

Guide to Procurement Strategic Analysis

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What is a Procurement Strategic Analysis?

Procurement strategic analysis involves an analysis of the capacity of the market and market dynamics, scope, risk, total cost of ownership and other factors involved in the procurement, which together define the level of complexity of the procurement. The level of complexity and the business requirements of the procurement will influence the sourcing strategy, how risk and contractual arrangements are managed, and determine the level of capability required to execute the sourcing strategy.

Further information

For further information on determining the appropriate contract management plan, see the Guide to Contract Management and Guide to Developing a Contract

Management strategy:

- For further information on determining complexity assessment, see the Guide to Complexity Assessment
- For further information on determining assessing capability, see the Guide to Assessing Capability

Procurement Strategic Analysis involves four main components:

- Business needs analysis
- Spend analysis
- Market analysis and complexity assessment
- Delivery planning

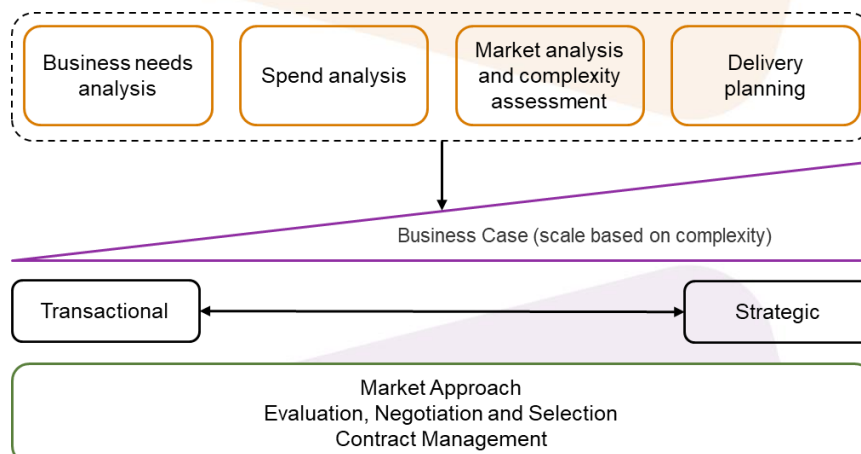
Whilst presented in this guideline in a certain order, aspects of these components may and will occur concurrently, as part of the overall planning and analysis, to build the sourcing strategy and the accompanying business case.

Developing a Sourcing Strategy

The sourcing strategy outlines the proposed approach to the market, based on the procurement strategic analysis. The objective of the strategy is to achieve the best value for money outcome from the procurement process which meets the needs of the end- user of the good or service, whilst ensuring the probity of the process through equitable treatment of potential suppliers and a transparent and fair selection process.

The sourcing strategy is usually presented in a business case, which should be scaled in detail and scope, to match the complexity of the procurement. This is represented in *Figure 1*.

Figure 1: The elements of the Sourcing Strategy



Business needs analysis

The business needs analysis determines the actual procurement need and the available budget and time to deliver the procurement activity based on outcomes from the demand analysis.

An analysis (for a new procurement) or review (for re-sourcing) of the business needs enables you to:

- Start by clearly defining the need for the procurement and specify what is to be purchased
- 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
 - could be split into component parts or
 - could satisfy the need with a substitute good or service
- Determine the best purchasing options in terms of policy requirements, risk and cost
- Ensure that any change to the procurement requirements or the planned procurement process is still aligned with the health service's procurement strategy, stakeholder needs, funding commitments, etc.

How to carry out a business needs analysis

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

Business needs analysis resources

[Appendix 1](#) lists factors to consider when analysing/reviewing the business needs. [Appendix 2](#) can be adapted to align with factors identified in your complexity assessment.

Spend analysis

A spend analysis assess the organisation's spending and involves identifying all expenditure related to the delivery of the goods/services over a period of time. This includes details on:

- What is bought
- Where it is bought from
- At what prices
- Contracts charges
- Other costs to the agency.

The five key areas of analysis are:

1. Total historic expenditure and volumes
2. Expenditure categorised by item or commodity
3. Expenditure by charge code structure, and
4. Expenditure by supplier
5. Projections of future demand

A spend analysis should be conducted by people with appropriate skills and capability to determine the organisations spend.

Market analysis

Market analysis is a key input in determining an appropriate sourcing strategy. It involves the systematic review of the characteristics, capacity and capability of the supply market in order to understand:

- The extent to which the supply market meets the needs of the buying organisation
- The market dynamic: how best to approach the market to drive the best long term, value for money, outcome.

