

# Guide to Accessing Alternative Approaches to Market Innovation

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## About accessing alternative approaches to Market

In addition to identifying the appropriate approach to market, you may consider if there are any procurement marketing tactics you could use to improve competition such as encouraging and facilitating innovation in procurement.

For procurement to play a role, it needs to redefine its activities. Traditionally, procurement involves a focus on delivering savings, contract coverage and operational supply risk mitigation by regularly sourcing categories.

Given this focus, procurement's natural involvement in innovation is limited to work on cost/risk reduction by sourcing and contracting suppliers.

In practice, if you are able to define what the outcomes are, but not necessarily how they will be delivered, you may opt to proceed to market by way of a Request for Proposals (RFP). This is where performance is the driver and can be clearly articulated. Suppliers can offer different, innovative and creative solutions, so long as the performance meets your needs.

## What is innovation?

Innovation is about turning ideas into reality. Innovation in procurement is about using the competitive market to come up with better ideas before turning them into reality.

## Why encourage innovation?

Most businesses exist in a competitive market and must continually improve to survive. Competition drives innovation. The competitive market can be in a better position than government to come up with innovative solutions. It can help you access market experience and expertise to come up with new and different ways to achieve your desired outcomes.

Encouraging innovation also provides an incentive for suppliers to improve their products and services which in turn, give them distinct or cutting edge products or services that can make them more marketable to the wider business community.

In some cases, an innovative solution can increase the risk to the organisation or clients of services provided by the organisation.

There may also be limits to adopting innovation whereby the organisation is bound by regulatory or legislative obligations.

## Contemporary approaches to Innovation

The Victorian Government through the Department of Treasury and Finance has introduced some approaches to accessing the market other than the standard tendering process, as follows:

### Innovation in Market Design

The Centre for Market Design was established in 2012 and is a consortium that includes the Australian Government (Department of the Treasury), the Victorian Government (Department of Treasury and Finance) and the University of Melbourne, to develop policy approaches to accessing markets and market information.

The Centre supports policy innovation through the application of economic design techniques to public policy, procurement and resource allocation problems. It has been created to specifically build the capabilities needed in economic design and to harness these ideas and techniques to create solutions to real public policy problems including procurement.

Some procurement related projects include the Centre for Market Design engaged with procurement groups in Government to improve the cost-effectiveness of procurement by government. This was facilitated by providing support to design procurement auctions, design incentive structure in contracts, testing new approaches and the implementation of new procurement processes. The CMD designed a procurement auction for allocation of Victorian supply contracts.

## Pre-qualification arrangement

Some government departments have considered that to identify opportunities when approaching the market during the sourcing stage that it may be appropriate to set up a pre-qualified supplier arrangement and establish a pre-qualification register depending on the level of complexity of the procurement category. The Department of Treasury and Finance, Victoria has successfully established this process for some of its categories.

Pre-qualification is often referred to as a multi-use list or a register of suppliers.

Essentially, it's a list of suppliers who satisfy certain key selection criteria relating to their interest and capability in supply goods and/or services.

Pre-qualification is based on a proven record of satisfactory performance and financial and technical capacity. Suppliers must demonstrate a sound business structure, adequate finances, effective management systems, appropriate qualifications and expertise, relevant experience and a history of good project performance. The pre-qualification also encourages suppliers to commit to long-term continuous improvement to achieve exceptional performance in return for increased business opportunities and longer term relationships through co-operative contracting.

Successful suppliers are added to a list from which a buyer can invite an offer(s) using the rules of use adopted for the arrangement.

When selecting a supplier(s) from the pre-qualified register, buyers access information ranging from basic business details to more comprehensive details including:

- The capability of the supplier
- The management and operating systems used by the supplier
- Financial capacity
- Areas of expertise/skills/resources and
- Past performances

The extent of information available to buyers depends on what was requested from suppliers when establishing the arrangement.

Conversely, suppliers have an indication of:

- The organisations that may use the arrangement
- The rules of use applied by an organisation in selecting the supplier
- Other processes associated with the operation of the arrangement (e.g., performance reporting, management issues, changed requirements, etc.) and
- In some instance indication of the scope of potential businesses
- Suppliers are therefore in a position to target their services to potential buyers and better prepare a submission to supply. It should be noted however that:
- The criteria for pre-qualification should align with the scope of goods and services sought
- Being pre-qualified does not guarantee a level of business and

- A binding arrangement only exists once a supplier has been formally engaged and a formal contract has been executed.

