

White Paper: Enhanced Market Research Drives Better Acquisitions

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Robust market research provides a critical foundation for an outcomes-oriented approach to federal acquisition. Accurate and thorough market and customer information is the cornerstone of all FAR-compliant acquisitions. But what about beyond that?

More robust market research expands the ‘as-practiced’ FAR-based norm to include the process of gathering, analyzing and interpreting information about:

- A market or markets
- Products or services available in that market
- The characteristics of those products or services
- Past, present and potential customers for the product or service
- Previous purchasing experiences for the product or service in the industry as a whole.

Enhanced market research provides a wealth of information about, and insights into, the complete acquisition environment. Importantly, it enables acquisition teams to unlock the value otherwise hidden in the (unknown) cost of foregone solutions to achieve desired mission outcomes.

Market research always should seek to answer the question “why?” Why are we buying what we are buying? Why are we proposing to buy it this way?

Effectively answering these questions allows procurement teams to focus on defining the core challenge—what is the mission, what is the intended outcome and how does this procurement help? In-depth market, buyer, seller and customer information, including past buyers’ experiences, helps answer these essential questions.

There are five primary roles for market research in the federal acquisition environment:

- First, to learn more than what is already known. At any point in the acquisition process, increased knowledge of the market, buyers, sellers and users increases the likelihood of a successful match among the four.
- Second, as a strategy to realize a mission outcomes orientation. Leveraging market research, the goal is to not only effectively respond to the voice of the customer but to also give a clear voice to the desired mission outcome.
- Third, as a channel for innovation. Innovation often isn’t identified, harnessed, and utilized efficiently. Innovation must have a medium in which to materialize and robust market research provides that.
- Fourth, to inform strategic decision-making throughout the acquisition planning phase. As an acquisition team continues to learn more than what they knew before through the market research process, gained market intelligence should actively challenge, influence and change initial thoughts, observations and planning decisions.
- Fifth, to influence tactical decision-making throughout the procurement execution phase. If new learning occurs via the market research process, but it is not used to evolve the original procurement strategy, this certainly would be a lost opportunity to connect the deepest understanding of customer requirements with the smartest buying experience, maximized supplier capability, and marketplace intelligence.

Enhanced market research serves another important purpose in helping procurement organizations achieve empathy and identification with requiring program teams. It enables procurement professionals to experience how it feels to be a customer, to exist in the program environment, to deeply understand mission requirements, and to better identify and understand market capabilities that can enhance customer outcomes. Robust market research allows acquisition professionals to focus activity and energy on big picture outcomes—to promote mission advocacy.

Here is a proposed path for achieving “supercharged,” outcomes-oriented market research:

Setting the Stage with Market & Supplier Intelligence

As a benchmark, industry performs comprehensive, deep research into the markets and suppliers it buys from and uses this data throughout their procurement processes, rather than chiefly during the pre-solicitation phase as do most government agencies.

Increasingly over the past 30 years, companies have come to manage their procurement spending in categories by teams that conduct and employ continuous supplier and market analysis.

Companies estimate that every \$1,000 invested in market intelligence produces \$300,000 in cost savings via informed, data-driven negotiations and market category expertise, according to 2016 research by the Hackett Group¹. The savings result from:

- Closing the knowledge gap between buyers and sellers
- Getting ahead of potential supplier risk and performance issues
- Improved pricing and forecast accuracy.

This supplier and market analysis enriches and adds power and depth to traditional federal market research by helping boost procurement team agility and enabling information-driven, proactive decision-making that improves quality and timeliness of contracting. Supplier and market analysis does this by:

- Identifying new, innovative substitute products and services
- Increasing and widening competition
- Illuminating additional value that buyers can unlock
- Providing input for constructing the most appropriate procurement and contract and supplier relationship management approaches
- Assisting in locating and managing risks through the procurement cycle and during contract management

Government contractors naturally have an information advantage over government buyers. Suppliers know their costs and profit margins. They see and analyze orders and forecasts from commercial customers and often from organizations across government. They also gather their own market and supplier intelligence to refine their strategies.