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

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, business research providers such as Ibis and Gartner, government 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, by 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: e.g., changing the scope of the requirement, further segmenting the market sector into smaller components or seeking a substitute for the requirement.

[Appendix 1](#) lists a series of market factors that may be relevant for different categories of procurement complexity or individual procurement activity, which 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. Other applicable tools are the Porter's Five Forces and PESTEL analyses, which are included in the Market Analysis guide and tools.

Market analysis should be carried out by people with the appropriate capability and subject matter knowledge, including stakeholders with the relevant business responsibility and experience. Where appropriate and relevant to the procurement, it is preferable to retain those people for subsequent stages in the procurement process.

Delivery planning

Delivery planning draws on the business needs and supply market analyses to determine the optimal market approach and engagement strategy. In considering how best to deliver the procurement, the health service must draw upon a high level understanding of the key factors that will influence the following:

- Ensure delivery capability
- Market engagement strategy
- Risk management strategies
- Stakeholder management planning
- Contract implementation and ongoing management
- Performance monitoring
- Key timelines
- Project management approval
- Tracking results and evaluation

Ensure delivery capability

The health service should ensure that it has the appropriate governance structure in place, and sufficient resources and capability, to deliver the procurement:

- Identify appropriate roles, responsibilities, authorities and accountabilities to match the complexity of the procurement
- It may be necessary to seek additional resources or expertise externally, from another health service or a contractor
- Clearly articulate this to stakeholders so the information is understood; risks are identified, mitigated and/or avoided; and complaints are treated fairly and in a timely manner.

Market engagement strategy

Market Engagement is how you interact with the market. It can involve extensive consultation and sharing of information. How you approach the market is primarily based on the complexity assessment and the market analysis, and is determined and approved in the sourcing strategy stage of the procurement process. Market approach is structured and needs to satisfy both probity and fairness standards outlined in HSV Purchasing Policy 3 Market Approach.

There are a range of market approaches including quotation, tender, registers, expression of interest etc. The Invitation to Supply falls into two broad areas:

- **Open** Public Invitation to all parties
- **Limited** Invitation to nominated or selected parties.

Approaching the market

Refer to the *Guide to Market Approach* for details on approaching the market in a procurement process.

Risk management strategies

Almost everything we do involves a risk of some kind, for example, stakeholders' needs change, new suppliers appear on the market and factors outside our control could impact the procurement process or delivery of the requirement under the contract.

Formal risk analysis and risk management involves assessing these and planning cost-effective mitigating actions and controls.

Risk analysis tool

A *Risk Analysis Tool* is available that can be used to identify record and monitor risks and document your risk management plan.

Stakeholder management planning

It is essential at the beginning of the process to identify key stakeholders that have expertise or interests in the business requirements, or who will influence the procurement. Consider both internal and external stakeholders.

An analysis of stakeholders will:

- Help identify issues associated with the procurement and delivery as well as providing an opportunity to learn from their experiences
- Improve the quality of the procurement outcomes by ensuring the expertise and influence required to deliver the procurement is engaged and committed to the outcome
- Identify the method of engagement such as involvement in steering/project management committees, specification development, the evaluation panel and/or ongoing contract management.

Stakeholder engagement

A *Stakeholder Engagement Plan template* is available to assist in documenting your plans and the lines of communication with stakeholders.

Contract implementation and ongoing management

The key tasks involved planning the implementation and ongoing management of the contract are:

- Planning and implementing the transition to the new contract
- Establish effective lines of communication with stakeholders
- Establish and sustain contracting capability
- Establish systems and procedures.

Contract implementation

The first two tasks are reviewed in the [Market analysis](#) and [Market engagement strategy](#) sections earlier in the guideline

Establish and sustain contracting capability

Having an effective contract management capability will assist entities to obtain value for money from its expenditure on contractors:

- Assess whether specialist skills are needed to carry out the procurement
- Identify the individual contract managers that have a level of knowledge, skills and experience commensurate with their contract management responsibilities.

Performance monitoring

Periodic review of the suppliers' performance should be held quarterly to allow a good balance between shortage of resources and the need to motivate and align the suppliers.

Performance monitoring requires the development of a selection of Key Performance Indicators (KPIs) and associated metrics to monitor performance.

Review the following KPIs:

- The service level agreement including turn a- round times for referrals
- The number of sessions/hours provided
- The resources required to deliver the service
- The number of site visits
- The number of qualified staff required to deliver the service
- The competencies of the staff
- The timeliness and nature of feedback
- The involvement in workplace visits and the risk assessment process.

