

GUIDELINES FOR CONDUCTING MARKET RESEARCH IN PUBLIC PROCUREMENT



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1. Introduction

- 1.1. Section 7 (2) (a) of the Public Procurement Act, 2021 (PP Act), mandates the Public Procurement Regulatory Authority (the Authority) to “*set standards and practices for the public procurement system.*” Further to this, the PP Act directs the Authority in implementing and enforcing the provisions of the Act, to ensure the application of ‘*fair, equitable, competitive, transparent, accountable, efficient, non-discriminatory, honest, value for money and public confidence in procurement standards and practices.*’
- 1.2. The PP Act provisions underscore the importance of competition as a driver for best value procurement. It is therefore imperative that Procuring Entities (PEs) ensure proper due diligence and conduct market research, irrespective of the choice of the method of procurement, such that they have full information on the market they wish to procure in. It is in such instances that the PE is in an advantageous position to obtain best value procurement. The Public Procurement Operations Manual also requires procurement personnel to undertake market research to facilitate the development of tender documents and better contract terms for the government.
- 1.3. Market research refers to **the process of collecting, analysing and interpreting data related to the prices of goods and services within a specific market/industry** (Malholtra, 2007). The primary goal of market research is to assess market conditions, guide pricing decisions and forecast the future price involvement to maintain a competitive edge (Malholtra, 2007).
- 1.4. Market research is useful in ensuring that effective public procurement is realised. It informs development of product specifications and or scope of work; preparation of budget; selection of the procurement method; planning and scheduling of the procurement of supplies, services and works; determination of the evaluation criteria of bids/proposals; justification of the type of contract amendments, and identification of the risks associated with each procurement activity to be undertaken (Gartner, 2021; World Bank, 2020).

- 1.5. Information obtained through market research helps shape the procurement strategy to be employed, recommend solutions, identify and determine the type and content of the product description or statement of work as well as develop the maintenance support strategy to adopt.
- 1.6. In view of the provisions of the PP Act and cognisant of market dynamics, the Authority has since recognised the need for guidelines on conducting market research. The purpose of these guidelines is to act as a reference point to assist PEs in obtaining vital information from the market on works/supplies/services they wish to procure. These guidelines also serve to complement the Price Guides issued by the Authority for use as a reference on prices for common user items.
- 1.7. It is anticipated that the undertaking of market research by PEs will improve procurement outcomes. Market research is essential for providing information throughout the procurement cycle. For instance, the market research can inform Invitation To Tender (ITT) preparation and vetting where the specifications and the scope of works/service are ambiguous, as well as the pre-adjudication process to determine the reasonableness of prices offered by bidders relative to market prices.

2. Basis for Market Research

- 2.1. Market research gathers data to identify potential sources of supply, commercial product characteristics and appropriate solutions; market characteristics; commercial item standards and best practices as well as emerging technologies. Furthermore, it helps identify vendor technical and financial capabilities including interested, available and willing potential contractors; the existing level of competition in the market as well as other relevant factors that could affect the price, quality, quantity, schedule of availability and sustainability of what is to be procured.
- 2.2. Market Research is an essential process that enables PEs to buy best-value works/supplies/services as they engage suitable contractors. When little or no knowledge exists for the desired works, supplies, or services, the solution may not be optimal. Market research activities are therefore beneficial in:

- a) Determining the best practices of suppliers, service providers, or contractors engaged in producing, distributing, and supporting commercial items and services. These practices may include warranty agreements, delivery services, packaging, and marking.
 - b) Developing reliable cost estimates to establish procurement costs.
 - c) Evaluating industry practices such as Service Level Agreements (SLAs).
 - d) Identifying the availability and status of potential sources of supplies or technology, or solutions in the market sector.
 - e) Establishing trends in Government demand and prices paid by Government vis-à-vis prices paid elsewhere or by the private sector.
- 2.3. Furthermore, market research seeks to confirm the PE's financial capacity to carry out the procurement and ensure the Government leverages opportunities such that informed procurement strategy decisions are made.
- 2.4. Market Research **is not a selection process** for service providers/suppliers, as that is done at the procurement sourcing stage. Market research should not be misconstrued **as a commitment to award tenders; therefore, PEs should take utmost care not to commit Government or create an impression that a contract award should be issued in response to the market research activities.**
- 2.5. Public procurement personnel conducting market research activities are free to engage potential service providers/suppliers to gather information on the goods and services offered in the marketplace. It is imperative to highlight that this process of gathering such information should be conducted objectively, to uphold the principles of fairness and transparency, as well as ensure competitive neutrality. The outcome of the market research should be documented and filed in the procurement file for ease of reference.

