# **Market analysis and review – Goods and services procurement guide**

## What is market analysis?

Market analysis is the systematic review of the characteristics, capacity and capability of the supply market to understand the extent to which the market meets the needs of the buying organisation.

The key objective of market analysis is to identify the preferred and most relevant approach to the market given the requirements of the procurement activity.

The following three interrelated components are the core building blocks that establish the case for proceeding to engage with the market:

* market analysis;
* project scoping and demand analysis review; and
* delivery planning.

The level of detail required in each of the following components is scalable and will depend on the level of complexity and estimated contract value.

The business case will inform development of:

* market approach
* evaluation, negotiation and selection
* contract management.

Note 1: Bringing together the outcome of the sourcing elements establishes the context for proceeding with the procurement. The business case should be scalable and proportional to the complexity of the procurement. For more information, refer to the [Guide to creating a procurement business case](https://buyingfor.vic.gov.au/creating-procurement-business-case-goods-and-services-procurement-guide).

Note 2: Where the complexity assessment at category/individual procurement activity level is sufficiently detailed and relevant, organisations may choose to proceed directly to a preferred market engagement strategy. See the [Guide to market approach](https://buyingfor.vic.gov.au/market-approach-goods-and-services-procurement-guide) for more information.

Note 3: If individual procurement activity is critical to business, high risk, or an extended period exists between analysis at the category level and the individual procurement activity, you should carry out a detailed market analysis irrespective of the alternate pathway under Note 2.

## Supply market analysis

### What is a supply market?

A supply market is commonly understood as the businesses and organisations willing to sell the goods and services relevant to your procurement needs.

The supply market can be classified into smaller groups based on characteristics such as size, capability, specific expertise, financial stability, location, type, service, price points, commitment to sustainability, etc.

### The importance of knowing your supply market

Understanding the capacity and capability of the market to supply goods or services influences how you approach the market. It helps formulate a buying strategy for a category of goods or services or an individual procurement and the context for developing your specification. Understanding the supply market can also influence how to structure and manage contracts.

### How to identify supply market sectors

Focus first on core market sectors and, where relevant, identify the subsectors associated with your procurement activity.

Market sector information and advice can be sourced from past procurement activity and organisations such as the Industry Capability Network (ICN), Business Victoria, and business/industry bodies, professional bodies and associations.

Complex procurements may require a market identification strategy that involves soliciting interest from suppliers to better understand the appropriate market sector and its capability to supply, for example, adopting a multi stage approach to the market.

Where your market analysis indicates that the market sector does not have the capability to satisfy the procurement requirement, you may need to consider other strategies. For example, changing the scope of your procurement requirement or further segmenting the market sector into smaller components.

The next section lists a series of market factors that may be relevant for different categories of procurement complexity or individual procurement activity. The list can be adapted to align with factors identified in your complexity assessment. Considerations related to ‘strategic’ procurement are undefined in some instances given the specificity and economic importance of these types of procurements.

Market analysis should be carried out by people with the appropriate capability. Where appropriate and relevant to the project, it is preferable to retain those people for subsequent stages in the procurement process.

### Factors to consider in market analysis

**Number of suppliers in the category of procurement to which the procurement relates**

Are there sufficient suppliers in the marketplace who would be likely to respond to a procurement requirement?

**Supply market has the capability and capacity to carry out on the procurement**

To what extent can the market sector deliver the procurement requirement? The supply market must demonstrate it has both the capability and capacity. Reliance on one aspect alone could significantly increase the risk of not achieving an effective procurement outcome.

**Degree of competition in the supply market sector**

What is the likelihood of achieving competitive pricing and performance in response to a procurement requirement? This is relevant where pricing of a good or the cost of a service is an important factor in supplier selection.

**Risk of supply failure**

What is the level of risk of failure inherent in a particular market sector? This is critically important for government provision of essential services to the community although may be less critical where a panel of multiple suppliers exists or there is a well‑established supply base. Criticality occurs where the principal supplier is reliant on a single or small number of suppliers in the supply chain. Consider how resilient the supplier market and supply chain is in responding to significant and unforseen incidents.

**Supply market is responsive to innovation and alternate contracting arrangements and forming collaborative arrangements with other suppliers when responding to a desired procurement outcome**

To what extent can the market sector respond with an innovative response to a complex procurement requirement? Are suppliers operating in particular market sectors familiar with non‑standard supply arrangements, risk and benefit sharing, approaches such as alliance contracting, market based solutions and forming project specific contracting entities to cover the full scope of the procurement requirement.

**Supply market demonstrates commitment to environmental and social objectives**

All procurement has some level of impact on the environment that needs to be minimised to ensure sustainable procurement practices. Government procurement should lead by example by purchasing of goods and services from suppliers who demonstrate a commitment to better environmental performance or meet broader social objectives where relevant. i.e.: consideration should be given to engage minority groups such as aboriginal businesses or disability groups if releveant to the supply market.

**Suppliers require high level of management oversight**

Will the organisation need to apply additional resources or risk management processes when managing the contract?

## Project scope review

What is demand analysis and project scope review?

A project scope determines the actual procurement need and the available budget and time to deliver the procurement activity based on outcomes from the demand analysis.

