

GUIDELINE FOR PREPARATION OF THE MARKET RESEARCH STUDY

Introduction

This Guideline aims to prescribe policies and procedures for conducting market research (MR) and cost estimation to arrive at the most suitable approach to acquisition and distribution of supplies. In both preparations of the Project Fiches, particularly "Detailed Budget" section and MR for ensuring the correctness and quality of the technical specifications, this Guideline is applied.

Special consideration should also be given to the fact that MR is one of the preliminary steps of the preparation of the technical specifications. It should support the need analysis for the project so that realistic demands taking into account the current market situation can be defined. Also, a MR should not be a last minute action in order to demonstrate that there are a specific number of producers or products existing that actually meet the technical specifications drawn up.

In this respect, as the Contracting Authority, CFCU recommends the SPOs (Senior Programme Officers (SPOs)/Technical Assistances (TAs) to carry out these two stages simultaneously. In other words, when the Project Fiches are proposed technical specifications and MR together with cost estimate should be almost ready as well.

It is unlikely that this Guideline will resolve all MR related questions. Nevertheless, by improving the ability of SPOs' staff/TA experts, it is hoped that they let themselves do MR for a sound tendering.

Policy

SPOs/TAs must ensure that legitimate needs are identified and trade-offs evaluated to acquire items that meet those needs.

SPOs/TAs are expected to conduct MR progressively, and take advantage to the maximum extent practicable of commercially available market research methods, to identify effectively the capabilities, including the capabilities of prospective vendors and new entrants, that are available in the marketplace for meeting the requirements of the Beneficiary Institution.

SPOs/TAs shall use the results of MR to

- Determine if sources capable of satisfying the Beneficiary's requirements exist (*a wide range of suppliers' availability*);
- Determine if commercial items or, to the extent commercial items suitable to meet the Beneficiary's needs are not available, non-developmental items are available (*a wide range of products' availability*) that
 - o Meet the Beneficiary's requirements;
 - o Could be modified to meet the Beneficiary's requirements; or
 - o Could meet the Beneficiary's requirements if those requirements were modified to a reasonable extent;
- Determine the extent to which commercial items or non-developmental items could be incorporated at the component level;

- Determine the practices of firms engaged in producing, distributing, and supporting commercial items, such as type of contract, terms for warranties, buyer financing, maintenance and packaging, and marking;
- Determine if there is any on/off the job training need for end users;
- Determine if consumables and/or testing kits are necessary during the testing and inspection.
- Ensure maximum practicable use of recovered materials and promote energy conservation and efficiency;

When conducting MR, SPO staff/TA experts should take “guarded steps” in communicating with potential suppliers. In this regard, SPOs/TAs should request potential vendors not to submit more than the minimum information necessary. Furthermore, title of the project and whole text of the technical specifications should also be kept secure away from the potential suppliers as well as other unauthorized persons.

Procedures

MR involves obtaining information specific to the items being procured and should include

- Whether the Beneficiary’s needs can be met by
 - o Items of a type customarily available in the commercial marketplace;
 - o Items of a type customarily available in the commercial marketplace with modifications; or
 - o Items used exclusively for project purposes;
- Customary practices regarding customizing, modifying or tailoring of items to meet customer needs and associated costs;
- Customary practices, including warranty, buyer financing, discounts, etc., under which commercial sales of the products or services are made;
- The requirements of any laws and regulations unique to the item being procured (i.e. Telecommunication Authority for some communication equipment, Turkish Atomic Energy Institution (TAEK) for some hazardous/radiological material, related TSE and/or CE norms etc.);
- The availability of items that contain recovered materials and items that are energy efficient (i.e. compliance with related IEE and/or EU standards);
- The distribution and support capabilities of potential suppliers, including training and warranty/after sales services;

The identified suppliers need to be analysed in order to verify whether they are eligible and whether they would have access and interest to participate in an EU funded tender in Turkey and within which budget envelope.

Like identified suppliers identified items within supply tender need to be checked in order to verify whether they are eligible.

All the supplies to be procured through contracting procedures within all EC external aid contracts financed from the European Communities general budget must originate in a

Member State of the European Union or a country covered and/or authorised by the specific instrument applicable to the Instrument for Pre-Accession Assistance (IPA) Programme¹.

