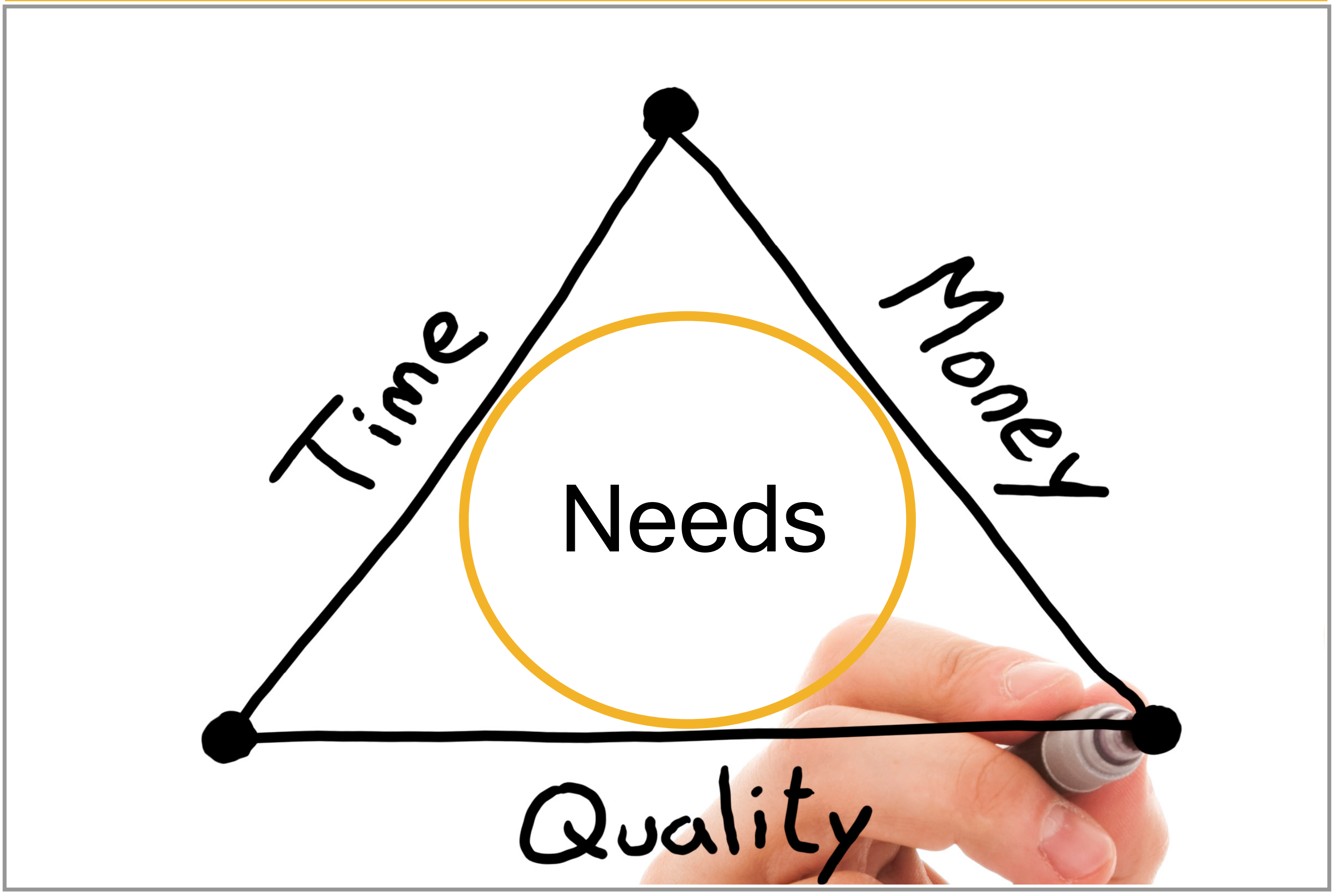

Mastering procurement

A structured approach to strategic procurement

A guide for government agencies

March 2011

Acknowledgement and thanks

This guide is part of a Government initiative to support good procurement practice across government and help suppliers better engage with government agencies. It has been developed under the New Zealand Government Procurement Reform Programme (GPRP) after consultation and discussion with stakeholders, including:

- **GPRP Procurement Development Technical Advisory Group**: Input and guidance were received from an advisory group comprising senior procurement advisers from the following government agencies: the Ministry of Foreign Affairs and Trade, the Ministry of Social Development, the Auckland District Health Board, the Ministry of Agriculture and Forestry, the Ministry of Justice, Inland Revenue Department and Public Trust.

With special thanks to the following organisations for permission to use extracts from their material:

- Queensland Government Chief Procurement Office
- UK Office of Government Commerce
- PMMS Consulting Group

References used in this guide

The guide makes reference to other procurement good practice guidance, tools and templates. The following terms are used to identify the sources:

GPRP	Government Procurement Reform Programme within Ministry of Economic Development www.procurement.govt.nz
OAG	Office of the Auditor General www.oag.govt.nz
SSC	State Services Commission www.ssc.govt.nz
Treasury	The Treasury www.treasury.govt.nz

Terminology

The guide aims to use simple terminology. For example:

'agency'	government ministry, department, crown entity, non-public service department etc
'offer'	tender, proposal, bid, submission etc
'RFx'	a generic term for RFQ, EOI, ROI, RFP or RFT
'supplier'	vendor, seller, contractor, potential supplier, respondent etc
'tender'	a generic term used to describe making an approach to market ('going out to tender')

Training

The guide supports the GPRP 2-day training course *Demystifying Procurement*. Additional GPRP training courses are available on specialist topics. For a full listing of available courses refer to the training and education section at www.procurement.govt.nz. Specialist topics include: *Procurement planning. Managing procurement risk, Introduction to contract management, Supplier relationship management, Advanced contract management and Advanced category management.*

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Introduction

Purpose

This guide has been developed for government agencies. It supports good procurement practice. It takes a structured approach to strategic procurement.

Government spending

Governments exist to make a tangible difference to the lives of their country's citizens and residents. Consequently New Zealand, like many other countries, is placing greater emphasis on planning and actively managing for better results, improved outcomes and best value for money in the use of public funds.

Government spends billions of dollars each year in the provision of goods and services that are needed to deliver public policy and business objectives. Good public service outcomes depend on good procurement. Properly planned and effectively executed procurement is essential for all agencies.

Procurement

The term 'procurement' covers all aspects of the acquisition and delivery of goods or services, spanning the whole contract life cycle from the identification of needs to the end of a service contract, or the end of the useful life and subsequent disposal of an asset.

Planning and managing for results

When agencies are planning and managing for results they:

- *Have a good understanding of the environment that they operate in.*
- *Have a clear vision of why they exist, what they need to achieve and how much they are achieving.*
- *Plan their work whilst keeping in mind a clear set of objectives, activities, outputs, outcomes and measures of success.*
- *Deliver what they have planned – meeting budget, standards of timeliness, quality, accuracy and in a manner consistent with ethical practice.*
- *Take stock of progress by monitoring, measuring, reviewing and evaluating as they go.*
- *Learn from success and failure and modify what they do and how they do it.*
- *Report publicly on results to promote transparency.*
- *Seek continuous improvement.*

Adapted from the State Services Commission's *Guidance for Crown Entities – Planning & Managing for Results* (2005)

Mastering procurement

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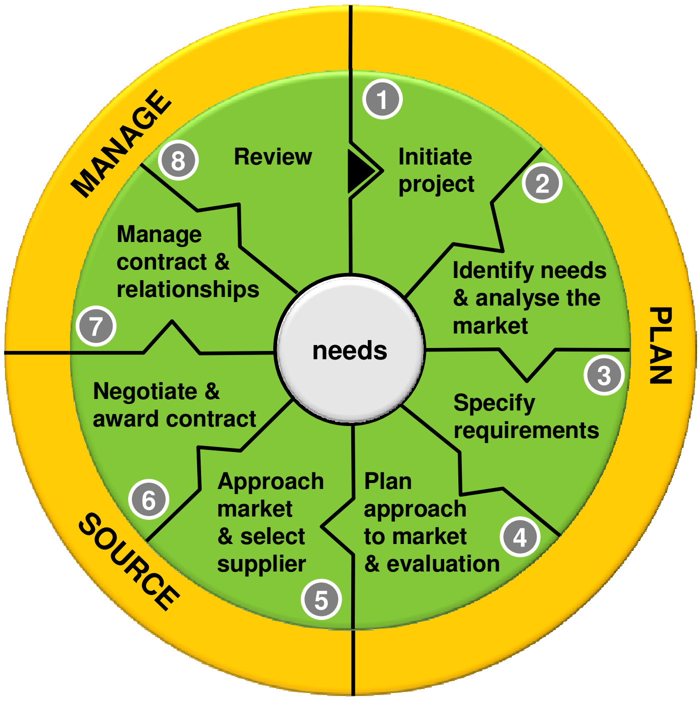
The procurement lifecycle chain of success

The procurement process consists of a number of logical stages. If executed well, each stage will deliver the required results and generate positive benefits.

The positive benefits from one stage will lead to stronger results in the next. This continuous 'chain of success' results in increasingly beneficial outcomes and stronger overall results.



The procurement lifecycle

This guide is based on the procurement lifecycle which separates procurement into three phases: planning, sourcing and managing. These phases are further divided into eight distinct, but interrelated stages which are:

1.	Initiate project	(page 12)
2.	Identify needs and analyse the market	(page 22)
3.	Specify requirements	(page 43)
4.	Plan approach to market and evaluation	(page 48)
5.	Approach market and select supplier	(page 65)
6.	Negotiate and award contract	(page 68)
7.	Manage contract and relationships	(page 70)
8.	Review	(page 72)

Structured approach to strategic procurement

Procurement Strategy

OAG provides guidance on strategic procurement planning. The following guides outline an approach as well as OAG expectations.

Part 3: Procurement guidance for public entities (June 2008)

Part 3: Public sector purchases, grants and gifts: Managing funding arrangements with external parties (June 2008)

Achieving strategic procurement outcomes involves setting strategic priorities and direction. The implementation links strategic planning with operational planning and financial planning and management. Adopting a structured approach to procurement planning results in robust, objective analysis that informs the best methodology to approach the market and achieve optimal procurement outcomes. All of this means that resources – time, money and people - need to be effectively allocated and successfully used.

For agencies, strategic procurement can be identified at two levels. Firstly, involving high-level strategic thinking and business planning secondly, at an operational level when dealing with individual acquisitions.

Overarching procurement strategy

Agencies are encouraged to take a strategic approach to managing public funds. For procurement activities, this often involves developing an overarching procurement strategy.

Each agency should develop an understanding of the importance of procurement to achieving its overall public policy outcomes and business objectives. The agency can then clearly identify the most effective and efficient ways to source and secure its goods and services.

The process is supported by a detailed analysis of historic and forecast spend to identify the volume, value and risk associated with the acquisition of different types, or categories, of goods and services.

Using the supply positioning model, procurements can be seen to range from high-volume, low-value, low-risk transactional purchases (where there are many suppliers), to high-risk, high-cost specialist goods and services (where there are a limited number of suppliers).

Supply Positioning Model

For more information on supply positioning go to page 33.

Through the supply positioning model an agency can plan how it will procure different categories of goods and services. This will inform the allocation of resources across the organisation as well as identifying appropriate procurement procedures.

For example, streamlining high-volume, low-risk transactional procurements (which could involve introducing p-cards) and focus effort on high-risk, high-value and complex procurements.

Critically the Procurement Strategy should place importance on those procurements required to deliver key public policy outcomes and business objectives and provide a framework for procurement activities across the agency.

P-cards

P-card is a form of company charge card, similar to a credit card. The card is preloaded for each user with financial limits and specific suppliers in accordance with the agencies procurement policy.

P-cards streamline high volume, low cost transactions, reduce administration and provide centralised spend data.

Individual strategic procurement

At an operational level, agencies are encouraged to take a strategic approach to individual procurements. This guide focuses on strategic procurement at an operational level.

The methodology and approach to strategic procurement involves robust research, analysis and planning that results in a procurement strategy that influences and shapes the market to meet your needs.

It demonstrates how:

- research and planning add value to sourcing, implementation and results
- collaborative cross-disciplinary team work leads to strengthened solutions
- good governance and project management ensure delivery is on time, on budget and to specification
- professionalism and ethics support due process, accountability and transparency.

Gateway

If your procurement involves major investment consider adopting the Gateway Review Process.

Gateway is a quality assurance methodology for large State sector projects. It is Cabinet mandated for high risk capital projects in departments and Crown Agencies and is adminstered by SSC.

