


# Commercial Awareness



Commercial awareness means understanding the market, identifying opportunities and working with limited resources to create a profit (Wilkinson and Aspinall, 2007).



CIPS members can record one CPD hour for reading a CIPS Knowledge download that displays a CIPS CPD icon.

### Introduction

Commercial awareness is a broad concept that is often used interchangeably with terms such as 'business acumen', 'commerciality' and 'business/client focus' (Raybould and Sheedy, 2005; Stoakes, 2011).

Commercial awareness is an individual's accumulated knowledge of the business world and understanding of what goes on inside and outside organisations. Highly valued and sought-after by employers, who narrowly define the term as "how the business operates and how graduates can add value to the core activities of the business", commercial awareness remains an amorphous term with no clear-cut definition in research or practitioner-based literature (Wilkinson and Aspinall, 2007:4). There is the implicit assumption, however, that commercial awareness is learned through experience and that individuals with higher levels of this competency add greater value to companies than those with lower levels. In 1998 a report by the Trade Association Forum (1998) suggested that commercial awareness was viewed by the majority (74%) of surveyed trade associations as a competency that could be acquired on the job. At the same time less than half of the respondents surveyed felt that their employees had the high levels of commercial awareness needed to pursue strategies to develop commercial services.

The survey also identified behavioural characteristics of strong and weak performance in commercial awareness. Strong performance includes having previous commercial experience, a broad understanding of sector environment, excellent understanding of the future issues facing organisations and building strategic alliances with partner firms. By contrast, weak commercial awareness is characterised by a lack of recognition of the value of services and by neglecting to put sufficient management time into primary/core functions (Trade Association Forum, 1998).

While the information directly addressing commercial awareness in P&SM; is scarce, it generally relates to more informed procurement decisions and better contract and relationship management, resulting in lower costs and reduced risks. As Owens et al. (1998:293) note, "buyers are ... key players in the technical and commercial awareness of companies in that they develop both relational and technical skills ... they must continually be seeking information, learning about new materials and products ...".

### Definition

Commercial awareness refers to an individual's broad understanding of how businesses operate internally and of the wider market and environmental issues affecting organisations (Owens et al., 1998). It is also the ability to apply this knowledge and understanding in practice to benefit organisations (Stephenson and Cook, 2005).

### Successful Application

An individual's commercial awareness derives from various sources: previous experience, on-the-job learning, training etcetera (Stoakes, 2011). As a competency commercial awareness is built on a broad range of skills (Greyling et al., 2003).

### Steps to Successful Application

- Establish what commercial awareness stands for in the department involved or company in general.
- Identify and rank the positions and functions in the purchasing department where high levels of commercial awareness currently add (or could potentially add) significant value.
- Develop a training programme to expose individuals to a wide range of business areas to develop the breadth and depth of their understanding across these areas and set up subscriptions to relevant journals and magazines.
- Provide online platforms for sharing knowledge and competitive intelligence so that employees have up-to-date understanding of the wider business environment and how it impacts internal organisational processes.

*Trade Association Forum (1998); Owens et al. (1998)*

### Hints and Tips

- When providing access to magazine and journal subscriptions ensure that employees know how to gain access to these services by promoting their use in training sessions and through other communication channels (Raybould and Sheedy, 2005).
- When establishing a programme to build commercial awareness in the organisation, it is critical to consider from the outset the costs involved with extensive training initiatives and recruiting new employees (Raybould and Sheedy, 2005).
- Organisations should allocate time for employees to discuss and share knowledge acquired from magazines, journals, training, conferences, meetings with buyers/suppliers etcetera. This demonstrates that the organisation is committed to helping employees develop their commercial awareness skills (Loi et al., 2006).