In case of an ineligible origin of a supply, derogation from the rule of origin is granted. However, in order to grant derogation for the product which is ineligible origin, it is proved that the product, which is manufactured, created, assembled or built in the eligible countries is not found in the market through supporting documents. If the product is withdrawn from market a press release is provided. It must be avoided the previous tenders that includes derogation as evidence since products in the market may vary day by day.

If the needs are defined in a way that excludes certain identified potential products or producers on the relevant market from the scope of the project, this exclusion should be clearly justified and explained. The market should be kept as open as possible, and products normally sold for similar project or users, or producers/traders normally competing on these markets should not be excluded for technical or other reasons.

In estimation of the market prices for items being procured, not only **Total Cost of Acquisition (TCA)** but also **Total Cost of Ownership (TCO)** should be included into calculation. Many consumers, businesses, and governments fail to understand and calculate TCO and instead rely on TCA to make buying decisions. TCO can and often does vary dramatically against TCA, although TCO is far more relevant in determining the viability of any equipment to be procured.

TCO is a financial estimate designed to help consumers and enterprise managers assess direct and indirect costs related to the procurement of any good, such as (but not limited to) computer software or hardware. A TCO assessment ideally offers a final statement reflecting not only the cost of purchase but all aspects in the further use and maintenance of the equipment, device, or system considered. This includes the costs of training support personnel and the users of the system, costs associated with failure or outage (planned and unplanned), diminished performance incidents (i.e. if users are kept waiting), costs of security breaches (in loss of reputation and recovery costs), costs of disaster preparedness and recovery, floor space, electricity, cabling, piping, development expenses, testing infrastructure and expenses, quality assurance, incremental growth, decommissioning, and more. Therefore TCO is sometimes referred to as **total cost of operation**. When incorporated in any financial benefit analysis TCO provides a cost basis for determining the economic value of that supply.

For example, the decision to buy a computer may result in the following TCO analysis: the greater initial price of a high-end computer is to be balanced by adding likely repair costs and earlier replacement to the purchase cost of the cheaper bargain brand, among other factors. The initial price becomes just the beginning of the **life cycle** of costs.

In this respect, in addition to acquisition cost, related ownership costs should also be included into unit prices. Briefly, all estimated prices should reflect to **"Unit Costs with Delivery, Installation, Putting into Operation and Warranty at [Delivery Place], Turkey, [DDP] - EURO"**

Transportation costs should be **DDP (Delivered Duty Paid)** basis. Transportation refers to an itinerary from supply source to delivery place(s) indicated in the Technical Specifications. DDP refers to a commercial term, in particular, delivery which is described by **Incoterm 2000** rather than tax and customs provisions. DDP covers all transportation costs and bears all

¹http://ec.europa.eu/europeaid/work/procedures/documents/execution/general/a2_eligibilityprogrammes2007-2013_en.doc

risk by the contractor until the supplies are delivered to the places where it is mentioned in the Tender Dossier.

When necessary, **training costs** should be separately indicated in the MR as a “lump sum” amount for all respective items.

If the tender is delayed following the preparation of the MR and the technical specifications, an **update of the MR** may be required before launching the tender.

Techniques

Techniques for conducting MR may include any or all of the followings:

1. Contacting knowledgeable individuals in Government and industry regarding market capabilities to meet requirements.
2. Reviewing the results of recent MR undertaken to meet similar or identical requirements.
3. Querying the Governmental and commercial databases that provide information relevant to public procurements.
4. Participating in interactive, on-line communication among industry, acquisition personnel, and customers.
5. Obtaining source lists of similar items from other contracting activities or agencies, chambers of commerce/industry and trade associations or other sources.
6. Reviewing catalogues and other generally available product literature published by manufacturers, distributors, and dealers or available on-line.

In any case, cost estimation should be based on list-prices or other official out-prices for the products that remain.

The technical specifications must be drafted in a way that include all the products identified and that do not discriminate between the various actors in the relevant market.

In provision of the software (excluding software development), SPOs/TAs should refer to “**Open Source**” since tenderers are encouraged to use Open Source software as EU suggests

http://europa.eu.int/information_society/activities/opensource/cases/index_en.htm and http://europa.eu.int/information_society/activities/opensource/index_en.htm

SPOs/TAs should document the results of market research in a manner appropriate to the size and complexity of the project. All relevant convincing proofs (proforma invoices, correspondences, internet sources, vendor letters etc.) should be attached with the standard MR study.