## Key factors supporting pre-qualification

Pre-qualification is relevant where most of the following factors apply:

- The procurement activity relates to a range of goods and services that are purchased on a regular basis
- The exact scope and performance specifications of individual procurements in a category of goods and services
- There are numerous suppliers with credentials in the procurement related market sector that satisfy financial diligence
- The procurement activity is low/medium risk
- The regulatory requirements are satisfactorily met
- The register will streamline procurement processes
- The organisation has the capability to establish, manage the risks and achieve benefits expected.

## Pre-qualification arrangements may not be appropriate in all situations

There may be no benefit in proceeding with pre- qualification where:

- There is a single or very infrequent procurement requirement
- A very limited supply market exists due to the level of specialised knowledge required to deliver the procurement
- The procurement requirement is for the supply of standard 'off-the-shelf' products or services with little opportunity to drive performance improvements, better pricing or deliverables
- The cost in establishing and maintain a pre-qualification register exceeds the benefits of directly approaching the market using standard supplier engagement processes.

## Integrating innovation into the procurement process

To embed innovation in the procurement process, it is suggested that action be taken in the following four areas:

1. Organisational alignment
2. Early market engagement
3. Early supplier engagement
4. Innovation support activities

### Organisational alignment

Innovation should be considered throughout the procurement process from policy/program development and project definition through to identifying performance specifications and contract management.

The greatest potential for innovation occurs at the beginning of the procurement process. Once you have entered into a contract, the potential for innovation is constrained by the contract. However, there may be opportunities for innovation if driving continuous improvement strategy (innovation is part of the procurement planning and vendor/supplier analysis sections).

Develop your contract management strategy to identify categories of procurement that lend themselves to flexibility in supplier engagement; and

Develop your organisation's supplier engagement plan.

In addition, you may want to include the following actions:

- Designate people in your organisation as “innovative champions” who can help others to encourage innovation when engaging with the market and developing the optimal path to market strategy.
- Consider innovation as a value-for-money component
- Where relevant, monitor supplier performance to ensure that benefits of any innovation have been delivered.

## Early market engagement

Early market engagement is about interacting with the market to gain an understanding of market dynamics and whether there is potential to improve the delivery of your desired outcomes. The major ‘touch points’ in the procurement process are shown in *Figure 1*.

**Figure 1:** Early market engagement touch points



The outcome of early market engagement can help you:

- Refine procurement requirements within a category of goods and services
- Provide a better understanding of the capability of market sectors relevant to the category
- Assess the capacity of the market and its structure
- Clarify optimal path-to-market strategies; and
- Identify issues and risks.