Government procurement and program offices can reduce their information disadvantage with suppliers by performing rigorous and ongoing market and supplier intelligence gathering within the categories in which they spend the most and that are most critical to delivering program and agency missions.

Information Collection

In conducting this form of more robust market research, there are five key steps to consider: customer intelligence, customer requirements analysis, other agencies' experiences, market intelligence, and supplier intelligence.

I. Customer Intelligence

To understand and best identify markets, solutions, and suppliers and to challenge or shape and channel demand and requirements, acquisition team and procurement professionals must research for proposed purchases that meet dollar, quantity and criticality thresholds:

- Requirements
- Customer buying behavior
- Contracts
- Customer buying history in the category
- End users

This data will help determine whether a given need requires procurement or another approach, identify existing and/or emerging markets and suppliers best suited to answering the buying organization's needs, evaluate the relative success of past buying methods and suppliers, and provide insight into the true needs of end users.

Data Sources

- Acquisition strategies
- RFPs
- Contract portfolio review
- Federal Procurement Data System
- Accounts payable
- Customer experience studies
- Procurement professional, customer and end user interviews
- Procurement plans, etc.

II. Customer Requirements Analysis

Market research should inform requirements development. It begins with a focus on the outcomes sought: for what outcomes will the agency hold the eventual contractor(s) accountable? Those outcomes are supported by the tasks/activities the contractor will perform. Inquiries to guide market research and other aspects of requirements development include:

- Who will benefit from the services the contractor will provide?
- What service is being sought (*i.e.*, software maintenance, infrastructure modernization, telehealth services, healthcare provider network)?

- What outcome(s) will be achieved by acquiring this service?
- Where will the service be provided?
- Why is the service being sought?
- When is the service needed?
- What impact will this timeline have on the other questions and answers in this section?
- How has this service been acquired by your office in the past, and what approaches are appropriate for the current need:

PastCurrent

- Commercial service/item?
- Through an existing contract vehicle?
- Small or large contractor?
- Contract type?
- Terms & Conditions?
- Constraints (statutes, regulations, policies)?

- How was/is this service acquired by other offices within the Agency:

Office AOffice BOffice C

- Is it a commercial service/item?
- Was an existing contract used?
- Is this contract accessible to you?
- What acquisition office was used?
- Are the contractors small or large?
- What type of contract (firm fixed-price, etc.) was used?
- What are the contract Terms & Conditions?
- What were the constraints (statutes, regulations, policies, etc.)?
- What is the applicability of these examples to your needs?

Data Sources

- Current contract documents
- Strategic plans and operational plans
- Budgets, spending and performance reports
- Past performance reports from similar procurements
- Enterprise architecture
- Laws and mission/program documents
- Federal Procurement Data System
- GSA Acquisition Gateway
- Interviews with program manager, program leaders and executives

III. Other Agencies' Experiences

Once you have an understanding of the agency desired outcomes, needs and timeline, and contracts, expand your horizons to consider other agencies and their approach to achieving these or similar outcomes.

Other federal agencies likely will have encountered similar situations, and your agency can benefit from the knowledge and experience that they already have acquired. Think of the benefit as market research that has already been done for you.

- Which other agencies seek similar outcomes?
- What are those outcomes?
- How are these agencies approaching this challenge/need?
- How are these agencies acquiring these products or services?
 - Agency A Agency B Agency C
 - Is it a commercial service/item?
 - Was an existing contract used?
 - Is this contract accessible to you?
 - Which acquisition office was used?
 - Are the contractors small or large?
 - What type of contract (FFP, etc.) was used?
 - What are the contract Terms & Conditions?
 - What were the constraints (statutes, regulations, policies, etc.)?
 - What is the applicability of these examples to your needs?

Data Sources

- Contract documents
- Strategic plans and operational plans
- Budgets, spending and performance reports
- Enterprise architecture
- Laws and mission/program documents
- Federal Procurement Data System
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- Interviews with program managers, program leaders and executives

IV. Market Intelligence

Effective market analysis requires ongoing collection and analysis of information about:

- The competitive market landscape
- Market size, growth, structure and procurement practices
- Supply and demand
- Inflation and deflation
- Product and service innovations
- Market disruption (for example, the introduction of substitute products and services)
- Market risks and challenges
- Regional or country-related risks
- Sustainability, productivity and financial performance
- Legal and regulatory issues
- Number of buyers
- Number of suppliers
- Type and nature of suppliers (for example, manufacturers, assemblers, full-service providers), whether fulfilling a requirement takes multiple suppliers, service delivery capabilities, etc.