It involves independent examination of the project at key decision points 'gates' to provide assurance that the project can progress successfully to the next stage.

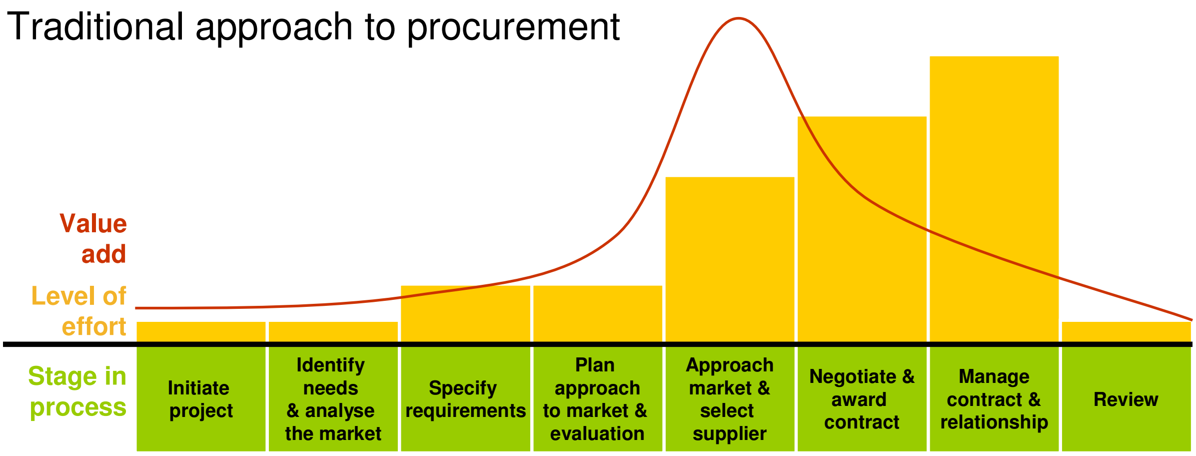
For more information visit: www.ssc.govt.nz

Traditional versus strategic procurement

There are several differences in methodology and execution between traditional approaches to individual procurements and strategic approaches.

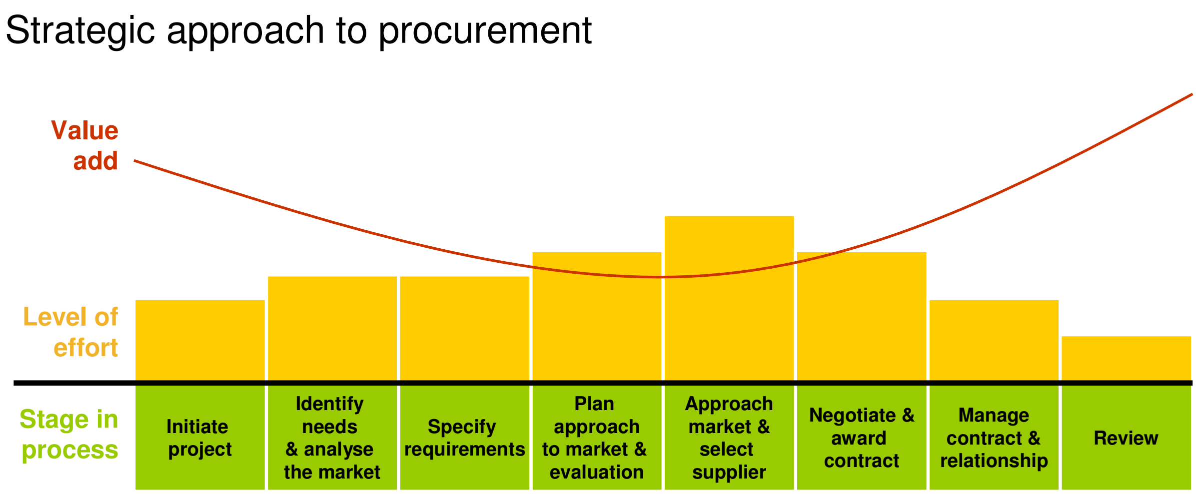
- A traditional approach to procurement is to view it as an administrative function for buying goods/services.
- A strategic approach involves understanding the importance of the procurement to the agency in achieving its outcomes, sourcing suppliers and managing relationships to successfully deliver against public policy objectives and business needs, whilst delivering overall value for money.

Diagram 1



This diagram illustrates a traditional approach to procurement where little time is spent on planning. Effort is generally brought to bear when it comes to approaching the market. As a consequence of insufficient analysis in the planning stages increasing levels of effort are required through contract and relationship management. If the procurement is not reviewed there is little opportunity to benefit from lessons learned.

Diagram 2



This diagram illustrates a strategic approach to procurement which methodically works through each stage in the procurement process. The time taken to plan, research and analyse add significant value to identifying solutions that will meet the needs. A focus on relationship development and management means that less time is spent resolving issues and more time applied to assessing quality in delivery and identifying opportunities for cost savings and benefit gains. A strategic approach delivers greater value.

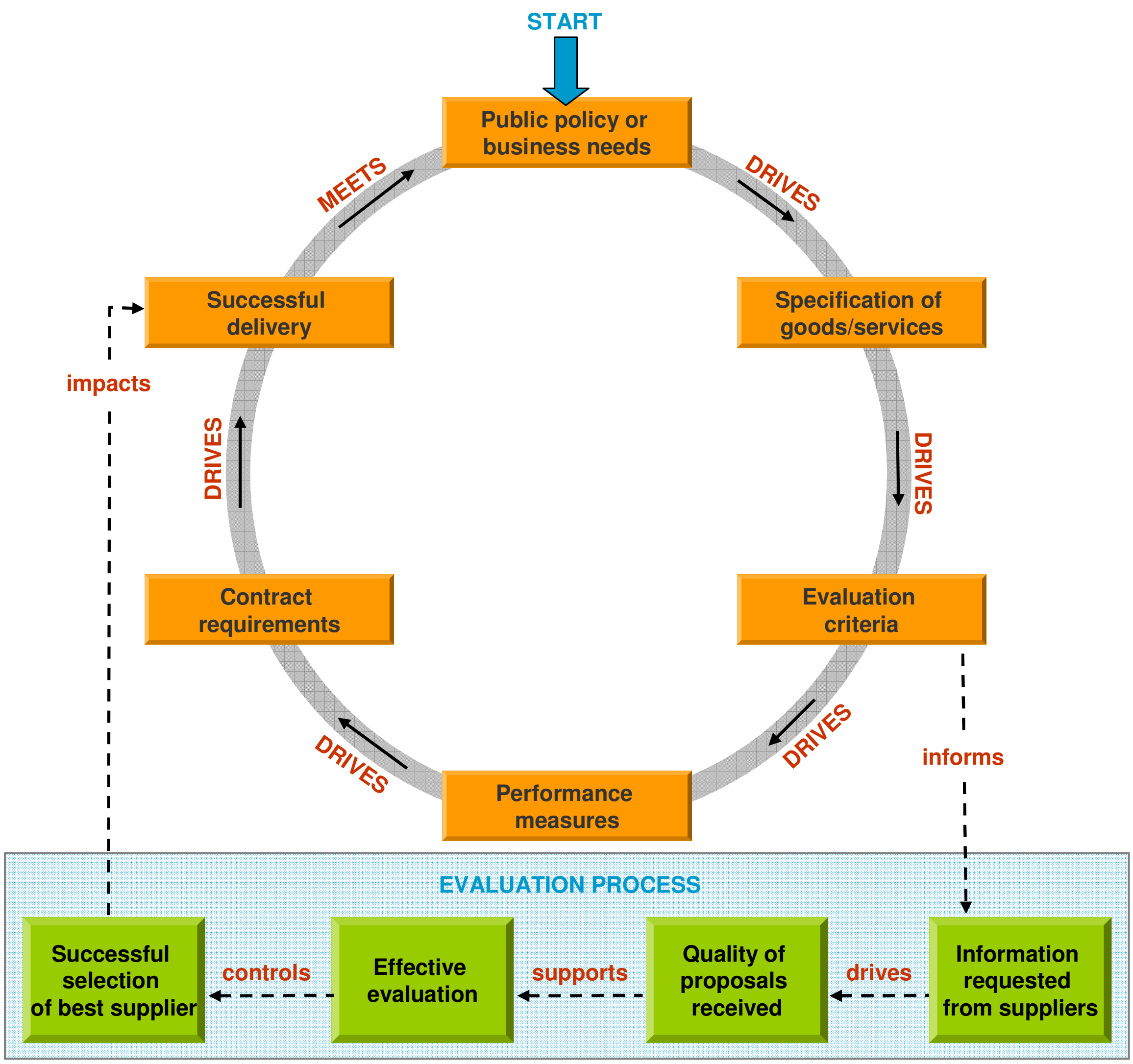
Drivers for successful procurement

This guide describes a strategic approach to procurement using the analogy of the procurement lifecycle chain of success. Each stage in the procurement process, if executed well, will lead to benefits. These benefits will positively impact on the next stages bringing about even more and increasingly valuable benefits and results.

The diagram below identifies key stages in the process. It demonstrates how the quality of analysis and thinking at each stage impacts on the next and adds increasing value impacting on overall success. For example:

- Without a full understanding of the public policy/business needs that are to be addressed it is impossible to write a comprehensive specification of the required goods or services.
- If the specification of requirements is lacking the resulting evaluation criteria will not target the critical factors which determine success.
- If the supplier is selected on the basis of poorly crafted evaluation criteria the supplier may not have the appropriate capacity and capability to successfully deliver against the needs.
- Without accurately describing the needs the resulting contract documentation, including the description of deliverables and key performance measures, will not lead to successful delivery. The needs will not be met and the procurement will have failed.

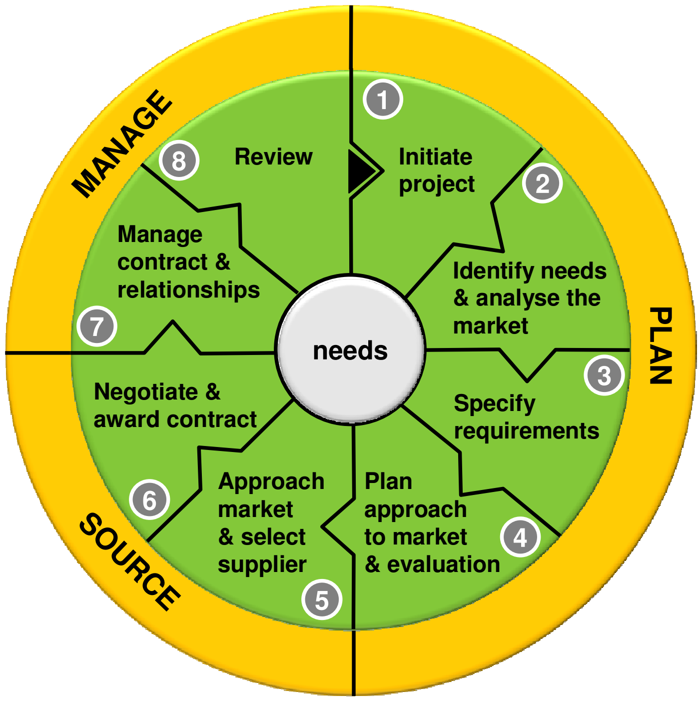
Diagram: **drivers to successful procurement**



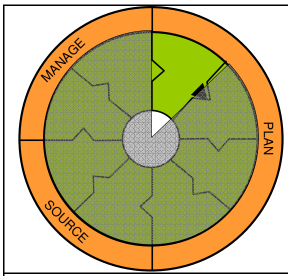
Procurement lifecycle

The remainder of this guide takes you through the procurement lifecycle. It provides, for each stage in the lifecycle, the following information:

- description of the intended outcomes
- note of key outputs
- list of tasks (to be tailored to the nature, scope, value, level of risk and complexity of each procurement)
- list of relevant guides, tools and templates



Note: for ease of explanation the Procurement Lifecycle is presented as a series of consecutive stages from 1 to 8. In real life however, some stages can sometimes be done concurrently. For example, identifying needs, market analysis and specifying requirements can sometimes be done as one exercise.



Stage 1 - Initiate Project (procurement activity)

Outcome

- The right people do the right things at the right time to ensure the procurement activity achieves optimal outcomes.

Outputs

- Initiate engagement with stakeholders.
- Establish project team.
- Establish project probity, governance & management framework.