Key timelines

Key timelines for the contract need to be identified and maintained to align with the agreed approach to market.

Identify:

- When will the Request for information or Invitation to Supply commence or be placed?
- What are the project milestones dates/deliverables/timings?
- What are the dates for key meetings with suppliers during the contract stages?
- When should the evaluation team meet to confer on the proposals?
- When should the approvals be completed by?
- When should the contract be in place?
- If there are expected to be any delays or other changes to timelines?

Project management approval

Senior management commitment and involvement in contracting activities is critical in ensuring contracting activities are afforded sufficient priority and recognised as an important business activity. For individual contracts, the extent of senior management involvement will depend on the complexity and sensitivity of the contract, although all contracts will involve management approvals and sign-off.

Senior management may also be involved in expenditure sign off, approval to recruit additional staff, professional advice or in consultation with internal or external stakeholders.

Procurement activity sign off/approval process considerations:

- Identify what approvals are required for the procurement
- If there is a probity review process required what is the required approval process.

Project considerations

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. [Appendix 3](#) provides a checklist on each of these factors.

Tracking results and evaluation

The Tracking Results and Evaluation step reviews supplier performance and is expected to restart as a continuous cycle.

Evaluation is an important part of the procurement cycle. The contract manager should undertake post contract analysis, evaluation and reporting.

Tracking results and evaluation considerations:

- Evaluate contract performance
- Document lessons learned

- Update policies or procedures, where required.

Sourcing strategy

[Appendix 4](#) provides a Business Case template to assist with writing and developing the Sourcing Strategy.

More information

Related documents and templates are available on the HSV website.

Disclaimer

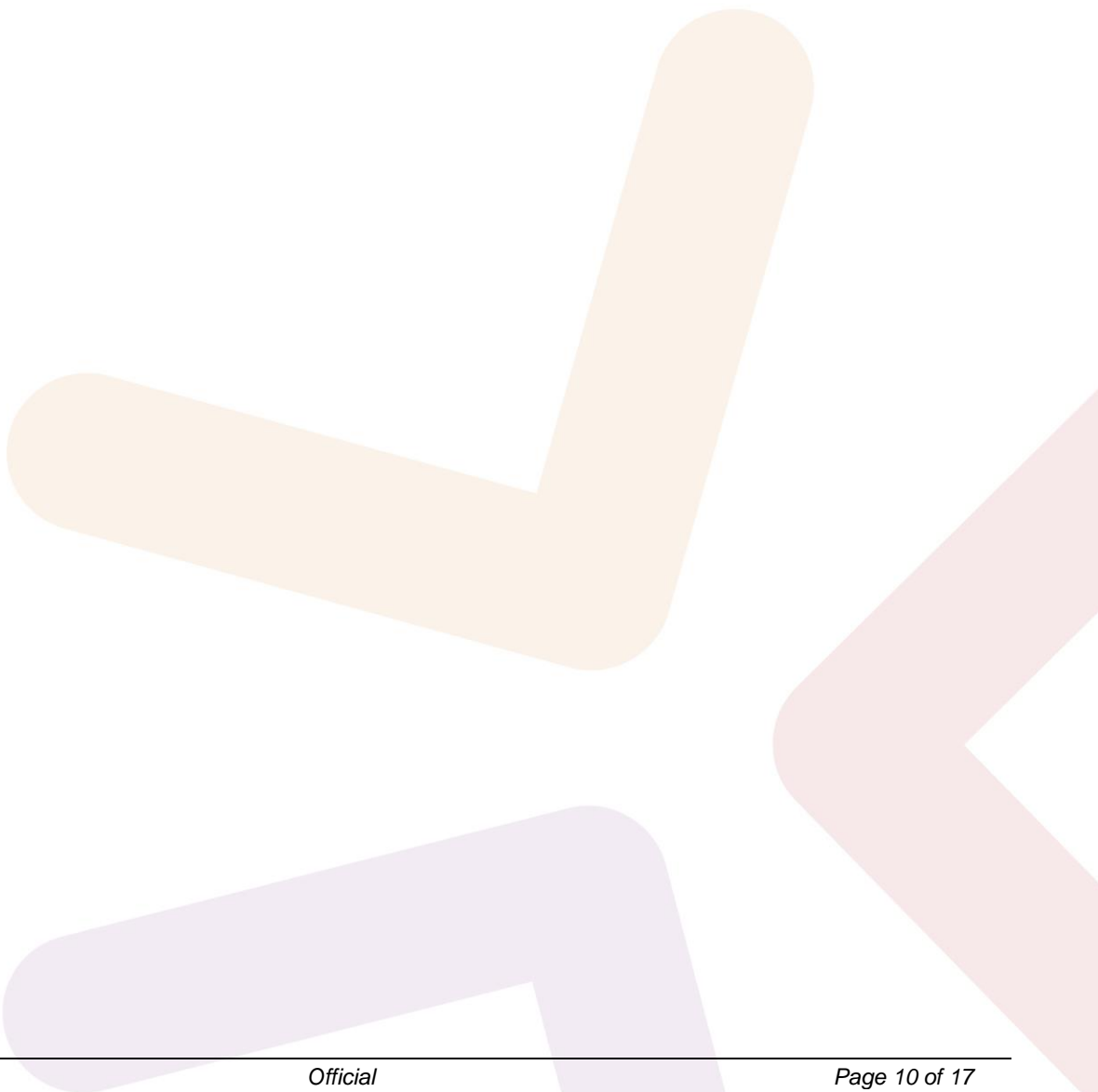
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Appendix 1: Factors to consider when analysing/reviewing business needs