- The supply network for providing goods or services
- Alternative products or services

Analysis of this data will reveal insights about:

- The size and shape of the marketplace from which an agency is buying or seeks to buy
- Key developments and trends within it
- Industry financial attributes
- Intellectual property expectations and experiences
- Potential disruptors and emerging capabilities
- Key attributes of the relevant industry segment, e.g., business models, cost and pricing approaches; the extent of competition; government's bargaining power vs. that of other customers
- Economic, financial, regulatory and socio-political factors affecting suppliers
- Distribution channels
- Supply chain, political, environmental, financial and other risks
- Sustainability and other issues specific to the category

Data sources

- Commercial market and supplier intelligence providers
- Market analysts
- Trade associations
- Internet
- Business journals
- Industry, analyst, regulator, labor and economic reports
- Universities
- Consultancies with market-focused knowledge
- Interviews with leading firms in the industry and investor community
- Subject-matter experts
- The GSA Acquisition Gateway
- Advocacy group data
- Proprietary databases, etc.

V. Supplier Intelligence

Deeper supplier analysis will reveal data about:

- Management structures
- Supply networks
- Products and services
- Key clients
- Financials
- Strategies
- Geographies
- Litigation
- Pertinent news about them
- Analysts' views of them

Analysis of this information will reveal:

- The capabilities in industry related to the needs of the program
- The positions, strengths and weaknesses of specific suppliers in the market
- Suppliers' business models and financial incentives/disincentives, cost structures
- Company risks and future plans
- The range of products and/or services on offer today and anticipated in the future
- Best sourcing and contracting methods for suppliers in the market
- Emerging products/services and suppliers to tap for innovation
- Performance metrics common within the market that government can harvest for supplier and contract management.

Data Sources

- Supplier websites, literature and earnings calls
- 10-Ks
- Industry publications and reports
- Information services
- GSA Acquisition Gateway
- Consultants
- Contractor Performance Assessment Reporting System (CPARS) scores
- Interviews with suppliers (on-to-one and group)
- Alliance and trade associations
- Accrediting organizations (ISO, SEI, CMMI, ITIL, etc.)
- Key customers
- Other suppliers or potential suppliers
- RFIs
- Draft RFPs
- DARPA, In-Q-Tel, DIUx, innovation scouts, etc.

Conclusion

More robust market research is a critical element in outcome-oriented acquisition. PSC proposes an approach that expands the FAR-based, "as-practiced" approach. The market-facing principles and tools used in category management are common to our enhanced approach. The proposed approach increases the government's knowledge of market possibilities, its ability to leverage that additional knowledge, and therefore its ability to effectively and efficiently achieve desired program outcomes. In some respects, it resembles non-traditional, challenge-based acquisitions that simply provide a problem for industry to solve for an agency, which are also outcome driven and which enable discovery of new solutions.

About the Authors:

The Outcomes-Oriented Acquisition Working Group within PSC's Acquisition and Business Policy Council (ABPC) was formed to help federal agencies identify, measure and achieve desired objectives by focusing on the intended outcomes of procurement actions. To do so, it works to identify examples and best practices for successful performance-based acquisitions, and illustrate how outcomes-orientation improves service delivery throughout the acquisition lifecycle.

The Professional Services Council (PSC) is the voice of the government technology and professional services industry. PSC's more than 400 member companies represent small, medium and large businesses that provide federal agencies with services of all kinds, including information technology, engineering, logistics, facilities management, operations and maintenance, consulting, international development, scientific, social, environmental services, and more. Together, the trade association's members employ hundreds of thousands of Americans in all 50 states.

ⁱ The Hackett Group is an award-winning strategic consultancy and enterprise benchmarking and best practices firm specializing in business transformation, enterprise performance management, business strategy, procurement and related services. <http://www.thehackettgroup.com/about/>