Key Tasks

- Check the proposed procurement is included in agency's Annual Procurement Plan.
- Identify key internal and external stakeholder groups.
- Identify skills mix and composition of the project team.
- Appoint individuals to the project team and a project team leader.
- Obtain conflict of interest declarations and confidentiality agreements from each team member.
- Clarify the background and key objectives for the procurement.
- Establish high-level budget estimate for the procurement and associated process costs.
- Identify type of appropriation and expense category: departmental / non-departmental – opex / capex
- Identify financial delegations required.
- Identify other agency approvals or sign-offs required and at what stages.
- Identify relevant government/agency procurement policy requirements and approach to market options available.
- Identify time & resource constraints and project governance & management structure.
- Establish probity requirements.
- Identify project management related risk.
- Establish project document management system.

Guide:	Annual Procurement Plans (GPRP)
Template:	Annual Procurement Plan (GPRP)
Quick Guide:	Conflicts of Interest (GPRP)
Template:	Conflict of Interest & Confidentiality Declaration (GPRP)
Code:	Standards of Integrity & Conduct (SSC)
Guidance:	Managing Conflicts of Interest: Guidance for public entities (OAG)
Guide:	Procurement guidance for public entities (OAG)
Guide:	Probity in Procurement (GPRP)
Template:	Project Charter (GPRP)
Tool:	RASCI stakeholder categories & Stakeholder influence and interest matrix

Stakeholder engagement

It is essential to identify key stakeholders at the beginning of the procurement. Consider both internal and external stakeholders. Key stakeholders have interests and influence.

Conducting an analysis of stakeholders can help identify issues associated with the procurement and delivery as well as providing an opportunity to learn from their experiences and use this to improve the quality of future outcomes.

RASCI stakeholder categories

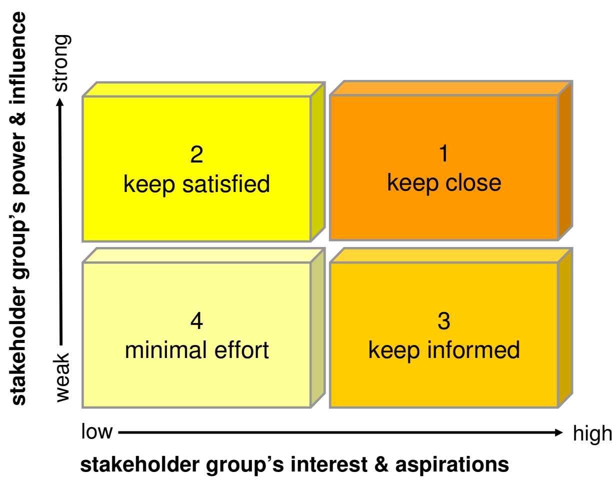
A useful tool to help identify different categories of stakeholder is RASCI

R = responsible	The person who is ultimately responsible for delivering the project and/or task successfully
A = accountable	The person who has ultimate accountability and authority; they are the person to whom 'R' is accountable
S = supportive	The person or team of individuals who are needed to do 'the real work'
C = consulted	Someone whose input adds value and is essential for successful implementation, or from whom you need to gain 'buy-in'
I = informed	The person or group who need to be notified of results or action taken or results achieved but don't need to be involved in the decision-making or delivery.

Satisfying stakeholder groups

You can develop a framework for managing different types of stakeholder relationships by identifying relevant stakeholders and mapping their power and influence against their interest and aspirations. The diagram below indicates a possible approach for different types of stakeholders.

***Diagram*: Stakeholder's interests and influence matrix**



Interest	Influence	Strategy
Low	Weak	Minimal effort
Low	Strong	Keep satisfied
High	Weak	Keep informed
High	Strong	Keep close

Project team

Establishing the procurement project team

For a simple procurement the team could be quite small e.g. policy officer/business owner and procurement specialist.

For more complex procurements you may want to establish a larger team with broader skills and expertise. This may involve engaging external expertise. For larger teams you could develop a Terms of Reference, or even a Project Charter.

You should also consider whether it is appropriate to appoint an independent probity auditor.

A key task at the beginning of the project is to assemble and facilitate a team of stakeholder representatives who will devote enough time and be prepared to think openly and creatively about solutions.

During the initial planning stages of the procurement, take time to establish a cross-disciplinary project team (the 'team'). The size and composition will depend on the nature, scope, value, level of risk and complexity of each procurement.

The team must possess an appropriate mix of skills and experience to provide representation across key areas such as technical and functional specialisations as well as policy expertise and knowledge of the agency's business or operational requirements. The team composition may include, for example:

- policy officer / business owner / project sponsor
- business user / recipient of services
- subject matter technical expert
- procurement specialist
- commercial / financial expert
- legal advisor

The procurement specialist is usually responsible for planning and managing the procurement process. This person is also usually appointed to chair the evaluation panel.

It is advantageous, if possible, to retain some or all of the original team members, or at least the core team throughout the procurement. In this way the team will be responsible for assessing the needs, defining the specification of requirements, designing an appropriate evaluation methodology, evaluating offers, inputting into performance standards, measures and developing contract requirements. Such continuity is likely to strengthen the process and outcomes.

Where stages in procurement are done by separate individuals or other groups it can compromise the quality of the outcomes. If a group that was not involved in defining the specification of requirements is tasked with developing criteria it may have an incomplete understanding of the public policy objectives or business needs which in turn could result in ineffective criteria and/or inappropriate weightings.

Conflict of Interest & Confidentiality

Every person involved in the procurement, whether on the team, or separately engaged in making financial approvals or accepting an evaluation panel recommendation, must make a conflict of interest declaration and sign a document recording it.

For team members these must be signed as soon as the person is appointed to the team.

For those making financial approvals or other key decisions a conflict of interest declaration can be provided at the time of making the decision.

Principles of good procurement practice

Ensuring probity of action is every agency's duty. The basic principles of good practice that apply to all government spending are:

- Accountability
- Openness
- Value for money
- Lawfulness
- Fairness
- Integrity

By applying these principles sensibly, agencies can demonstrate they are spending public money carefully and properly managing the process for spending it.

Probity

The Government is committed to transparent, accountable procurement processes that ensure all potential suppliers are given impartial and equitable treatment. It is especially important that government procurement takes place in a genuine, open and fair environment.

As public servants we must comply with 5 interrelated principles of probity in procurement:

1. acting fairly, impartially and with integrity
2. being accountable and transparent
3. being trustworthy and acting lawfully
4. managing conflicts of interest
5. securing commercially sensitive and confidential information.

Procurement must be conducted with probity in mind, to enable purchasers and suppliers to deal with each other on the basis of mutual trust and respect, and enable business to be conducted with integrity. Probity principles should be integrated into all procurement planning, and not treated as a separate 'add-on'.

Agencies must ensure that systems, policies and procedures are established that provide accountability, are able to withstand public scrutiny and which preserve private sector confidence in the procurement process. This means undertaking due process, obtaining appropriate approvals and documenting decisions.

Achieving an ethical, transparent approach requires that the procurement rules are clearly stated, well understood and applied equally to all parties.

For major, complex or high-risk projects, you may consider appointing an independent probity auditor at the outset of the procurement project.

Direct and competitive approaches

An initial consideration of whether a direct or competitive approach is appropriate may be able to be made at this stage. This will impact on the type and level of research and analysis to be done before making the approach to market. However, an open and competitive process is the preferred approach when the government buys goods/services.

Examples: competitive approach

Approach	Situation	Process
Closed Invitation to suitable suppliers to submit competitive quotes.	Low-value, low-risk goods and services	Request for quotation (RFQ) Request for tender (RFT) Request for proposal (RFP)
Open Invitation for all interested suppliers to submit competitive tenders.	Low to medium-value / risk goods and services	RFQ RFT RFP
Multi-stage (open then closed) Open invitation for all interested suppliers to respond. Agency assesses all responses and invites shortlisted suppliers to submit full tenders.	High-value, high-risk, complex or unique goods and services Where there may be many potential suppliers	Express/register interest (EOI/ROI) or pre-qualify (PQQ) Short listed suppliers invited to submit proposals/tenders (RFP/RFT)

Examples: direct approach

Approach	Situation	Process
Buy directly from any suitable supplier Agency must be able to demonstrate price is consistent with market rates.	Very low-value, low-risk purchases Typically goods	One-off purchase Procurement card Emergency procurement Qualified supplier list
Buy directly from pool of suppliers through a standing arrangement A group of eligible suppliers is established through an open, competitive process. Agency has ability to purchase from these suppliers for an agreed time at fixed rates or based on quotations.	High-value, low-risk goods or services	Syndicated contract All-of-government contract Panel contract Standing offer Collaborative or cluster arrangement
Buy selectively from a specific supplier Agency must be able to demonstrate price is consistent with market rates. Agency must be able to justify the decision not to use the open, competitive option.	Higher-value, higher-risk procurements where there are special circumstances, e.g. highly complex specification, or only one source and this can be verified, or only one supplier has the capacity to deliver on time and this can be verified.	Relational contract

Emergency Procurement

For more information on emergency procurement see the Quick Guide to Emergency Procurement (GPRP)

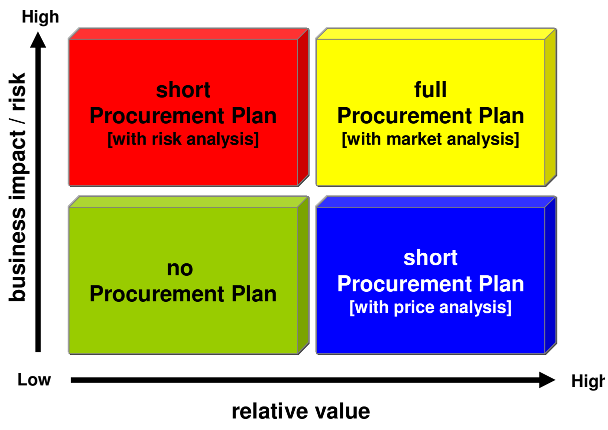
Governance and accountability

An agency's procurement strategy will inform its operational procurement procedures. Procurement procedures usually prescribe the nature of documents and approvals required for each type of procurement. Together the documents and approvals build a governance and accountability framework that supports transparency and probity.

Different agencies require different types of documents. Some agencies may require, for example, a separate business case and procurement plan for high-value, high-risk major new procurements and only a summary procurement plan for an ongoing low-value, low-risk existing project. Check you agency's policy guidelines to find out what the requirements are.