Special consideration should be given to difference between the **Commercially Available off-the-shelf goods (COTS)** and “custom-designed” goods in cost estimation. COTS is,

1. A subset of a commercial item and means any item of supply that is,
 - A commercial item;
 - Sold in substantial quantities in the commercial marketplace; and
 - Offered to the governmental bodies,

Without modification, in the same form it is sold in the commercial marketplace.

2. Does not include “bulk cargo” such as agricultural products and petroleum products.

Note that most existing “**open source software**” is COTS, since it is licensed to the public.

In custom-design goods, cost estimation should be based on the prices quoted by the manufacturers since requested product is designed for a specific purpose. It also enables closer relationship between the developer and the customer. In such a case, illustrative designs should also be referenced in order to get a responsive price.

In **itemization of the goods** to be procured, final value-added aspect of the parts should be taken a base for pricing. For example, PCs are composition of some individual parts such as processor, keyboard, RAM, mouse etc. Therefore unit price in the MR should indicate sum of these relevant parts as an individual PC.

Brand names have high importance in verifying the availability of the goods to be procured. At least two brand names with models meeting technical requirements should be indicated in the MR. Also SPOs/TAs are expected to make sure these are currently available in the market. No out of product/date products is itemized in the MR. Note that, to refer some brand names does not necessarily imply that these products can only be offered.

Estimated unit prices should be grounded to relevant price sources as explained above namely proforma invoices, Internet sources, catalogues etc. All prices should be **EURO** basis.

A standard MR template (**Annex-I**) and relevant Checklist (**Annex-II**) is attached with this Guideline. These should be followed by the SPOs/TAs in order to have a clear insight to the market.

Annex-I
MARKET RESEARCH TABLE

| Lot/ Item No. | Description of the Item | Original Quantity | Brandnames with Models | Estimated Unit Price (€) | Estimated Cost (€) | Countr(ies) of Origin | | |
|---------------------|----------------------------|----------------------|---------------------------|-----------------------------|-----------------------|-----------------------|--|--|
| 1.1- | | | | | | | | |
| 1.2- | | | | | | | | |
| ... | | | | | | | | |
| X.X | Training* | X- day | N/A | Lump sum | | | | |
| 2.1- | | | | | | | | |
| 2.2- | | | | | | | | |
| ... | | | | | | | | |
| X.X | Training* | X- day | N/A | Lump sum | | | | |
| TOTAL | | | | | | | | |

** If any*

NOTES (If any, derogation, custom design etc.):

CHECKLIST
MARKET RESEARCH STUDY

Project No. and Title:

Budget (EURO):

| REQUIREMENTS | | STATEMENT | | | EXPLANATIONS (If needed) |
|---------------------|--|-------------------------|--|--|---------------------------------|
| 1. | All items included | Yes No | <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> | |
| 2. | All products itemized/numbered in an appropriate way | Yes No | <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> | |
| 3. | Wide range of availability respected (minimum two of brand names with models) | Yes No | <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> | |
| 4. | Same Quantities with the TS | Yes No | <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> | |
| 5. | All price sources attached | Yes No | <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> | |
| 6. | All unit prices received from eligible sources | Yes No | <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> | |
| 7. | Reasonable justification and supporting documents are provided for derogated items | Yes No | <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> | |
| 8. | All costs included | Yes No | <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> | |
| 9. | Current market prices respected (most recent dates of prices) | Yes No | <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> | |
| 10. | Total budget amount calculated | Yes No | <input type="checkbox"/> <input type="checkbox"/> | <input type="checkbox"/> <input type="checkbox"/> | |

| |
|--|
| <p>Prepared by (respective SPO staff/TA experts) <i>Name(s), surname(s), signature(s) and date</i></p> <p>.....</p> |
| <p>Checked by (consequent SPO staff/TA experts) <i>Name(s), surname(s), signature(s) and date</i></p> <p>.....</p> |
| <p>Approved by the Senior Programme Officer/TA experts <i>Name, surname, signature and date</i></p> <p>.....</p> |