3. Market Research Considerations

- 3.1. When undertaking market research, the following is **best practice** to be followed:
- a) Rely more on primary data.

- b) If secondary data or published work is used, ensure that it is not outdated (i.e., not more than five years old). In this instance, secondary data does not include market prices, published price guides or sourced quotations.
- c) In discussing specifications or terms of reference with market research sources, identify specifications that are essential to meeting the organisation's needs. This is especially important if it is found that only one product, or only one supplier's products, can satisfy the specifications.
- d) Review past performance of potential suppliers/service providers/contractors.
- e) Investigate possibilities for typical customisation, modification or tailoring for customer needs, including the potential cost of such modifications.
- f) Establish industry-specific practices, trends, specifications, and standards.
- g) Verify production and delivery lead-times.
- h) Identify technological/product changes and forecasts.
- i) Check trends in market prices, including factors that affect market price (e.g., cost and demand of product, raw materials, etc.).
- j) Ensure that the supplier/service provider/contractor who submits their product or services for trial purposes, signs a disclaimer which removes any legitimate expectation.
- k) Establish practices and trends from other PEs of the same or similar requirements.

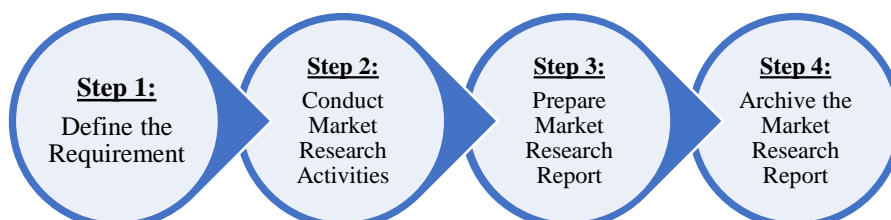
3.2. The following **should be avoided** when undertaking market research:

- a) The use of brand names or other anti-competitive practices is prohibited. If market research sources point to a brand name (including branded methodologies), establish whether other products are equivalent to the given brand name.
- b) Suppliers/service providers/contractors **must not** be given any impression by the PE that their services/works/supplies will be procured in order to avoid issues of legitimate expectation.
- c) The PE should not accept any equipment or samples for trial purposes without a disclaimer or removing any legitimate expectation Authority must be sought from the Accounting Officer (AO) before engaging in such an arrangement.

4. Market Research Process

The following figure 1 presents the critical steps to be followed when undertaking market research:

Figure 1: Market Research Steps



4.1 Defining the Requirement

A key element in any successful market research is a clear communication of requirements among all stakeholders involved. Clear and concise statements of the requirements should describe the user department's needs. The Procuring Unit (PU) should work directly with the user department to ensure requirements are realistic and definable. Where the user is unable to specify how its requirements are to be fulfilled, the PU may request the market to submit existing viable solutions to its requirements.

Request for Information (RFI) could be used here to acquire general information from several suppliers about their products, services, and capabilities. RFI is ordinarily sent out to potential suppliers/service providers with the intent of conditioning (making aware), gathering information, preparing for a Request for Proposal (RFP) or Request for Quotation (RFQ), developing strategy, or building a database which will be useful in later supplier/service provider negotiations.