A review of the project scope enables you to:

* evaluate and refine the procurement requirements in relation to supply market information/feedback;
* determine whether the procurement is still required in its current form, could be staged over time, split into component parts or the need satisfied by a substitute good or service; and
* ensure that any review outcome that changes the procurement requirements or a planned process is still aligned with the organisation’s procurement strategy, stakeholder needs, funding commitments, etc.

### How to carry out a project scope review

Factors to consider when conducting a review are noted in the next section. The factors can be adapted to align with factors identified in your complexity assessment.

The review should be carried out by people with the appropriate capability. Where appropriate and relevant to the project, it is preferable to retain those people for subsequent stages in the procurement process.

### Factors to consider when conducting a review

**Has there been a change in the estimated value of the procurement?**

Has any increase in estimated cost obtained necessary funding approval? Are there ways to limit the increase in costs? Are the cost increases large enough to warrant a change in the budget, program priority, procurement need, etc.

**What factors contributed to the change in the estimated value of the procurement?**

Who has ownership and responsibility for the factors that have driven the change? Are the factors internal or external and can they be managed by adopting other actions? What is the capacity of the organisation to manage those factors?

**Has there been a change in the overall level of risk associated with the project?**

What additional mitigation strategies are required to address the risk profile change? Are the risks manageable, able to be mitigated, isolated from the project, requiring refocus of the procurement? Do the mitigation strategies require additional resources, funds or capability to manage?

**Has there been any change in the nature, scope, extent, standards, performance, etc. of the procurement requirement as a consequence of the market analysis?**

To what extent has the change in procurement scope deviated from the initial determination of requirements? What is the impact on the project/program to which the procurement relates?

How are those changes to be addressed?

**Do the changes arising from the market analysis impact on, overlap with existing supply arrangements, or depend on modification to their associated procurement activity?**

To what extent are related procurements outcomes compromised?

**Have the anticipated capability requirements changed with alterations to the procurement urgency, nature, scope, extent, standards, performance, etc?**

Does the entity still have the capability to manage the procurement activity?

**Is it necessary to reappraise the proposed market engagement plans for the procurement activity?**

Do you need to change the way the contract will be managed? Is there a change in the probity oversight requirements? What are the capability implications of changing the market engagement strategy?

**If proposing a change in the nature, scope, extent, standards, performance, etc. of the procurement activity, are the changes still aligned with the organisation’s procurement strategy and broader government policy objectives?**

What is the impact of any divergence from the organisation’s procurement strategy?

**Are the proposed evaluation criteria and weightings still in alignment with the procurement requirement/scope?**

What is the impact on the endorsed evaluation criteria and associated weightings?

**What is the extent of stakeholder/client engagement change associated with the procurement? To what extent will a change in stakeholder participation impact on the management and delivery of the procurement activity?**

Who are the additional/new stakeholders to be included in the procurement’s communication plan? What are the resource/system implications of a change in the stakeholder/client base?

## Delivery planning

### What is delivery planning?

Delivery planning draws on the procurement scope and supply market analysis to determine the optimal market approach and engagement strategy.

### Why is it important?

By considering how to deliver the procurement, the organisation obtains a high level understanding of the key factors that will influence the:

* market engagement strategy;
* risk assessment and management strategies;
* stakeholder management planning;
* cost control;
* contract management arrangements;
* key timelines;
* project specification;
* organisational and capability requirements; and
* project management approval processes.

### How to carry out delivery planning

The common task for all the above factors is to identify and test options to arrive at an understanding of the most effective and efficient arrangement for proceeding with the path to market.

### Factors to consider in delivery planning

Market engagement strategy:

* Market approach options: quotes, open or limited invitation to supply, head agreements, early supplier engagement, auctions and e-systems, direct negotiation, inter government delivery, alliance arrangements, public private partnerships, procurement specific designed engagement, multi stage engagement, master vendor, prequalification, register of suppliers etc.
* Notification plan and timing
* System/process arrangements to conduct market approach

Risk and management strategies:

* Risk assessment and prioritisation methodologies
* Relevant risk management/mitigation strategies
* Risk allocation strategies
* Risk cover options (insurances)

Stakeholder management planning:

* Identification of stakeholder groups communication/information plans

Cost control arrangements:

* Responsibility, monitoring and reporting framework

Contract management arrangements :

* Contract options:
  + standard contract
  + project specific contract
  + alliance contracting
* Performance and benefits monitoring options
* Relevant key performance indicators

Key timelines:

* Project start/finish options
* Delay and slippage management options

Project specification:

* Standard specification options
* Project specific specification options

Organisational capability:

* Management structure options
* Resource and capability mix options
* Capability augmentation requirements

Project sign off/approval processes:

* Gateway processes
* Stakeholder involvement options
* Report/record format options

## Using this guide

This guide accompanies the [goods and services supply policies](https://buyingfor.vic.gov.au/goods-services-supply-policies). There are 5 supplies policies:

* Governance policy
* Complexity and capability assessment policy
* Market analysis and review policy
* Market approach policy
* Contract management and disclosure policy

This guide supports the [Market analysis and review policy](https://buyingfor.vic.gov.au/market-analysis-and-review-goods-and-services-policy-and-guides).

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