### Potential Advantages

- Procurement functions staffed by buyers with high levels of commercial awareness can contribute to organisations gaining an advantage over rival firms (Stephenson and Cook, 2005).
- Commercial awareness is linked to lower instances of maverick buying (Cox et al., 2005).
- There is some evidence to suggest that commercial awareness can be increased off-the-job, such as by reading business newspapers and through knowledge acquisition via informal discussions with people who have extensive experience in, and knowledge of, business and current factors affecting organisations (Stoakes, 2011).

### Potential Disadvantages

- There is a lack of research evidence on what actually constitutes commercial awareness and the factors that ultimately lead to its development in individuals (Greyling et al., 2003).
- There has been no scientifically-based study to identify and explore the correlation of commercial awareness with organisational outcomes (Greyling et al., 2003).
- The lack of consensus surrounding the definition of commercial awareness means that there is a conceptual misunderstanding as to how commercial awareness manifests at group level. In other words, commercial awareness is seen as something individuals possess and is not viewed at aggregate departmental or team levels (Greyling et al., 2003; Stoakes, 2011).

### Performance Monitoring

- In determining the areas in which increased commercial awareness could add value, conduct a gap analysis to assess where the firm currently stands and where it needs to be on a particular process, product, or service (Yapp, 2009).
- Calculate recruitment/training return on investment (ROI) by collecting longitudinal data over set intervals to measure whether the amount of money invested in recruitment and training for certain individuals has been beneficial for key outcomes such as buyer/supplier satisfaction rates, contracts established, reduced instances of maverick buying etcetera (Yapp, 2009).
- Measure employee organisational commitment and job satisfaction through questionnaires, focus groups and meetings: ensure that investments in recruitment and training are not quickly lost because of turnover (Loi et al., 2006; Yapp, 2009).

### Case Studies

- Survey research of UK construction companies with 400 professionals found that many company respondents were apprehensive about implementing fully functional e-procurement systems because training provisions were limited and resources outdated. However, commercial awareness and attitudes allowed several major firms to apply e-procurement to differentiate themselves from their competitors (Stephenson & Cook, 2005).
- A Trade Association Forum (1998) report looking at core competencies required for trade association managers found that, while the extent to which commercial awareness is important, it varies between associations: only 40% of Director Generals identified that they were effective at this competency, indicating that this was a key area for improvement.
- A study on UK government department capability to procure cost effectively showed that although progress was made in achieving commercial benefits from public procurement, there was scope for improvement. A major inhibitor was the lack of commercial awareness and market knowledge: only half of departments maintained a supplier database and only a quarter assessed the extent of supplier dependency on them (Erridge, 2004).

### Further Reading/References

#### CIPS Source Downloads

- CIPS: Good practice in writing contracts
- CIPS: Writing Contracts

#### Web Resources

- Issues of commercial awareness in purchasing in Africa  
<http://www.supplymanagement.com/news/2011/procurement-lacks-commercial-awareness-in-africa-says-buying-chief/>
- ACCA podcast transcript on commercial awareness  
[http://www2.accaglobal.com/documents/corporate\\_sector.pdf](http://www2.accaglobal.com/documents/corporate_sector.pdf)
- Improving your Commercial Awareness  
<http://www.rhul.ac.uk/careers/cocurricularactivities/skills/commercialawareness.aspx>



### Books

- Commercial Awareness, Stoakes, ISBN 978-0955218699
- Commercial Skills for Complex Government Projects, National Audit Office, ISBN 978-0102963281
- Procurement Risk, Russill, ISBN 978-0566092183
- Procurement Principles and Management, Baily, Farmer, Crocker, Jessop and Jones ISBN 978-0273713791
- Strategic Supply Management, Cousins, Lamming, Lawson & Squire ISBN 978-0273651000