The PU may use RFIs to include a detailed list of products/services/works for which pricing is requested. The pricing should be used for comparative purposes for later negotiation. Through analysis of RFI responses, strategic options, lower cost alternatives, and cost reduction opportunities may be identified.

4.2 Conducting Market Research Activities

As part of developing a market research strategy, the PU should establish the exact market research activities and available tools to be used and ensure documentation of the results accordingly. In embarking on market research activities, the following should be followed:

- a) Define the objective of the market research.
- b) Determine the market research method/activity to undertake, e.g., analysis of historical data, request for current prices, review survey reports, etc.
- c) Identify and choose a sample - who to collect data from and where to find them.
- d) Identify the types of data needed to conduct the analysis which will dictate the structure of the questions to ask.
- e) Establish where and how to conduct the market research, e.g., telephone, one-on-one meetings, email, internet, etc.
- f) Design and prepare the questionnaire (if necessary).
- g) Administer the questionnaire to collect data.
- h) Analyse the collected data.
- i) Document the findings and communicate the results.

The following presents **several available market research methods/activities** that can be undertaken when conducting market research:

4.2.1 *Gathering and Analysis of Historical Data*

Historical data in procurement refers to past records and information relating to previous procurements, including details on purchasing decisions, supplier performance, pricing trends, contract terms, inventory levels, and other relevant procurement activities. Use of historical data can assist in undertaking price analysis. This should be supported by appropriate documentation, such as copies of purchase orders or invoices.

Key steps to follow when using historical data:

- a) Review Prior Market Research Reports – if historical data had identified a previous market research report, the information from that report should be updated and used to develop a market research strategy to effectively streamline follow-on market research efforts.

- b) Assess Pricing Trends – if the PE has a history of having previously procured the same goods/works/services, this information can be used (adjusted for inflation and market conditions) to determine whether current prices are fair and unreasonable.
- c) Compare Similar Procurements – historical data from other PEs within the same locality may also be used for benchmarking, provided it is supported by documented evidence (e.g., purchase orders, invoices, or contract records).

4.2.2 Request for Current Prices from Market Players

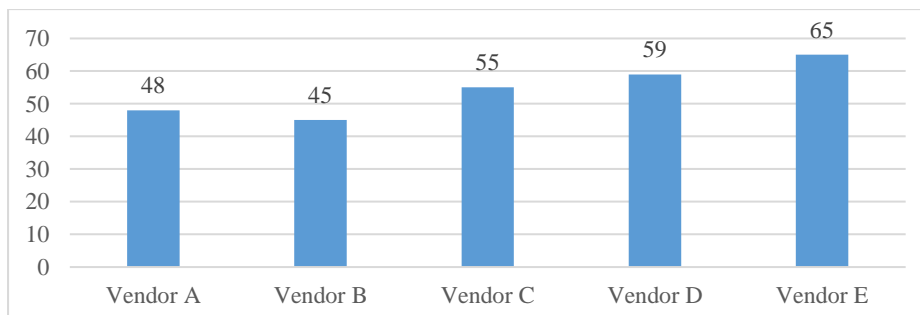
This refers to the process where up-to-date pricing information is sought from various suppliers or vendors in the market. This typically occurs when in the process of procuring goods/services, with the view to better understand the current market rates, so as to make informed purchasing decisions. The information collected can be used *to establish the reasonableness of prices*.

To better undertake this activity, a minimum of 3 prices should be collected to enable establishment of a price range. The lowest price collected would represent the minimum expected price, while the highest price depicts the maximum expected price for the product/service.

Example 1: The price of 2L, Pure Vegetable Oil, is collected from 5 vendors, with their prices as follows:

- Vendor A = P48.00, Vendor B = P45.00, Vendor C = P55.00, Vendor D = P59.00 and Vendor E = P65.00.