***Diagrams*: <u>Example</u> agency policy - documentation requirements**

a. Existing ongoing projects



b. New initiatives

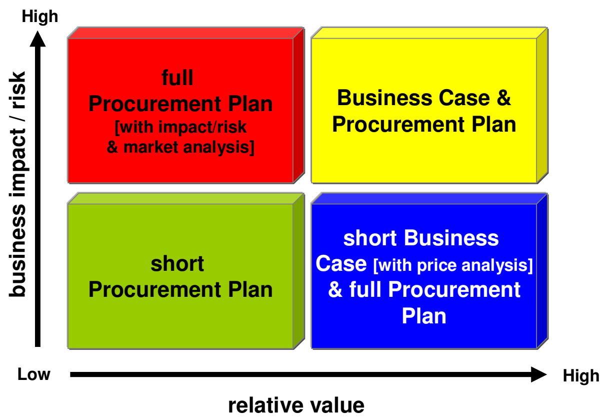


***Diagram:* <u>Example</u> documents and approvals for simple procurement**

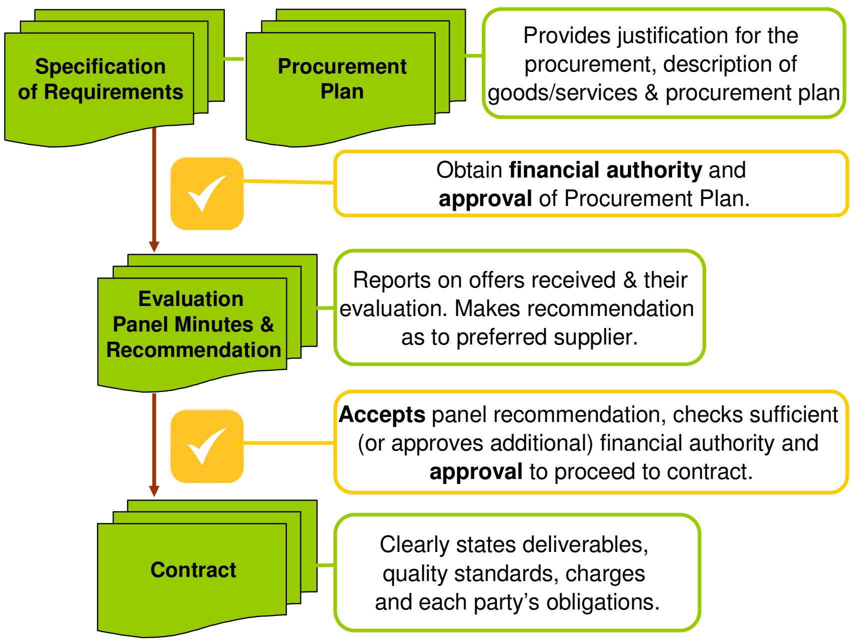
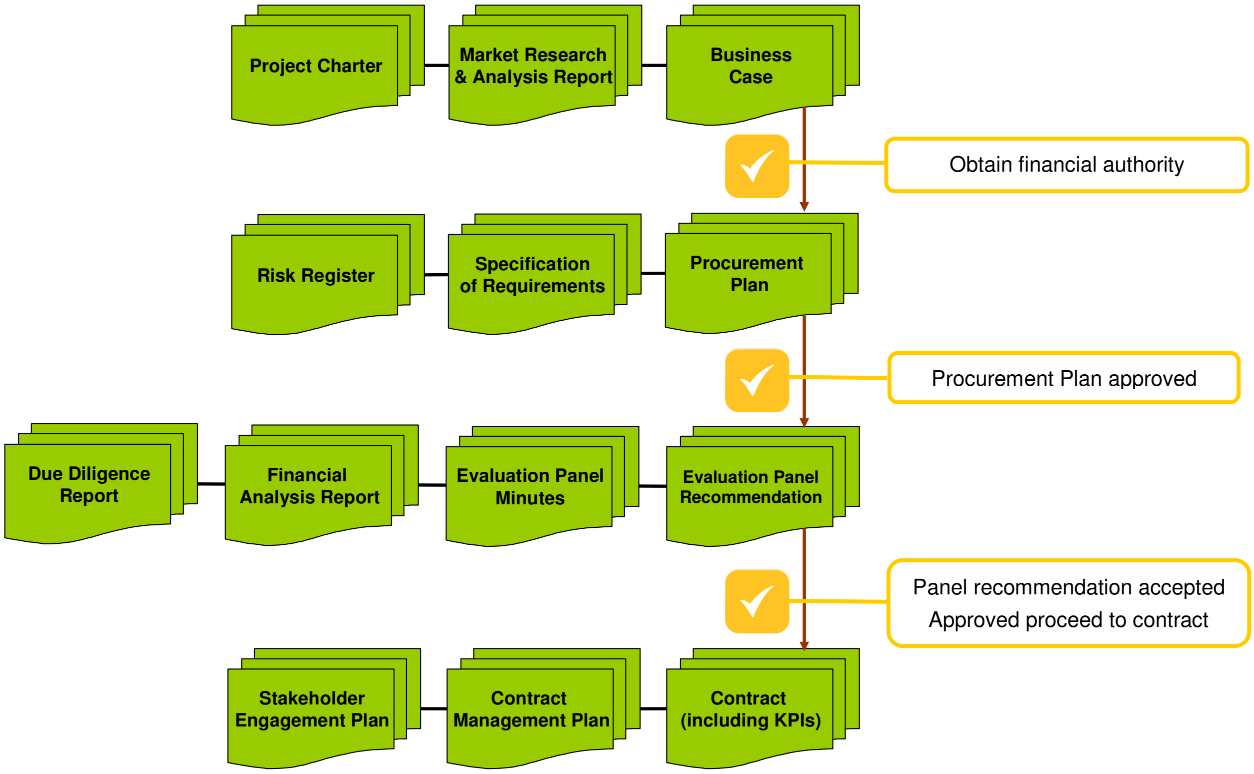


Diagram: **Example documents and approvals for complex/high-value/high-risk procurement**



Appropriate level of planning

The scale and scope of research, analysis and planning should be proportionate to the strategic importance of the procurement to the agency and its level of risk and relative value.

An agency's procurement policy should provide guidance of what is required including, for example, when a business case and procurement plan need to be prepared and what they should contain.

OAG Guidance

The Auditor General expects agencies to:

- prepare a business case to support the procurement of higher value and higher risk items, and
- require the business case to be part of the project approval process.

Reference Office of Auditor General's *Good practice guide: Procurement guidance for public entities (June 2008)*

Where a business case and procurement plan are required here is a simple guide to the differences between the two.

The business case

The business case provides justification for undertaking a project. It is built on evidence obtained from evaluating the benefits, costs and risks of alternative options and presents the rationale for the preferred solution. Its purpose is to obtain management commitment and approval for the investment or funding. The business case is owned by the project sponsor.

Business cases come in all shapes and sizes. They should, however, all have the same purpose, which is to:

- justify the resources and investment or funding necessary to undertake procurement over the whole-of-life
- provide a vehicle for approving funding which supports transparency and probity
- assist the agency to prioritise the project against other public policy / business initiatives.

Not all procurements need a business case. Check your agency's policy as to when a business case is required. Also, if the procurement is part of a larger project there may already be an approved business case in place.

The procurement plan

Procurement plans also come in all shapes and sizes. Regardless of their format, however, they should build on the business case (not repeat it), and provide a link from the business case to implementation and delivery. A procurement plan provides the methodology and approach, process and project management structure for implementation.

The purpose of a procurement plan is to:

- provide detailed planning for the approach to market, evaluation of offers and identification of the preferred supplier
- ensure the best supplier is selected for right reasons and at a price that represents value-for-money over the life of the contract
- assign roles and responsibilities in the cross-functional project team
- set a realistic timeline.

Links between business case and procurement plan

The business case provides the justification for undertaking the project. The procurement plan sets out the strategy to approach the market, controls implementation and expands on key components of the business case – not duplicate them. The following diagram demonstrates how the procurement plan builds on the business case.

***Diagram*: Business Case links to the Procurement Plan**

Business Case
key components

Identify the need

- Set context for the project.
- Demonstrate sufficient consultation with stakeholders.
- Identify and describe the needs.
- Link the needs to the agency's strategic outcomes and public policy/business objectives.
- Determine how critical the goods/services are to the agency.
- Demonstrate how the specified goods/services will successfully deliver against the business/public policy objectives need.
- Define 'fit for purpose' and identify what 'success' looks like.

Continuous improvement

- Where there has been a previous contract for supply of the goods or delivery of the services:
  - review contract outcomes and supplier performance
  - review agency's performance in managing the contract and the relationships with the supplier and stakeholders
  - identify and analyse whole-of-life costs
  - identify opportunities for cost/efficiency benefits/gains
  - indicate how lessons learned will be used to achieve better process/delivery/outcomes.

Market research

- Demonstrate an understanding of the market, current prices and price drivers.
- Identify the options for an approach to market and the preferred option with justification for its selection.
- Where the approach to market is contrary to government or agency procurement policy/procedure provide objective and compelling reasons justifying an exemption.

Procurement Plan
key components

Approach to market strategy

- Detailed planning resulting in the approach to market strategy.

Evaluation methodology

- Evaluation model.
- Rating Scale.
- Panel decision making process.
- Evaluation criteria.
- Due diligence requirements.

Business Case
key components

Identify solutions
- Identify possible solutions to meeting the needs.
- Undertake solutions options analysis.
- Identify the preferred solution.
- Provide rationale for preferred solution and the reasons for rejecting the others.

Indicative quality & performance
- Identify the level of quality required.
- Identify level of performance required.
- Identify options for quality and performance standards and measures.

Costs/Benefits analysis
- Assess the costs, benefits and risks (include whole-of-life costs).
- Examine whether the initiative is feasible.

Recommendation
- Seek management approval for the project to proceed.
- Obtain financial approval for the estimated costs.

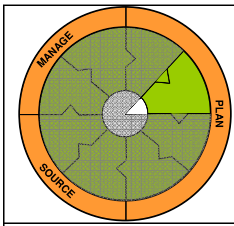
Procurement Plan
key components

Specification of Requirements
- Full scoping that results in detailed specification of requirements.

Contract Type
- Identify the type of contract together with the terms and conditions of contract that support effective delivery and contract management.

Quality & performance measures
- Detailed specification of performance standards and measures.

Project management
- A plan to execute, monitor and control the procurement process.
- Required approvals and probity measures.
- Procurement project governance, management and reporting.
- Milestones and realistic timeline.
- Allocation of responsibilities.
- Change control procedures.
- Risk assessment and management.
- Stakeholder communication and engagement.
- Document process, decisions and outcomes.



Stage 2 - Identify needs & analyse the market

Outcomes

- Analytical strategic thinking leads to smarter procurement and better results.
- Informed decision-making optimises outcomes – an agency should not be disadvantaged through lack of knowledge.

Outputs

Documented analysis (could be recorded in a Business Case or equivalent):

- High level statement of needs.
- Links between the needs and the agency's strategic outcomes & public policy/business objectives.
- Comprehensive understanding of the market and operating environment.
- Indication of whole-of-life costs.
- Costs / benefits / risks analysis.
- Approach to market rationale.

Approvals:

- Financial approval for anticipated expenditure.
- If required by your agency - approval to proceed to approach the market.

Key Tasks

Identify the needs:

- Consult with stakeholders: perspectives, needs, wants, concerns, challenges, opportunities and risks.
- Identify and prioritise the needs.
- Develop a high level comprehensive statement of needs.

Review previous procurements:

- Review previous/current contract (if any) including:
  - quality of delivery - on time, on budget, to specification
  - calculate the whole-of-life cost
  - supplier's performance
  - agency's performance in managing the contract and relationships with the supplier and stakeholders
  - benefits, assumptions, intended & unintended consequences
  - opportunities for cost/efficiency benefits/gains.
- Identify and analyse spend from previous years and forecast future spend.

Supply positioning:

- Scan operating environment, including current and future policy considerations.
- Identify agency's strategic outcomes and specific public policy/business objectives that are to be addressed by the procurement.
- Identify sustainability opportunities/issues.

- Determine how critical the goods/services are to the agency – *Supply Positioning Matrix*

<u>Analyse the market:</u>

- Engage with the market and suppliers to review market, identify and analyse:
  - suppliers and their market shares = *supply*.
  - the number of buyers and their influence on the market = *demand*
  - degree of competition
  - current prices, pricing methodology and factors influencing price
  - market trends and regional differences
  - availability of alternative/substitute goods/services - *product differentiation*
  - degree of technological developments in the market
  - nature and quality of supply chain.

<u>Analyse market behaviours</u>:

- Review suppliers in the market, identify and analyse:
  - current market behaviours and implications for the buyer
  - future market behaviours that would better support successful delivery
  - the gaps between current and future market behaviours
  - strategies to close the gap and the preferred option.
- Determine how suppliers view the agency's business – *Supplier Preferencing Matrix*.

<u>Solutions identification and options appraisal</u>:

- Identify what is 'in scope' and what is 'out of scope'.
- Identify what 'success' looks like and define 'fit for purpose'.
- Identify different approaches to meeting the needs.
- Identify the range of solutions that are available to meet the needs.
- Undertake a solutions appraisal against criteria to identify the preferred solution.
- Determine the desired type of relationship with supplier (collaborative - competitive)

<u>Approach to market options:</u>

- Identify applicable government procurement policy (e.g. Mandatory Rules & OAG guidelines) and agency requirements.
- Analyse options for approaches to market & identify preferred strategy.

Tools:	SWOT – PESTEL - Porter's Five Forces – Power & Dependency matrix – Solutions Options Appraisal
Tool:	Supply Positioning Matrix & Supplier Preferencing Matrix
Template:	Business Case (GPRP)
Policy:	Mandatory Rules for Procurement (MED)
Guidance:	Government Procurement in NZ: Policy Guide for Purchasers (MED)
Guidance:	Procurement Guidance for Public Entities (OAG)
Guidance:	Public Sector Purchases, Grants & Gifts (OAG)
Guidance:	Guidelines for Contracting with NGOs for Services Sought by the Crown (Treasury)
Guidance:	Guidelines for Public Private Partnerships in New Zealand (Treasury)
Guide:	Sustainability: Identifying Sustainable Procurement Priorities (GPRP)
Guide:	Sustainability: Identifying Needs & Assess Risks (GPRP)
Policy:	NZ Timber & Wood Products Procurement Policy (MAF)
Policy:	Sustainable Government Procurement Project Category Reviews (MED)

Identify the needs

Stakeholder consultation

The quality of research and analysis, to identify the public policy/business needs, at this stage will seriously impact upon the quality of the solutions and results you achieve.