Table 1: Factors to consider when analysing/reviewing business needs (checklist)

Factors	Details
What is the estimated value of the procurement? Has there been a significant change?	What are the factors that drive demand? What are the components of the total cost of ownership (TCO) for the category? Are there ways to limit any increase in costs? Are the cost increases large enough to warrant a change in the budget, program priority, procurement need, etc.? Does the procurement, and any increase in estimated costs, have the necessary funding approval? What cost control arrangements are envisaged? Who will be responsible for reviewing costs, monitoring and reporting?
What factors contributed to the estimated value of the procurement and any significant changes in the value?	Who has ownership and responsibility for the factors that drive demand and any changes? Are the factors internal or external? Can they be managed by adopting other actions? What is the capacity of your organisation to manage demand?
What are the significant risks associated with the procurement? Has there been a change in the overall level of risk?	What mitigation strategies are required to address the risks? 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 review of the business needs or 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?
What is the outcome of the spend analysis and what spend information has it provided to help understand the changes over a period of time?	What are the areas of analysis that are needed to assess the annual spend? What critical information has the analysis provided in terms of quantifying the whole-of-life costs and spend for the category?
What are the anticipated capability requirements for the procurement in regard to urgency, nature, scope, extent, standards, performance, etc	What skills and experience are required to manage the procurement activity? Does the organisation still have the capability?
What are the proposed market engagement plans for the procurement activity?	How will the contract be managed? What are the probity oversight requirements? What are the capability implications of the market engagement strategy?

Factors	Details
<p>If proposing a change in the nature, scope, extent, standards, performance, etc. of the procurement activity, are the changes still aligned with the health service's procurement strategy and broader known government policy objectives?</p>	<p>What is the impact of any divergence from the health services' procurement strategy?</p>
<p>What are the proposed evaluation criteria and weightings for the procurement?</p>	<p>What are to be the evaluation criteria and associated weightings?</p>
<p>What is the extent of stakeholder/client engagement associated with the procurement? To what extent will stakeholder participation impact on the management and delivery of the procurement activity?</p>	<p>Who are the stakeholders to be included in the procurement's communication plan? What are the resource/system implications of the stakeholders/client involvement in the procurement process? What is the skills/knowledge required of these stakeholders?</p>



Appendix 2: Factors to consider in market analysis

Table 2: Factors to consider in market analysis (checklist)

Factors	Details
Size of the supply market in terms of market share, volume and turnover	What are the number, size and distribution of competitors in the market that could affect the purchasing of the procurement or the negotiations? Are there any existing ownership structures emerging? Or whether the supplier is purely local or part of a large national or international organisation which may indicate whether major decisions are made in Australia or overseas.
Number of suppliers in the procurement category 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
Barrier to entry/exit	Is the degree of competition affected by the type and level of barriers for new suppliers to enter and exit the market? For a market to be competitive there must be potential for new suppliers to enter in order to achieve more competitive pricing and improve service outcomes
Cost drivers of the good or service	What are the main cost drivers? What are the influences on these? Where are the goods/services sourced? Are they subject to foreign exchange fluctuations? What influence does the supplier have over these and/or their suppliers? How can the risk of price variations be mitigated or the impact minimised? If suppliers bear the risk, the cost will be factored into the price offered.
Product/service lifecycle	What is the typical lifecycle of the product (or service)? This will be determined by the level of technological change and/or the potential for new products or services to replace the current. Understanding the position of the goods/services in the product lifecycle will assist in identifying suppliers' likely marketing strategies and how suppliers compete.
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