Figure 2: Price (in BWP) of 2L, Pure Vegetable Oil, Collected from 5 Vendors in a Locality

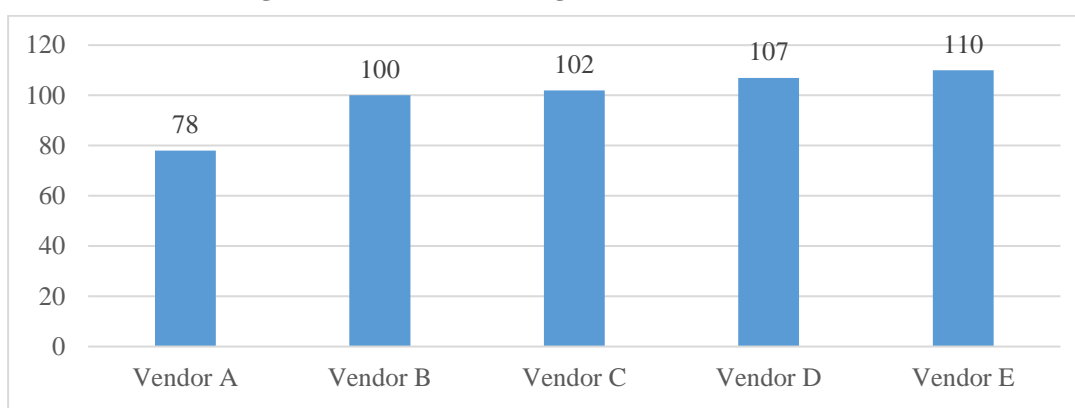


The minimum expected price in this case is P45.00 and the maximum expected price is P65.00 as shown in figure 2 above. Anything below the minimum and above the maximum is deemed unreasonable unless if there are *justifiable reasons* for such a deviation.

Example 2: Now, consider the price of 5kg Hi-Foam, Hand Washing Powder, collected from 5 vendors, with their prices as follows:

- Vendor A = P78.00, Vendor B = P100.00, Vendor C = P102.00, Vendor D = P107.00 and Vendor E = P110.00

Figure 3: Price (in BWP) of 5kg Hi-Foam, Hand Washing Powder, Collected from 5 Vendors in a Locality



In this case, the minimum expected price is P78.00, and the maximum expected price is P110.00 as shown in figure 3 above. However, a review of the prices shows a larger degree of variation of Vendor A's price, relative to the other vendors. It is therefore imperative that the PE conducts a much thorough due diligence, to assess whether the collected prices reflect normal market conditions. For instance, Vendor A's price of P78.00 could potentially be a discounted or promotional offer, while the other vendors may be offering the product at normal market prices.

In this instance, the PE should,

- establish why Vendor A's price is significantly lower, and
- gather additional market information by collecting prices from at least 3 more vendors to ensure a broader and more accurate price range. If the prices from these additional vendors align with the prices from Vendors B to E, then the PE can confidently conclude that the reasonable price for the product should be expected to fall within the range P100 – P110 and exclude Vendor A price.

Note: In instances where there are no vendors available within a given locality to sample or request prices from, the PE should extend its market research to the nearest locality. When doing so, the PE must take into consideration any additional costs that may be incurred in supplying the goods or services to the preferred locality. These costs may include transportation, handling, and any other logistical expenses that could affect the overall price reasonableness and value for money.

4.2.3 Review of Product Literature and Catalogues

A review of product literature and catalogues involves examining the materials that companies use to showcase their products or services, such as brochures, catalogues, websites, and other promotional documents. Product literature and catalogues provide insight into product/service details, descriptions and individual brand offerings, that enable the PE to make an informed decision.

In order to fully utilise such literature, the PE should:

a) Understand the product/service/works

Product literature needs to be read thoroughly to get insight into the comprehensive information provided. Paying attention to detail is very important here as it sets a foundation on knowledge and understanding of the key benefits of the products/service/works. Checking specification is very ideal to ensure that features correspond with the intended purpose.

b) Compare and contrast product/service/works

Use the product catalogues to compare specifications, details and features of various alternatives at hand. Prioritise key specifications and factor in the cost implications of the product/service/works.