The first step is to consult with key stakeholders and develop a high level statement of needs. Consider the following:

- What is the purpose of the procurement?
- Who will be impacted by the procurement?
- Who are the key stakeholders and what are their expectations?
- Who are the major internal client's and what are their highest needs?
- Who are major external users or recipients of the goods/services and what are their highest needs?
- What similarities and differences become apparent between the needs of the two groups?

The consultation should aim to ensure that:

- stakeholders constructively engage and have 'buy-in'
- stakeholders are able to self-identify their current, predicted and emerging needs
- the consultation elicits information about individual and collective needs

From the consultation it will be important to:

- distinguish 'needs' from 'wants' and 'desires'
- remove ambiguity, achieve clarity and obtain consensus
- bundle needs into related groups
- prioritise groups and ranked
- develop an articulate, clear, comprehensive high-level statement of needs
- obtain stakeholder verification and endorsement of the statement of needs.

Statement of needs

The statement of needs will later inform:

- type and extent of market research and analysis
- sustainability opportunities, issues, risks – linking social, economic and environmental goals together
- identification of a range of solutions
- solutions options appraisal
- development of specification of requirements detailing the nature and scope of the goods/services that will be required to satisfy the needs
- development of evaluation criteria and weightings.

Statement of Needs

Through consultation with stakeholders identify individual, overlapping and competing needs.

Record these as a Statement of Needs. At this stage the Statement of Needs is a high level overview of the needs.

This will be developed, at a later stage, into a detailed Specification of Requirements.

Sustainability impacts

Consider the sustainability impacts that may result from the needs analysis.

- <u>environment</u>
  e.g. carbon impact, high waste production, hazardous substances
- <u>economy</u>
  e.g. job creation involving local business or loss of jobs where offshore companies used to supply
- <u>society</u>
  e.g. fair pay, equality, 'good employer' status

Review previous procurement

History of delivery

A review of previous procurement, from the identification of needs through supplier selection, performance and results, will greatly inform how you proceed with your project. It provides an opportunity to apply lessons learned.

- if it is not a new initiative there will be some history of previous delivery
- if it is a new initiative for your agency other agencies may have current or recent experience of delivery.

If a formal review of the previous procurement has been undertaken obtain a copy of the report.

Otherwise, actively seek feedback from everyone involved in the previous procurement to identify lessons learned. This means everyone from the business owner / sponsor, contract manager, end-users or recipients of services as well as the supplier. Consider how these lessons can inform and add value to your procurement going forward.

It may also be helpful to investigate the outcome of other agency's procurements for similar goods/services. Consider the problems they have encountered and successes they have achieved. How can this inform your thinking?

Spend analysis

A spend analysis involves identifying all expenditure (contract charges and other costs to the agency) related to the delivery of the goods/services over a period of time, for example the annual costs over a contract term of three years.

The purpose is to quantify the whole-of-life costs and spend and cost trends.

Compare this figure with your estimate budget. If they do not match reconsider the level of budget you may require. If the budget is fixed you may need to reconsider what level of needs can be met.

Market research

Agencies must be able to demonstrate a good understanding of the market. The extent of the market research will depend on:

- *The nature and scope of the goods/services.*
- *The degree of difficulty in specifying the requirements.*
- *The total $ value of the whole-of-life cost.*
- *The level of risk to the agency if there is failure in the delivery.*
- *Whether it is a one-off purchase or ongoing procurement.*

Analyse the market

The objectives of market analysis

The objective of market research and analysis is to develop a thorough understanding of the nature of the market, how it works and how this impacts upon your approach to the market and overall procurement strategy. It allows you to make informed decisions to get the best results.

Thorough supply market analysis supports strategic thinking, informed decision making and adds value to the procurement process and outcomes.

There are many avenues to obtain information about the market. The following diagram shows some common options.

***Diagram*: market research options**

Request for Information (RFI)

A RFI is a market research tool. It is used to seek information from suppliers as to the type of goods/services currently available.

It is not a type of RFx and must not be used, on its own, as a mechanism to select a supplier. If you decide to proceed with the procurement the RFI must be followed by a tender.

Early engagement with suppliers

Sometimes the best approach is simply to talk to suppliers. Agencies are encouraged to engage early with suppliers to build improved knowledge and understanding of the goods/services available. This process must be completed before advertising the opportunity to bid. At that point all contact with suppliers must be strictly controlled.

In a situation where you can identify the needs, but are not sure of the solution you can seek supplier input through a Request for Information (RFI) or even organise a supplier briefing session. Make sure you consult a cross-section of businesses and are open to new players and new solutions.

Balance of power

A simple tool to help determine where the balance of power lies in the market is Porter's Five Forces Model of Competition[1]. This tool assumes that there are five important forces that determine competition and rivalry. These are:

Supplier power: Here you assess how easy it is for suppliers to drive up prices. Factors include the number of suppliers, the uniqueness of their product, their control of buyers etc.

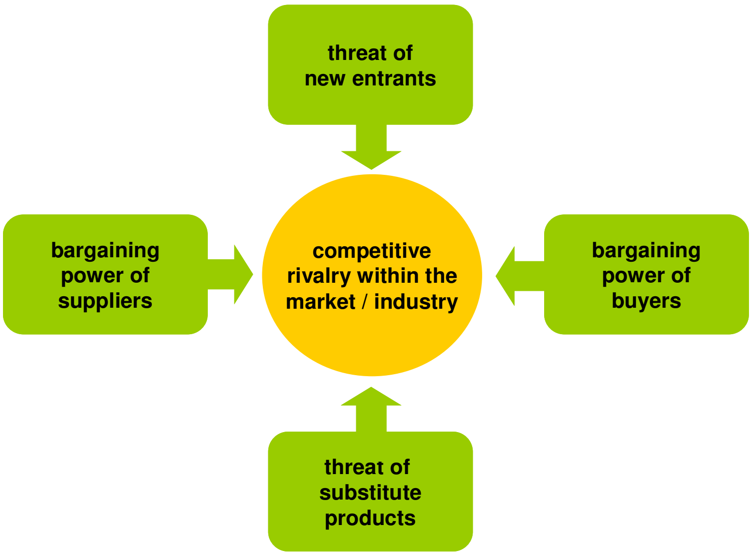
Buyer power: Here you assess how easy it is for buyers to drive prices down. Factors include the number of buyers, the importance of each buyer to the supplier's business, the cost of buyers switching suppliers etc.

Competitive rivalry: Here you asses the number and capability of suppliers. If there are many suppliers that all offer equally attractive goods/services then suppliers have little power. On the other hand if there are few suppliers or great distinction (differentiation) between goods/services suppliers have more power.

Threat of substitution: Here you assess how easy it is for buyers to find substitute (alternative) goods/services. If the goods/services are easily replicated there is a strong threat of substitution from other suppliers. This weakens suppliers' power.

Threat of new entry: Here you assess the ability of new suppliers to enter the market. The easier it is for new suppliers to enter the market the weaker the position of existing suppliers.

***Diagram*: Porter's Five Forces Model of Competition**



[1] M. E. Porter "Competitive Strategy" Free Press 1980

Plan your approach to market analysis

One approach to this exercise is to analyse the market by looking at each of its key components, as follows:

- market structure
- nature of competition
- supply chain dynamics
- availability of substitute goods/services
- industry impact assessment

Plan your analysis

Before undertaking your research and analysis take time to plan your approach.

- Clearly define the goals you wish to achieve through the analysis
- Define what information you need
- Identify potential sources of information
- Identify key activities e.g. meetings, internet searches, engaging specialists to help
- Develop a timeline for finalising the research and analysis

Market structure

This stage identifies and analyses:

- relevant market or segment of the market
- its total size
- key suppliers in the market and their respective market shares
- market concentration
- existing ownership structures in the market
- profitability of the different suppliers.

Relevant market

The first step in analysing the market structure is to define the market or market segment that is relevant to your procurement. This will help to focus your analysis and target the appropriate suppliers.

Defining the market entails determining the key characteristics of the goods/services, such as whether it is purely a product or service or a combination, and determining whether the market is divided into commercial, technical and/or geographic segments.

Once the market is defined a number of measurements can be taken to gain an overall understanding of its size and shape.

Market size

Firstly, the size of the total market should be determined in terms of sales ($ value) and volume/turnover. If the data is available, it is recommended that the market size be further analysed in terms of the private sector/public sector split.

Key suppliers and their market shares

Having determined the total market size, the next step is to determine who are the key suppliers and their respective market shares.

It is important to compare the overall market shares of suppliers with their respective market share of public sector sales. This may indicate whether a supplier is dominant across the market or just the public sector, and may also hint at potential dependency issues.

The number, size, and distribution of competitors in a market affect your negotiating power.

Regional analysis

There is often a geographic element to the competitive landscape. In defining market dominance, you must see to what extent a product, brand or supplier controls goods/services in a given geographic region – both nationally and internationally.

Profitability

To determine why some suppliers are more profitable than others, it may be useful to investigate whether they have a competitive advantage based on:

- low costs structures (lower costs and same price as other firms), or
- product differentiation (better product and higher price that other firms).

Competition

Some markets consist of suppliers who compete heavily on price whilst offering the same basic goods/services and service levels.

Other markets differentiate between suppliers by quality, level of service support, delivery etc. Suppliers within these markets may be less likely to negotiate on price, in the belief that the quality of the goods/service may be compromised.

Market concentration

Market concentration is about determining the extent to which a relatively small number of suppliers account for a relatively large percentage of the market. It analyses market dominance which is a measure of the strength of a brand, product, service, or firm, relative to other competitive offerings.

Existing ownership structures

Understanding corporate governance and business ownership structures amongst suppliers can often explain supplier behaviour. For example you may think that you are dealing with competing suppliers in a market when in fact one is a subsidiary of the other.

It is important to find out if there are any existing ownership structures or new transfers looming on the horizon. Also knowing whether a supplier is purely local or part of a large national or international organisation may indicate whether major decisions are made in-country or overseas.

Profitability of different suppliers

Profitability may indicate the viability of a supplier, whether a supplier will contribute to a continuing competitive market, or whether a supplier will withdraw, leading to a more concentrated market.

Competition

A sound understanding of how suppliers compete in the market provides essential information about market dynamics, including the availability and pricing of goods/services now and in the future.

The basis of competition

Analysing competition requires examining the way in which the suppliers in the market compete. Examples of different features suppliers compete on are:

- price
- quality
- level of support/service
- product types / range
- distribution
- delivery time
- brand image.

It is also worth investigating whether a supplier's perceptions of quality or brand image are warranted.

There are 4 basic types of markets

1. Perfect Competition

- Many buyers and suppliers
- Same or similar goods/services
- Suppliers have to accept market price

2. Imperfect Competition (Monopolistic)

- Many buyers and suppliers
- Differentiated goods/services
- Tiny monopoly over some products
- Suppliers have some control over price

3. Oligopoly

- Market dominated by small number of large firms
- Non-price competition
- Product differentiation
- Potential for collusion
- High profits

4. Monopoly

- Only one supplier
- Supplier controls price
- No choice for buyers
- High profits

Barriers to entry and exit

Market competition is affected by the type and level of barriers for new suppliers to enter and exit the market. High barriers to entry result in fewer competitors.

When barriers to entry are high, suppliers are likely to compete on product type and brand image rather than price. Whereas, markets with low barriers are likely to result in more suppliers and competition will be based on price.

For a market to remain competitive there must be potential for new suppliers to enter. In many cases, even where one supplier has a near monopoly status, even the potential for an alternative supplier to enter the market can sometimes achieve more competitive prices and improved service outcomes.

Changes to competition

Forecasting the future competitive environment can assist you to plan around changes in the market and, in some instances, to wait for circumstances to change in order to get a better deal or outcome.

For example, the telecommunications industry is fast changing and, with each change, progressively offers more choices for buyers at better prices.

Product life cycle

Understanding the position of the goods/services in the product life cycle will help you identify suppliers' likely marketing strategies and how suppliers will compete.

The product life cycle model consists of four stages:

- introduction
- growth
- maturity
- decline.

Each phase of the product life cycle tends to be characterised by different marketing strategies. For example, during the introduction phase, suppliers may seek partnerships with buyers to help develop their product. During growth and maturity phases, suppliers will endeavour to improve efficiencies and be cost competitive. In the decline phase, suppliers will seek to exit the market, often offer large discounts, find niche markets or attempt to revive interest.

Supply chain dynamics

The supply chain is the movement of materials or services as they flow from their source to the end customer. It is made up of the people, activities, information and resources involved in moving goods/services from their supplier to customer.