Factors	Details
	<p>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 unforeseen incidents.</p>
<p>Supply market is responsive to innovation, alternate contracting arrangements and forming collaborative arrangements with other suppliers when responding to a desired procurement outcome.</p>	<p>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.</p>
<p>Availability of substitute goods/services</p>	<p>What is the likelihood that there is the availability of substitute goods/services to meet the business requirements? Often substitute goods/services are missed because of a narrow focus, existing specification is too rigid or there is too much attachment to a particular brand. Focus on the outcome, and not on existing goods/services. This often opens up a wider range of solutions and suppliers</p>
<p>Supply market demonstrates commitment to environmental and social objectives.</p>	<p>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.</p>
<p>Extent of supply market representation at the state/regional and local levels</p>	<p>Is the market sector represented where the procurement requirement is needed or is to be delivered? This is particularly relevant when supplying goods and services to regional and local communities or where local industry and government employment objectives apply</p>
<p>Suppliers require high level of management oversight</p>	<p>Will the organisation need to apply additional resources or risk management processes when managing the contract?</p>

Appendix 3: Factors to consider in delivery planning

Table 3: Factors to consider in delivery planning

Factors	Scope and relevance	Additional resources
Ensure delivery capability	<ul style="list-style-type: none"> • Management structure • Resource and capability mix • Capability augmentation requirements 	<ul style="list-style-type: none"> • Guide to Assessing Capability
Market engagement strategy	<ul style="list-style-type: none"> • Market approach options: <ul style="list-style-type: none"> ○ Direct negotiation with nominated party(s) ○ Quotation processes ○ Public tender ○ Multi-stage tender (including two-stage selective tendering - RFI/EOI/RFT or auction) ○ Master vendor, prequalification, register of suppliers, etc. ○ Alliance contracting approach • Analysis of the demand profile/ TCO and proportion of the market this represents • Number of potential suppliers, market share etc. • Degree of commodification/specialisation of the requirement • Potential impact on SMEs and local businesses (particularly in regional areas) • Cost drivers and proposed pricing models • System/process arrangements to conduct market approach including: <ul style="list-style-type: none"> ○ Notification, plan and timing ○ Management of submissions and associated documents/data ○ Evaluation process and criteria ○ Probity processes including engagement of advisor and/or auditor, management of conflicts of interest etc. 	<ul style="list-style-type: none"> • Guide to Market Approach • Guide to Complexity Assessment
Risk management strategies	<ul style="list-style-type: none"> • Risk management strategies including: <ul style="list-style-type: none"> ○ Identification and assessment ○ Prioritisation ○ Treatment (management/mitigation) • Risk allocation strategies • Risk cover options (insurances) 	<ul style="list-style-type: none"> • Guide to Insurance and Liability Considerations in the Procurement Process
Stakeholder management planning	<ul style="list-style-type: none"> • Identification of stakeholder groups communication/information plans • Stakeholder engagement, skills/knowledge of the requirement and level of involvement in the procurement 	

Factors	Scope and relevance	Additional resources
	<ul style="list-style-type: none"> • Post contract engagement 	
Contract implementation and ongoing management	<ul style="list-style-type: none"> • Contract options: <ul style="list-style-type: none"> ○ Standard contract ○ Special conditions ○ Project specific contract ○ Alliance contracting • Transition in/out arrangements • Dispute and variations management • Relevant key performance indicators • Supplier engagement, including reporting requirements, performance monitoring, meetings • Stakeholder engagement, issues reporting • Benefit tracking and reporting, including continuous improvement initiatives • Demand management strategies • Contract compliance monitoring 	<ul style="list-style-type: none"> • Guide to Contract Management • Guide to Developing A Contract Management Strategy
Performance monitoring	<ul style="list-style-type: none"> • Service level agreements • Resourcing • Capability • Customer service • Risk assessment 	<ul style="list-style-type: none"> • Guide to Assessing Capability
Key timelines	<ul style="list-style-type: none"> • Project start/finish options • Key project tasks and timings • Project milestones/gateways/deliverables and timings • Delay and slippage management options 	
Project management approval	<ul style="list-style-type: none"> • Establishment of decision-making committees • Gateway processes i.e. key decision points and responsibilities • Stakeholder involvement options • Probity review process • Report/record format options 	<ul style="list-style-type: none"> • Guide to Creating a Clear Governance Structure
Tracking results and evaluation	<ul style="list-style-type: none"> • Responsibility, monitoring and reporting framework 	