4.2.4 Review of Existing Market Survey Reports

Market Survey Reports are detailed documents that provide insights, data, and analysis about a particular market, industry, product, or service. These reports are usually gathered through surveys, research, and data collection from a variety of sources, including potential customers, industry experts, and market participants. Market survey reports provide insight on business analysis of specified market sectors. They can be conducted by individual entities or other research bodies.

In reviewing such reports, PEs need to pay attention to the following:

- a) the sampling methodology applied to collect data, considering issues of geographical scope, sample size, respondent demographics, and data collection techniques used.
- b) data interpretation and analysis of the findings, with a confirmation that the data is reliable, accessible and well supported, with a relevance to current and emerging market trends clearly outlined.

4.2.5 Industry Engagement (Contacting Industry Leaders/Players/Start-ups and other Professionals/Associations in the Market Sector)

Industry engagement refers to the proactive efforts made by the PE to interact with key stakeholders within a specific market or sector. This could involve contacting industry leaders, market players, start-ups, professionals, or industry associations to gather insights, build partnerships, or stay informed about emerging trends and innovations. Engaging with the industry helps procurement teams better understand market dynamics, improve their strategies, and stay competitive.

The following presents the forms of industry engagement that PEs could consider:

4.2.5.1 Conferences/Exhibitions/Trade Shows:

Attending or participating in industry-specific conferences, trade shows, and expos allows procurement personnel to interact with key players, stay up to date with market trends, and explore new products or services. Networking at these events fosters relationships with potential suppliers, industry leaders, and innovators.

4.2.5.2 Industry Forums and Roundtables:

These provide a platform for in-depth discussions and knowledge sharing among industry experts, suppliers, and professionals. Roundtable discussions often focus on current issues, challenges, or new developments in the industry, providing procurement teams with valuable insights into the broader market environment.

4.2.5.3 Supplier Meetings/Discussions:

One on one meetings that allow PEs to discuss specific procurement needs, seek custom solutions and clarify contract terms and conditions. Regular meetings with suppliers or potential partners help establish stronger relationships and encourage collaboration. These meetings can be used to discuss performance, future trends, and opportunities for innovation or cost-saving measures.

4.2.5.4 Surveys and Polls:

Conducting surveys or polls with suppliers, customers, or industry professionals would allow the PE to gather valuable feedback on various aspects of procurement, market trends, and supplier performance. Engaging the broader market community through surveys helps to gain insights that inform procurement strategies.

4.3 Preparing the Market Research Report

Following the successful undertaking of the market research, the PU should ensure documentation of all the market research activities conducted and resultant findings in the Market Research Report. The report should provide relevant market data to support the procurement strategy decision making process. Documenting market research findings enables easier sharing of information across PEs particularly for common user items (thus eliminating or minimising duplication of effort), facilitates organisation of research results, preserves the historical record, and provides the basis for the procurement strategy and commercial decisions.

The Market Research Report must clearly show that the market research activities undertaken were adequate to reasonably support the procurement decisions taken by the PE. Following completion of the report, it must be endorsed by signature of the AO or any delegated officer. The report should be available for sharing with the relevant authority such as Procurement Oversight Unit (POU), AO and PPRA, as and when required to.

4.4 Archiving the Market Research Report

The Market Research Report should be recorded in the contract file. This document is to be used for future reference, to defend the procurement strategy adopted should any complaints arise, and even during audits to provide evidence of compliance to the requirements.

5. Conclusion

5.1 Market research may be conducted for any type of procurement to assist PEs in establishing available options in terms of technology, products offering, pricing, lead times for delivery, warranties, among others.

- 5.2 Market research can be done in-house or through external experts, particularly for high value complex procurement to ensure the attainment of best value and desired procurement outcomes.
- 5.3 Market research should be used in instances where no PPRA Price Guide exists, or the particular product/item is not available in the published PPRA Price Guide.
- 5.4 Market research is permissible throughout all stages of the procurement cycle.
- 5.5 In conducting market research, care should be taken to engage in a fair and transparent process to guard against allegations of biased procurement based on favoured service providers.



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