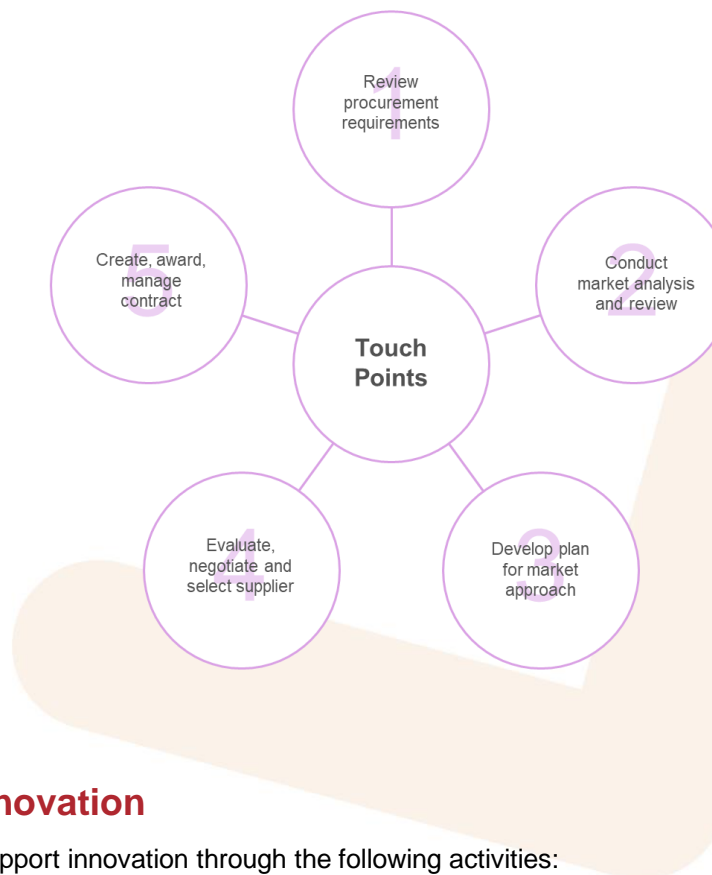
## Early supplier engagement

Key steps to encourage innovation in the sourcing stage include:

- Providing the market with sufficient time to scope and respond to the procurement requirement. Small and medium enterprises (SMEs) with limited resources need time to research the procurement requirements, analyse options or seek partners to fully address the project scope.
- Adopting a multi-stage approach to market can help suppliers understand the specifics of the procurement requirement. For the health service, a multi-stage approach can inform whether further refinement of the procurement requirement is appropriate.

- Flexibility in the conduct of sourcing – wherever appropriate, adopt the practice of permitting alternative bids and alternatives to what you start in your requirements in the specifications.
- Structuring specification – adopting text, clauses and conditions that are understood by the relevant market and allow the supplier to use their expertise. The focus should be on outcome and output statements and generic performance requirements that are aligned with the findings of the market engagement phase. Differentiating areas of the specification as core and non-core can indicate to suppliers where alternate solutions can be proposed and how it will be considered and measured in the evaluation process.
- The advantage of a performance specification are:
  - that the technical risk remains with the supplier
  - it opens up competition
  - there are several solutions for one requirement; and
  - it reduces prices for complex requirements
- Engaging with suppliers in an open and transparent manner to promote competition and maximise innovative solutions – consider briefing sessions where relevant.

**Figure 2:** The Early Supply Engagement touch points



## Supporting innovation

Organisations can support innovation through the following activities:

- Pilot a project
- Share risks with suppliers
- Keep the market informed
- Partnership agreements
- Unsolicited proposals

### Pilot a project

Piloting a project can demonstrate the suitability of a proposal before fully committing. Conducting a pilot project or program requires clear parameters for proceeding, such as:

- Management of intellectual property (IP) used and/or gained during the pilot
- The eventual ownership of IP
- How the IP will be made available if the pilot leads to an open approach to a wider market
- What confidentiality arrangements apply; and
- How participants/stakeholders in the pilot project are to be managed.

### **Share risks with suppliers**

The general principle is that risks should be apportioned to the party responsible for its management and mitigation. Moving from the position that the supplier bears all risks can offer cost savings to your organisation from lower insurance and risk premiums arranged by the supplier.

Sharing potential savings with suppliers is the most common form of inducement and reward. Strategies that could be considered include:

- Cost sharing from savings
- Longer-term contracts to repay investment by the supplier(s); and
- Allocating ownership of IP developed under the contract with the supplier.

### **Keep the market informed**

An important and integral part of your supplier engagement strategy would be to keep the market informed of the current departmental policies and procurement processes.

### **Partnership arrangements**

Aside from providing inducements and rewards as outlined in the “sharing risks” section above, non-financial benefits for suppliers may be attractive options from being able to leverage involvement with government through acknowledgement and public recognition. The key element for successful partnership is to proceed on the basis of a clear understanding and agreement as to what the partnership entails, how it will operate and what it will deliver to the respective parties in partnership.

### **Unsolicited proposals**

This is an approach by a person or business with an offer for your organisation outside of any formal approach to the market by your organisation for the supply of specific goods or services. The key issue is to ascertain whether the proposal has merit to justify adoption. For more information, refer to the Guide to managing unsolicited proposals.

## **More information**

Related documents and templates are available on the HSV website.

## **Disclaimer**

The information presented in this document is general in nature and based on HealthShare Victoria’s interpretation of the *Health Services Act 1988* (Vic) and any ancillary legislation and regulations in effect at the time and should not be relied upon as legal advice. Please consider seeking professional and independent advice from your legal representative as to the applicability and suitability of this information and the legislation to your own business needs or circumstances.