Typically supply chain activities transform natural resources into finished products. For example, the supply chain for most goods will encompass all participants from those:

- sourcing raw materials
- manufacturing parts for the product
- assembling parts
- assembling the product
- selling the product to retailers / intermediaries
- selling product to customers
- delivering
- servicing
- disposing.

In sophisticated supply chains used products that are recycled may re-enter the supply chain where they have some residual value.

Identifying the level of value-add

Supply chains need to be examined to identify whether each participant in the chain adds value (value-add) and to determine whether the level of value-add is worth the related cost.

It is important that you analyse supply chain participants, map what each participant does, where each is located in the supply chain, the costs and their individual goals. Waste is identified where a participant does not add value through their participation.

Value-add

Be careful not to underestimate the value-add that suppliers bring to the supply chain.

Carefully evaluate whether the opportunity cost of managing the activity yourself internally is less than paying a supplier to do it for you. Don't forget to factor in the supplier's expertise.

Supply chain dependencies

Any stage of the supply chain where a single supplier is dominant represents a risk to the buyer. Often, buyers are unable to fully recoup losses that are due to supply chain failure as they do not have contracts with suppliers further up the supply chain.

You need to be aware of such vulnerabilities. Investigate the impact a dominant supplier may have on the supply chain if the supplier restricts supply, or if their performance becomes unsatisfactory or they increase price.

Sustainability in the supply chain

Sustainability impacts of goods/services occur throughout the supply chain. An understanding of the supply chain and the relevant players within it will assist in identifying sustainability risks as well as opportunities for improved sustainability outcomes.

Where to buy in the supply chain

Many goods/services required for day-to-day operations are purchased directly from a supplier/retailer. However, there may be circumstances where the agency could realise better value for money by approaching the wholesale market or the manufacturer directly.

What are substitute goods/services?

Substitute goods or services are where alternatives are available. These alternatives are more or less interchangeable, for example:

Goods*: as a form of heating either gas or electricity*

Services*: standard plumbing services provided by different plumbers*

Even when a decision is made to purchase from a retailer, the whole supply chain should be analysed and understood to ensure that this decision is, and remains, appropriate.

Availability of substitute goods/services

Analysing substitute goods/services provides insight into alternative ways of meeting your agency's business requirements. A substitute option may meet the business requirements while providing better overall value for money.

Identifying substitutes

Focussing on the outcome, and not on existing goods/services, often opens up a wider range of solutions and suppliers.

A clear (unbiased) specification of the business need and a 'whole-of-market' focus are essential starting points. Often substitute goods/services are missed because:

- of a narrow focus
- existing specification is too rigid
- attachment to a particular brand.

A classic example is the emergence of the multi-function-device which filled the needs of organisations requiring printers, photocopiers, scanners and fax machines.

The identification of substitutes should be conducted in consultation with the end users of the goods/services to ensure that their needs will be met by a proposed alternative.

Industry impact assessment

The Government can be a significant buyer within some markets. For example, the aggregated spend in most of the All-of-Government contracts is about 8% of the New Zealand market for each category.

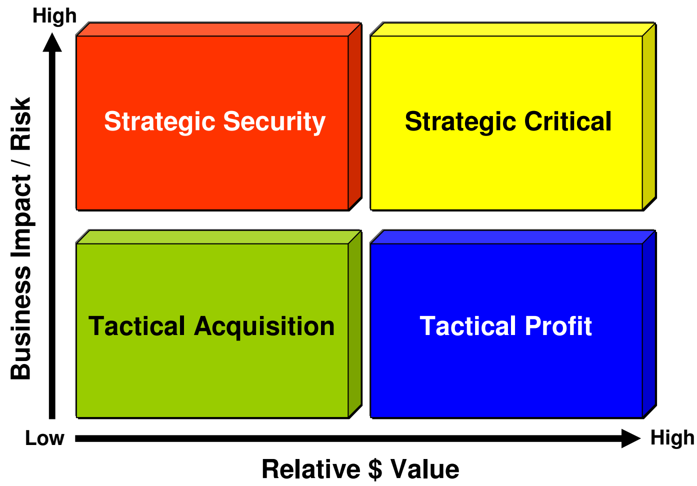
A significant procurement resulting in a virtual monopoly being created could have an adverse impact on the market and a regional economy. Equally opening up an opportunity through open competitive tendering could enable new suppliers to enter the market, improving competition. Consideration should be given to possible implications a procurement could have on local labour e.g. creating skills requirement in the region or outsourcing to another country.

Supply positioning

Identifying how important the goods/services are to your agency will help inform the approach you take to the market as well as the amount of time and resources used in the procurement.

A useful tool to help this analysis is the Supply Positioning Matrix. This assesses the business impact and risk in the delivery of the goods/services against relative costs.

***Diagram*: Supply positioning matrix**[2]



Value	Impact/Risk	Supply Position
Low	High	Strategic Security
High	High	Strategic Critical
Low	Low	Tactical Acquisition
High	Low	Tactical Profit

Supply positioning matrix explained

Buyer's priority	Description	Approach	Arrangement
STRATEGIC SECURITY **Security of supply**	• Low-cost goods/services • Strategically important • Shortage of reliable suppliers	Ensure supply	• Long term contracts • Build reserve of stock • Consider alternative products
STRATEGIC CRITICAL **Security of supply at a good price**	• High costs specialist goods/services • Limited number of suppliers	Manage suppliers	• Med/long term contract • Contingency planning
TACTICAL ACQUISITION **Purchasing efficiency**	• Routine purchases • Low-value/low-risk goods/services • Many potential suppliers	Minimal attention	• One-off contracts/purchase orders • E-purchasing • Procurement cards
TACTICAL PROFIT **Improving profit through costs savings**	• High-cost/low-risk goods/services • Many potential suppliers	Drive savings	• Short term contracts • Ongoing active sourcing for competitive price

[2] The Supply Positioning Matrix was developed by PMMS Consulting Group

Supplier Preferencing Matrix

This tool, sometimes called 'customer segmentation' can assist you to examine how a supplier may view your agency as a customer.

Analyse market behaviours

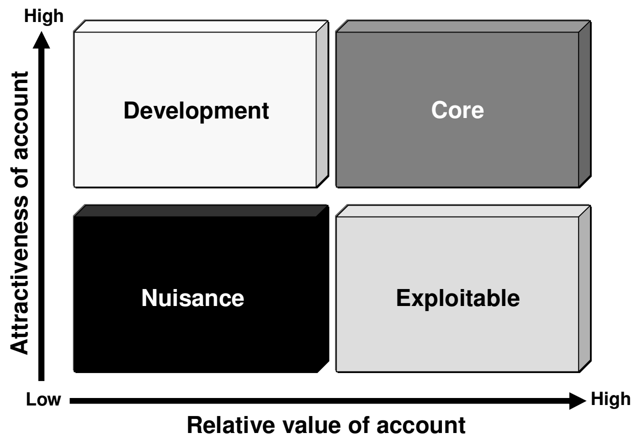
While the previous market analysis looked at how the market functions, this next piece of analysis attempts to 'walk in the suppliers shoes' and understand how suppliers view your business and how they behave as a result. Many businesses evaluate their customer's worth in order to determine the amount of effort they wish to exert to maintain the account.

Your value as a customer

By understanding the agency's value to suppliers different strategies can be developed based on the willingness or reluctance of suppliers to meet your agency's needs.

This analysis may identify changes an agency may need to make in order to be seen as a more attractive customer. If this happens, there will be more competition amongst suppliers to get your business.

***Diagram*: Supplier preferencing matrix**[3]



Value ($)	Attractiveness	Supplier's view
Low	Low	Nuisance
Low	High	Development
High	Low	Exploitable
High	High	Core business

Supplier preferencing matrix explained

Quadrant	Description	Action
Nuisance	• Low-value • Little profit	withdraw
Development	• Low-value • But still attractive	Get further business
Exploitable	• High-value • But not attractive	Maximise profits
Core	• High-value • Highly attractive • Supplier's core business	Retain & expand

[3] The Supplier Preferencing Matrix was developed by PMMS Consulting Group

Supplier Preference

It is important that you accurately gauge your value as a customer to suppliers as this will determine the extent to which you can influence a market and achieve better procurement outcomes.

If your agency is viewed as a **nuisance** account, the supplier may show little interest in your business. In some cases, you may wish to consider sourcing from other suppliers who value the agency's business more highly.

If your agency is viewed as having **development** potential the supplier may be willing (at least in the short term) to meet your requirements in order to win more business. For example, you may be seen as attractive because of the potential for more valuable business in future.

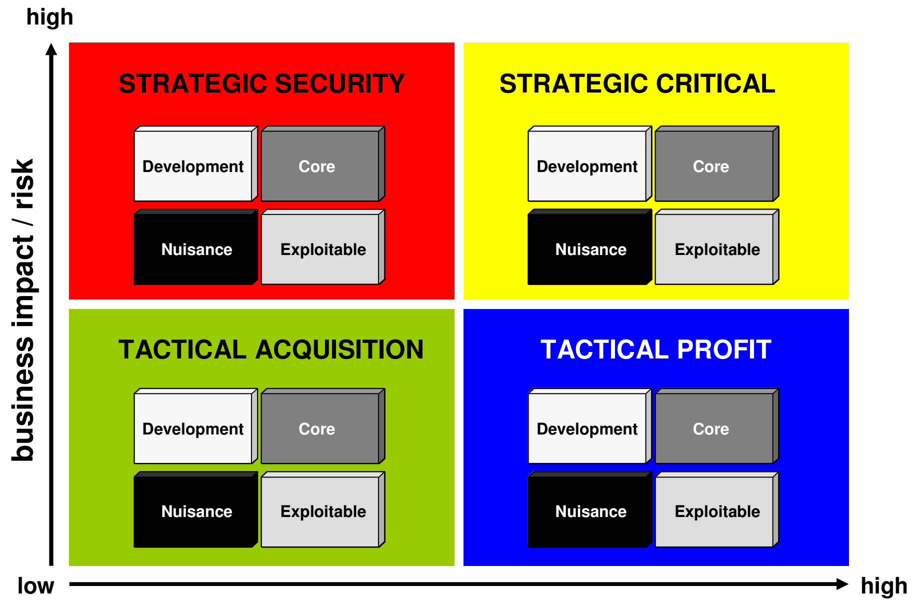
If your agency is viewed as being an **exploitable** account, the supplier may have a high volume of sales but the account is still regarded as unattractive. This may be due to low profitability, or other factors, such as the length of time it takes to get paid. Where suppliers seek to increase prices, you may wish to look for alternative suppliers or try to make the relationship more attractive by considering more efficient ways to do business.

If your agency is viewed as a **core** part of the supplier's business then in most cases it is possible to establish a rewarding business relationship in which both parties continually seek to add value. The supplier is generally keen to meet the buyer's requests, for example, responding to efficiency improvements or reducing the environmental impact of a procurement, and provide a high-level of service in order to retain the business.

See the full picture matrix

In order to understand the full picture you need to combine your findings from the Supply Positioning and Supplier Preferencing matrices. It is important to identify areas of potential risk. For example, if a service is one that you deem to be in the strategic critical quadrant, but your business is viewed by suppliers as 'nuisance' or 'exploitable', this creates a risk in supply. You may need to work to change suppliers' perceptions of you as a customer to increase their interest and move you to 'development'.

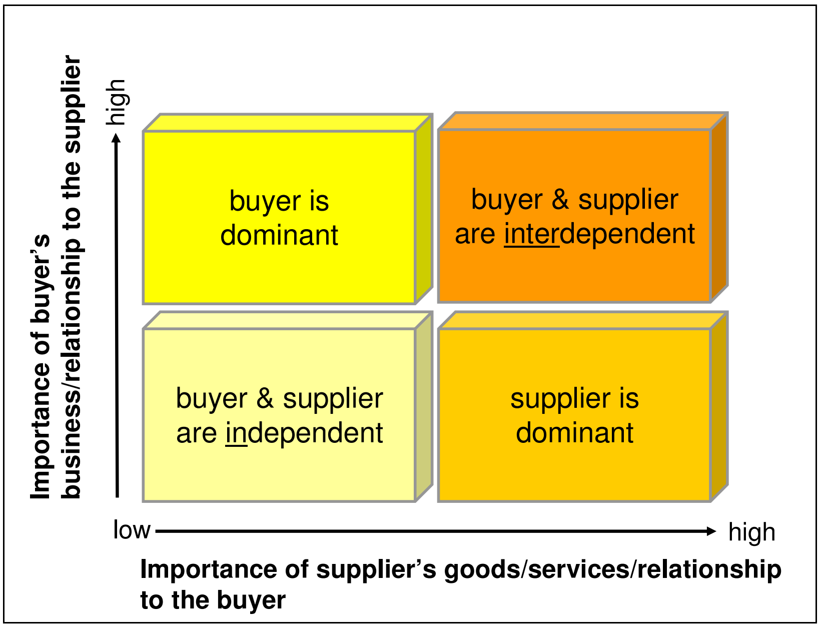
***Diagram*: Market management matrix**



Power and dependency

It can be important to assess the levels of power and dependency between your agency and individual suppliers. You need to be aware of situations where a supplier is highly dependent on your agency and vice versa. These can be high risk situations. If your agency is overly dependent upon a supplier you may be vulnerable to exploitation.