Appendix 4: Business case template

Executive summary background/requirements

Considerations

Provide a snapshot of the purpose of the procurement (Complete an Opportunity Assessment)

- *Ask relevant questions – is it simple or a complex category?*
- *Is there any technology change?*
- *Is there any industry globalisation?*
- *Determine whether the procurement is still required in its current form, or could it be staged over time or split into component parts.*
- *Is there a Stakeholder engagement plan or strategy in place?*

Business needs analysis

Considerations

Scope

- *Determine what is in-scope or out-of-scope*

SWOT analysis

- *Outline strengths, weaknesses, opportunity and threats for the category*

Category analysis

Provide details about the Category, for example:

- *Is it simple or a complex category?*
- *The number and type of suppliers*
- *Discount Pricing details*
- *Existing market analysis: how it works, dynamics, trends and impacts*
- *Benchmarking: with whom?*
- *What is the range of products for the category, how has it performed?*
- *Are there specific compliance issues?*
- *Are there any protracted time frames?*

The Complexity Assessment Tool will assist in drawing out all these details.

Spend analysis

Considerations

For the Category, identify:

- *Total historic expenditure and volumes*
- *Expenditure categorised by commodity and sub-commodity*
- *Expenditure by department, division or user*
- *Expenditure by supplier, future demand projections etc.*

Use the relevant questions in the guide to help you with the detail.

Market analysis

Considerations

Market analysis overview, define:

- *Market, size, key suppliers – what are the ownership structures*
- *Market competition- number of suppliers and the competitiveness of the market and their relationships*
- *Market share. Align your analysis to Porter's Five Forces Model or the PESTEL Analysis Tool*
- *Market capability for the procurement*
- *Market concentration, what are the existing ownership and structures?*
- *Barriers to entry/exit*
- *Availability of substitute goods and services*

Refer to the Guides: Market Approach, Procurement.

Delivery planning

Considerations

Market engagement/approach

- *Review Market Engagement and Approach Options (Invitation to supply) either open or limited, address all considerations including specifications, conditions for participation, regional considerations, delivery, governance, liabilities, opportunities and choice of contract type. Review the Market Approach guide that provides additional detail*

Key risks

- *Identify a list of high risks and mitigation strategies. Review the HSV risk assessment tool.*

Stakeholder management and engagement plan

- *Identify key stakeholders – review the Stakeholder Management Plan guide for detailed process.*

Cost drivers and cost control arrangements

- *Identify the cost drivers for the category and determine who will be responsible for reviewing and reporting costs.*

Contract management arrangements

- *Identify the key tasks including capability, systems and procedures in place, communication plan and performance monitoring (review against KPIs for performance) – review the Guide to Contract Management; Guide to Developing A Contract Management Strategy*

Timeframes

- *Identify key timelines for awarding the contract, commencement of the contract, milestones, reporting, approvals, meetings etc.*

Organisational capability

- *Review the current procurement structure, gaps in procurement skills and capabilities and the capability augmentation requirements. Refer to the Guide to Capability Assessment*

Performance monitoring

- *Identify the Key Performance Indicators for the category and the frequency of monitoring these*

Stakeholder approval processes

- *Strategy sign-off*

- *Contract Specification sign-off*
- *Evaluation committee sign-off*
- *Probity sign-off*
- *Any tenders, contracts, board approvals sign-off*
- *Refer to the Guide to Creating a Clear Governance Structure for appropriate approval processes*
- *Evaluation and benefits tracking*
- *Evaluation of performance*
- *Lessons learned*
- *Benefits of the contract*

Alternative strategies

Considerations

Decide whether to maintain status quo or review other strategies that could benefit the procurement.

Appendices

Attach the following completed documents to your strategy:

- Stakeholder Engagement Plan, including:
 - Tables and details of all stakeholders involved
 - Reference group details: Contact name, position, location etc.
- Current Spend Analysis:
 - By health service
 - By supplier
 - By category
- Sourcing Overview:
 - Completed Business Needs Analysis – include the completed matrix on your analysis
 - Complexity Analysis – indicate what tool you have used and the outcome of the analysis
 - Completed Market Analysis – include Porter’s Five Forces completed analysis
 - Completed PESTEL Analysis – capture analysis for Political, Economic, Social, Technological, Environmental, and Legal factors
 - Evaluation and benefits for the category