### References

- Cox, A., Chicks and, D. and Ireland, P. (2005) Overcoming demand management problems: The scope for improving reactive and proactive supply management in the UK Health Service. *Journal of Public Procurement*, Vol. 5(1), pp.1-22.
- Erridge, A. (2004) UK Public Procurement Policy and the Delivery of Public Value. In K.Thai, ed. *Challenges in Public Procurement: An International Perspective*. PrAcademics Press, Florida, US.
- Greyling, L.A., Visser, D. and Fourie, L. (2003) Construct validity of competency dimensions in a team leader assessment centre. *SA Journal of Industrial Psychology*, Vol. 29(2), pp.10-19.
- Loi, R., Hang-Yue, N. and Foley, S. (2006) Linking employees' justice perceptions to organisational commitment and intention to leave: The mediating role of perceived organisational support. *Journal of Occupational and Organizational Psychology*, Vol. 79(1), pp.101-120.
- Owens, G., Vidal, O., Toole, R. and Favre, D. (1998) Strategic Sourcing. In J. Gattorna, ed. *Strategic Supply Chain Alignment: Best Practice in Supply Chain Management*. Gower Publishing: Hampshire, UK.
- Raybould, J. and Sheedy, V. (2005) Are graduates equipped with the right skills in the employability stakes? *Industrial and Commercial Training*, Vol.37 (5), pp.259-263.
- Stephenson, P. and Cook, S. (2005) E-procurement of Construction Services: A UK Case Study Assessment. Sheffield Hallam University, Sheffield.
- Stoakes, C. (2011) All you need to know about commercial awareness 2011/2012: What it is and why you need it to become a successful professional (All you need to know guides). Longtail: London.
- Supply Management (2011) Procurement lacks commercial awareness in Africa, says buying Chief. [online] Available at: ([www.supplymanagement.com/news/2011/procurement-lacks-commercial-awareness-in-africa-says-buying-chief/](http://www.supplymanagement.com/news/2011/procurement-lacks-commercial-awareness-in-africa-says-buying-chief/)) [Accessed 24 November 2011].
- Trade Association Forum (1998) Core competencies for the senior managers of trade associations. [online] Available at ([www.taforum.org/attach.pl/87/4/CoreCompetencies.pdf](http://www.taforum.org/attach.pl/87/4/CoreCompetencies.pdf)) [Accessed 24 November 2011].
- CIPS/IPA/ISBA: Value Framework Steering Groups (2006) Re-defining sustainable business practices for agencies, marketing and procurement. Magic and Logic.
- Yapp, M. (2009) Measuring the ROI of Talent Management. *Strategic HR Review*, Vol. 8(4), pp.5-10.
- Wilkinson, D. and Aspinall, S. (2007) An exploration of the term 'commercial awareness': What it means to employers and students. National Council for Graduate Entrepreneurship. [online] Available at: ([www.research-toolkit.co.uk/images/reports/Commercialawareness.pdf](http://www.research-toolkit.co.uk/images/reports/Commercialawareness.pdf)) [Accessed on 24 November 2011].

## Video

Defining commercial awareness

[https://www.youtube.com/watch?feature=player\\_embedded&v=TH3UP8xrUqc](https://www.youtube.com/watch?feature=player_embedded&v=TH3UP8xrUqc)

---

**CIPS Group** Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom  
T +44 (0)1780 756777 F +44 (0)1780 751610 E [info@cips.org](mailto:info@cips.org)

---

**CIPS Africa** Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa  
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E [infosaf@cips.org.za](mailto:infosaf@cips.org.za)

---

**CIPS Australasia** Level 8, 520 Collins Street, Melbourne, Victoria 3000, Australia  
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E [info@cipsa.com.au](mailto:info@cipsa.com.au)

---

**CIPS Middle East & North Africa** Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 49042, Dubai, United Arab Emirates  
T +971 (0)4 327 7348 F +971 (0)4 332 5541 E [mena.enquiries@cips.org](mailto:mena.enquiries@cips.org)

---



*Printed on stock containing  
50% post consumer  
recycled content*

**[www.cips.org](http://www.cips.org)**

CIPS™ is a registered trademark of the  
Chartered Institute of Purchasing & Supply