***Diagram*: Power & Dependency Matrix**[4]



Identify possible solutions

From your assessment of needs and market analysis you are now in a position to identify the range of solutions that could meet the needs and be fit for the purpose.

A simple example: internal stakeholders have expressed their needs as 20 printer/photocopies, 10 scanners and 5 faxes. Having done your analysis you may have found that the best solution will be 12 multifunctional devices, which although more expensive per unit will be cheaper over the whole-of-life, and perform faster and have a lower impact on the environment.

Environmental scan

Understanding the 'Big Picture' and the forces that operate in the wider environment is important. It helps:

- to ensure that what you are doing is aligned positively with the forces of change that are affecting our world. By taking advantage of change, you are much more likely to be successful than if your activities oppose it

[4] Developed by Cox and others in *Supply Chains, Markets and Power: Managing Buyer and Supplier Power Regimes*.

- avoid taking action that is condemned to failure from the outset, for reasons beyond your control
- break free of unconscious assumptions, and helps you quickly adapt to the realities of the new environment.

PESTEL Analysis

This tool allows you to scan your wider environment and identify external factors that could impact on your procurement.

PESTEL is also known as PEST, STEEPLE and SLEPT analysis.

PESTEL is a simple and useful tool to allow you to undertake a scan of your wider environment. PESTEL is a mnemonic standing for:

- **P**olitical
- **E**conomic
- **S**ocio/cultural/demographical
- **T**echnological
- **E**nvironmental
- **L**egal

Start by brainstorming each element of PESTEL. After the brainstorm think about what the findings mean for your procurement and identify factors that could impact positively and negatively. Then draw conclusions from this information that will inform the approach you will take.

Outcomes and appropriations

The golden rule of appropriations

Appropriations must only be used for the purpose for which they have been granted.

It is essential to link each procurement to the correct appropriation and SOI outcome.

In this way each agency can demonstrate how it is managing and performing against the government's investment.

For most agencies the nature and scope of its function together with its intended outcomes are summarised in its Statement of Intent (SOI). The SOI explains the actions that the agency will take to achieve its outcomes. It also provides a base against which the agency's actual performance will be assessed. The measures and standards applied evaluate what high-level strategic outcomes have been achieved as well as results against specific public policy and business objectives.

The SOI is aligned with the agency's annual appropriations from Parliament. Aligning these two sets of information facilitates reporting and accountability to Parliament for the use of public money. Rules about appropriations are contained in the Public Finance Act 1989 and other guidance issued by the Treasury.

Before initiating an approach to market it is important to estimate the total likely costs of the goods or services. Decide if the procurement is from the Departmental or Crown appropriations and whether it is capital expenditure (CAPEX) or operational expenditure (OPEX). This will dictate what type of financial approval is required and at what level.

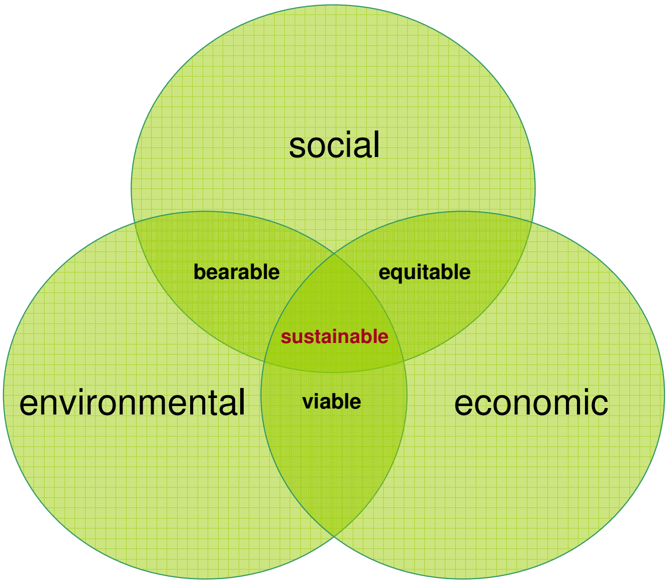
A financial approval in this amount must be obtained from:

- the correct appropriation
- an officer with sufficient delegated financial authority
- and sufficient funds remaining in the budget to cover the amount approved.

Sustainability

In essence, sustainability is about meeting the needs of today, without compromising the ability of future generations to meet their needs. We all operate within a social, environmental and economic context. These three components all impact on sustainability.

***Diagram*: triple bottom line of sustainability**



Issues that impact on sustainability include:

- climate change
- ozone depletion
- optimising use of natural resources
- minimise use of hazardous substances
- waste minimisation
- job creation
- health & safety
- equality
- fair pay for suppliers' staff
- economic regeneration
- build sustainable markets
- legal compliance
- public image protection and enhancement.

Proven benefits

Businesses that have adopted sustainable business practices have reported the following benefits:

- reduction in operating costs
- improved identification and management of risks
- created value through enhanced and positive customer/stakeholder response
- increased ability to attract and retain employees
- increased learning and innovation.

Questions for potential suppliers

You may want to ask potential suppliers how they deal with the following:

- environmental management systems
- employment practices
- corporate social responsibility practices
- approach to greenhouse gas emissions
- sustainability improvements already achieved
- approach to packaging

Sustainable procurement

Sustainable procurement means that when buying goods/services organisations will consider:

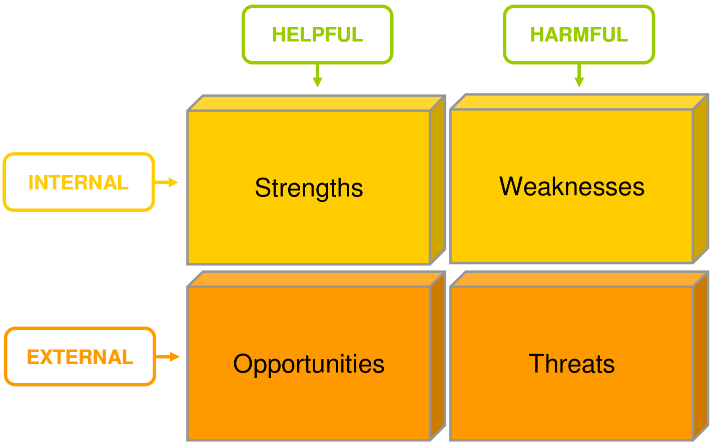
- strategies to avoid unnecessary consumption and manage demand
- minimising environmental impacts of the goods/services over the whole-of-life
- suppliers' socially responsible practices including compliance with legislative obligations to employees
- value for money over the whole-of-life, rather than just the initial cost.

Risk analysis

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 delay the procurement or delivery under the contract.

Formal risk analysis and risk management can help you to assess these risks and inform what actions to take to minimise disruptions. It will also help you to decide whether the strategies you could use to control risk are cost-effective. Whilst your agency will probably have its own risk management tool here is a simple explanation of the process.

***Diagram*: SWOT analysis**



SWOT Analysis assists:

- the identification of weaknesses and threats will inform your assessment of risk
- the identification of strengths and opportunities will inform solutions or approaches to managing the risks.

Strengths and **weaknesses** are generally internal to your organisation.

Opportunities and **threats** are generally external factors.

The following questions may help you with the SWOT analysis:

Strengths: • What advantages does your agency have? • What do you do better than anyone else? • What resources do you have access to? • What do stakeholders see as your strengths? • What factors mean that you 'get the result'?	**Weaknesses:** • What could you improve? • What should you avoid? • What are stakeholders likely to see as weaknesses? • What factors negatively impact on results?
Opportunities: • Where can you find good opportunities? • What are the interesting trends you are aware of? • Useful opportunities can come from such things as: ◦ changes in technology and markets on both a broad and narrow scale ◦ changes in government policy related to your field ◦ changes in social patterns, population profiles, lifestyle changes ◦ local events.	**Threats:** • What would happen if delivery of the goods/services failed? • What obstacles do you face? • What do suppliers do that you should be worried about? • Are stakeholders' needs changing? • Is changing technology threatening your position? • Do you have budget restrictions? • Could any of your weaknesses seriously threaten your results? • Do you have systems and procedures in place to identify failure early? • What risk is there to the agency's or the Minister's reputation? • Are there any imminent political, policy or legal changes that could threaten the procurement?

Risk rating

Once you have identified specific threats/risks undertake a risk rating. This means identifying, for each threat/risk, the likelihood or probability of it happening and the consequences or impacts if it did happen.

Your agency will probably have its own risk assessment methodology. However, for the purpose of explaining the process a common type of risk analysis framework is set out below.

Step 1: Look at the likelihood of the risk happening and place this on a scale ranging from 'rare' to 'almost certain'.

Step 2: Look at the consequences that will follow if the risk materialises and place on a scale ranging from 'negligible' to 'extreme'.

Step 3: Use these two ratings to plot the risk on the matrix below. Each risk will be identified by an overall risk rating ranging from green to red. You should focus on risks with red and amber ratings first. Identify action that will:

- Mitigate the likelihood of the risk happening.
- Minimise the consequences if the risk eventuates.

***Diagram*: Risk analysis framework**

LIKELIHOOD of risk happening

	Negligible	Low	Moderate	High	Extreme
Almost certain	amber	amber	red	red	red
Likely	yellow	amber	amber	red	red
Possible	yellow	yellow	amber	amber	red
Unlikely	green	yellow	yellow	amber	amber
Rare	green	green	yellow	yellow	amber

CONSEQUENCE if the risk happens

Likelihood	Consequence	Risk rating
rare	negligible	green
rare	low	green
unlikely	negligible	green
unlikely	low	yellow
rare	moderate	yellow
rare	high	yellow
unlikely	moderate	yellow
possible	negligible	yellow
possible	low	yellow
likely	negligible	yellow
rare	extreme	amber
unlikely	high	amber
possible	moderate	amber
possible	high	amber
likely	low	amber
likely	moderate	amber
almost certain	negligible	amber
almost certain	low	amber
unlikely	extreme	amber
possible	extreme	red
likely	high	red
likely	extreme	red
almost certain	moderate	red
almost certain	high	red
almost certain	extreme	red

Solutions options appraisal

Your identification of solutions may result in more than one possible solution. Where this happens carry out an options appraisal to determine which is the preferred solution. Develop you own matrix based on scored criteria as in the following example.

