supplier development activities in key markets to establish a competitive supply base. • Actively monitor evidence of 'cartel' behaviour such as price fixing, market sharing or collusive bidding. • Strong negotiation skills required in establishing new supply arrangements and in managing the performance of entrenched suppliers.

Probability of supply failure	**Low probability:** • Maintain good supplier relationships in key categories to promote positive supplier perceptions of the agency as a valued customer. • Maintain awareness of any changes in the market structure; mergers and acquisitions; and the capabilities and capacities of key suppliers.	**Moderate probability:** • Actively seek to improve supplier relationships in key categories to develop positive supplier perceptions of agency as a valued customer. • Seek to procure from less vulnerable points in the supply chain. • Actively monitor any changes in the market structure and the capabilities and capacities of key suppliers. • Investigate potential substitute goods and services and possible points of future vulnerability in the supply chain. • Undertake frequent market soundings.	**High probability:** • Target potential suppliers in key categories and undertake intensive supplier development activities to establish alternative sources of supply. • Analyse and seek to influence the supply chain to reduce likelihood of supply failure. • Reduce supply market vulnerabilities by holding strategic inventory; sourcing in-house; or using substitute goods and services. • Undertake continuous market soundings.

Appendix 2 – Summarising the key product findings from supply market analysis (example of ‘Product Z’)

Key findings from supply market analysis	
Market structure	• Four major suppliers dominate market at 60 per cent of government sales. • Value-added resellers make up 15 per cent of the government market. • Limited number of regional and high-end suppliers. • Product increasingly commoditised with value-adding in services. • Most assembling is conducted overseas.
Competition	• Key driver is intensive price pressure. • Expansion of products / services into high-margin areas. • High-levels of brand differentiation. • Little real product differentiation (mature market). • Scale economies and state-wide distribution networks as barriers to entry. • Short product life-cycles force prices cuts for existing models.
Supply chain	• Vulnerabilities to breakdowns in component manufacture. • Most products assembled overseas. • Local resellers value-add in support services. • Same state-wide service agents used by most suppliers.
Substitutes	• Limited scope for product alternatives. • Trend towards alternatives to traditional supply and support models: that is, managed services.
Agency’s value as a customer	• Agency is a small customer compared to total sales (<0.1%). • Agency is a middle level government customer of major product suppliers (average 0.5 to 2% of government sales). • Reasonable volume / but high number of customer interfaces. • Agency requires a high level of account management. • Overall agency is perceived as an ‘exploitable’ customer.
Environmental factors	• Energy and water intensive manufacture. • Hazardous waste associated with disposal of products.

	• Lack of transparency over supplier chains and ethical sourcing. • Suppliers positioning to meet potential legislative requirements.

Appendix 3 – Determining the key outcomes for developing procurement strategies (example of 'Product Z')

Supply-related risks		Opportunities to improve value for money
Nature of supply market	**Probability of supply failure**	
• Market dominated by a few large suppliers in large enterprise market (e.g. government). • High barriers to entry re: large enterprises market. • Low levels of product differentiation. • Short product life cycles generate price competition for existing models. **Overall: marginally favourable to supplier.**	• Limited product substitutes available. • Agency is perceived as exploitable, not core customer. • Potential vulnerabilities in the supply chain (e.g. reliance on overseas assembly and component manufacture). **Overall: moderate probability of supply failure.**	• Mature market and low levels of 'real' product differentiation: competition is price-based. • Increasing focus on value-add services as a differentiator, or through sustainability initiatives. • Potential to develop alternative product / service delivery models (e.g. managed service). • Sustainability emerging as a key focus, with all major suppliers supporting government objectives. • Opportunities to undertake supplier development, especially with resellers.