***Example*: Solutions options appraisal**

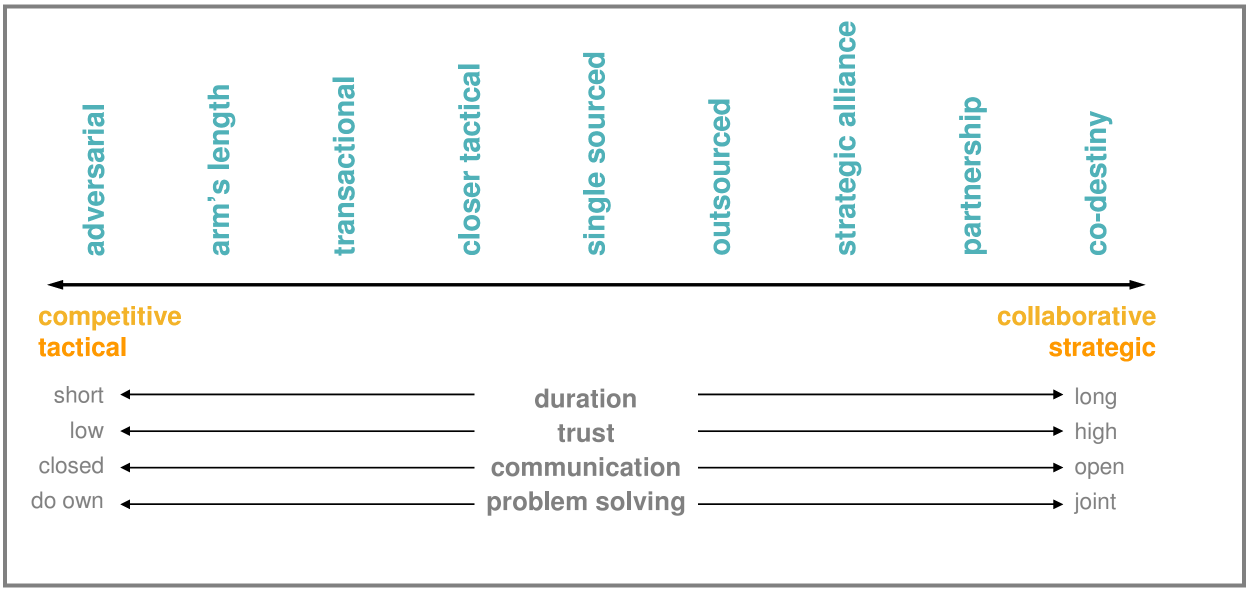
SCORES: poor = 1 low = 2 medium = 3 good = 4 excellent = 5

Solution	Price	Fit for purpose	Maintenance	Total	Ranking
Solution #1	Approx $350k *Score: Medium = 3*	Exact fit *Score: Excellent = 5*	Costly *Score: Low = 2*	**10**	2nd
Solution #2	Approx $300k *Score: Good = 4*	Good fit *Score: Good = 4*	Reasonable *Score: Medium = 3*	**11**	1st

Desired type of relationship with supplier

The relationship you develop with a supplier can range from competitive to collaborative. The diagram below shows the spectrum. A competitive relationship can be seen as 'win-lose'. This is where one party gains at the expense of the other. A collaborative relationship can be seen as 'win-win' where both parties benefit.

***Diagram*: the relationship spectrum**



Competitive approach

Buyers usually take a competitive approach to transactional relationships where some or all of the following are present:

- competitive bidding
- many suppliers and large supply market
- suppliers have little power
- typically for standard goods/services
- no need or benefit for high degree of trust between the parties
- the cost of switching to a new supplier is low.

Collaborative approach

Buyers usually take a collaborative approach to strategic relationships where some or all of the following are present:

- long term commitment where there is mutual trust, openness and transparency
- agreed shared interests and objectives
- relationship is one of equal partners
- agreement that there should be joint effort to eliminate waste and increase efficiencies and cost savings – both can benefit from seeking ways to add value.

Approach to market rationale

Procurement Policies and Rules

Unlike the private sector, public sector procurement is subject to higher levels of transparency. There are a range of government principles, rules, codes of conduct, policy and guidance that apply. In addition, each agency has its own code of conduct, procurement policy and procedures.

A starting point for any procurement is to check what policy, rules and procedures apply. In addition, each agency's procurement policy should set out when it is appropriate to, for example, go directly to a supplier or when the agency must advertise an open competitive tender on the Government Electronic Tender System (GETS).

Market Behaviours Strategy

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 and the range of solutions that are accessed. This is sometimes called 'market behaviours strategy' which aims to:

- identify the gap between current market behaviours and the desired future market behaviours – those that will better deliver against your procurement objectives
- identify the range of strategies you can use to influence the market and close the gap.

Procurement marketing: where you raise the suppliers' perceptions of the desirability of your agency as a 'favoured customer'. This may involve 'selling' the full range of benefits of supplying to your agency and/or the status of being associated with your agency.

Supplier development: offering to support, or assist with the development of a supplier or their goods/services. For example, openness to new innovative solutions and prototypes.

Partnership approach: either formally e.g. through a public private partnership arrangement, or informally through a close, collaborative approach which is mutually beneficial.

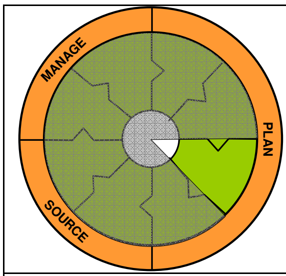
Financial incentives (share cost/price reduction through innovation) and risk-sharing arrangements.

Key government procurement polices & rules

- Standards of Integrity & Conduct *(SSC 2007)*
- Mandatory Rules for Procurement *(Cabinet 2006)*
- Government Procurement in NZ – Policy Guide for Purchasers *(MED 2007)*
- Procurement guidance for public entities *(OAG 2008)*
- Public sector purchases, grants and gifts: Managing funding arrangements with external parties *(OAG 2008)*
- Guidance on contracting with NGOs for services sought by the Crown *(Treasury 2009)*
- Guidance for Public Private Partnerships in NZ *(Treasury 2009)*

Key legislation

- Public Finance Act 1989
- Public Audit Act 2001
- Public Records Act 2005



Stage 3 – Specify requirements

Outcome

- You buy the right quality and quantity to be delivered at the right time and place for the right price.
- The intended results satisfy the needs.
- For a Request for Tender - the right solution (goods/services) is clearly articulated, or for a Request for Proposals the detailed public policy/business needs are clearly articulated.

Outputs

- Detailed specification of requirements.
- Specification endorsed by key stakeholders.

Key Tasks

<u>Prepare specification of requirements</u>

- From the high-level statement of needs develop the detailed scope.
- Consider cost and efficiency savings:
  - incorporate improvements from lessons learned
  - consider new technology
  - identify alternative delivery mechanisms and review for efficiency
  - amalgamate spend and decrease costs
- Identify mandatory and non-mandatory requirements.
- Identify timeline and key deliverable dates.
- Specify any sustainability requirements or preferences.

<u>Quality & Standards:</u>

- Specify quality standards and measures.
- Specify performance standards and measures.

<u>Good practice:</u>

- Have the draft specification of requirements checked and endorsed by key stakeholders.
- Check that the final specification of requirements:
  - addresses the targeted outcomes and public policy/business objectives
  - meets the agreed stakeholder needs
  - covers whole-of-life of the contract deliverables
- Ensure design of specification is not structured or divided to avoid the application of the Mandatory Rules of Procurement or any other government or agency procurement policy requirements.

Guide: Sustainability: Define Specifications & Invite Tenders (GPRP)

Points to consider

- Alternative/substitute goods/services on the market
- Aggregation is the coordination of procurement of similar goods/services
- Bundling is the aggregation of diverse, but related, goods/services
- Improvements from lessons learned
- New or emerging technology
- Alternative delivery mechanisms and efficiency savings
- Options which provide improved sustainability
- Seasonal fluctuations in demand
- Single supplier or lead supplier with sub-contractors
- Single contractor or panel of contractors
- Buy or lease
- 'Off-the-shelf' or design & build

Definition

At this stage, having defined the needs and researched suppliers and the market, it is now appropriate to clearly, concisely and articulately state the requirements.

Requirements can be written in various formats. Often the nature of the format will depend upon the type of procurement and the agency's own practice. Some popular formats include:

- Terms of reference
- Description of services
- Scope of work
- Service specification
- Specification of goods
- Statement of work
- Scope of requirements

Request for proposals or tenders?

Where the nature of the procurement is such that 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. This is where ***performance*** is the driver and can be clearly articulated. Suppliers can offer different solutions, so long as the performance meets your needs. In this scenario you are likely to be open to receiving innovative alternative solutions.

Where it is important to state how something needs to be done, then a ***conformance*** approach may be best. Suppliers must offer a solution that exactly matches your specification. In this situation you may opt to proceed to market by way of a Request for Tenders.

Writing concise requirements is a skill. Failure to get it right can be fatal to the procurement. If you can't describe what you want - you won't get what you need!

Key questions

The following questions may help in developing the specification of requirements:

- **Why** are we doing this?
- **What** results do we need to achieve?
- **How** will the goods/services be delivered?
- **How well** – what quality and standards apply?
- **How much** – what quantity or volume is required?
- **Where** will the goods/services be delivered?
- **When** will the goods/services be delivered – term of contract?
- **Who** will be involved in the delivery: supplier / contract manager etc?

Some key characteristic of good Requirements:

Characteristic	Explanation
Complete	The specification of requirements is contained in one document with no missing information. If the nature of the procurement requires more than one document, the documents must be clearly structured and linked with no repetition or overlap.
Unambiguous	Each requirement is concisely stated without recourse to technical jargon, acronyms (unless defined elsewhere in the document). It expresses objective facts, not subjective opinions. Vague language is avoided. Negative statements and compound statements are discouraged.
Consistent	Each requirement is consistent with all others and any external documents that are referenced.
Current	Each requirement is current and can, in some cases, be future focussed to meet planned or predicted future needs.
Feasible	Each requirement can be implemented within the constraints of the project including the budget.
Traceable	Each requirement can be traced back to a stated public policy/business/stakeholder need and is authoritatively documented.
Verifiable	The implementation of the requirement can be determined through one of four possible methods: inspection, demonstration, test or analysis.

The 5 Rights

"Not everything that counts can be counted, and not everything that can be counted counts"

Don't forget to test your specification of requirements against the 5 Rights:

- Right quality
- Right quantity
- Right place
- Right time
- Right price

Be SMART or event SMARTER

Objectives need to be measurable and meaningful, in other words ‘SMART’.

In public sector the mnemonic SMARTER is sometimes use:

- Specific
- Measurable
- Achievable
- Relevant
- Time-bound
- Ethical
- Recorded

Technical specifications

Where technical specifications are prescribed they must:

- be specified in terms of performance and functional requirements, rather than design or descriptive characteristics
- be based on international standards, where applicable, or national technical regulations recognised national standards or building codes
- not refer to a particular trademark, trade name, patent, design or brand. If there is no other way of describing the requirement and you refer to a trademark then you must include the words ‘or equivalent’
- be prepared without you seeking or accepting advice from someone who may have an interest in the procurement concerned.

Quality and standards

Performance standards and measures

Performance standards and measures are essential tools in procurement. There are usually called Key Performance Indicators (KPIs). When applied to the supply of goods/services they allow the buyer to clearly set the parameters for success. In applying the maxim ‘what gets measured gets done’ it is important not to lose sight of being able to measure what really matters.

The 10 Tests of a performance measure

It is important to plan what you expect and inspect what you plan. The 10 Tests can be a helpful check.

- **Truth test:** are we measuring what we set out to measure?
- **Focus test:** are we measuring only what we set out to measure, and not things that are out of scope?
- **Relevance test:** are we measuring the right thing?
- **Consistency test:** does the measure give a consistent result whenever and by whomever it is applied?
- **Access test:** can the data be easily accessed and understood?
- **Clarity test:** is there any ambiguity in interpreting the measure or the results?
- **‘So-what’ test:** will the result give us information that we can act upon?
- **Timeliness test:** will the data be available in time to affect action?
- **Cost test:** how much will it cost to measure and is this cost effective?
- **Gaming test:** what behaviours will the measure discourage and encourage? Is there a risk of unintended consequences?

Sustainability

Consider the following points when thinking about sustainability.

- strategies to avoid unnecessary consumption, improve efficiency and reduce waste
- minimise the environmental impact of the goods/services over the whole-of-life
- calculate value-for-money over whole-of-life – encompassing sustainability impacts and efficiencies
- consider the environmental credentials of the goods/services
- consider the suppliers' sustainability credentials
- consider the suppliers' approach to corporate social responsibility
- help foster a viable Australian and New Zealand market for sustainable products and services by supporting businesses and industry groups that demonstrate innovation in sustainability.

Deliverables

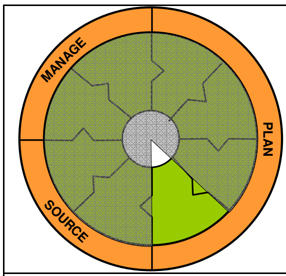
The specification of requirements will lead to the identification of a deliverable or set of deliverables. A deliverable is something that must be provided under the contract. It is a tangible output. One, or several, deliverables may result in an outcome. Examples of deliverables include: a specified product, a report, a training session or the provision of hardware and the installation of software.

Contract deliverables can be tied to milestones. A milestone is a measurement of progress toward an outcome. For a typical review project, milestones might be the completion of review and delivery of a draft report, then revision of draft report and delivery of the final report.

Where a contract adopts a milestone approach payment to the supplier can be tied to the successful completion of each milestone. This allows for implementation to be tracked and monitored against budget.

Sustainable deliverables

Sustainability considerations should be addressed as an important component of the overall procurement strategy and where appropriate detailed in the specification of requirements as deliverables. This is particularly the case if significant sustainability impacts have been identified during the business needs analysis.



Stage 4 – Plan approach to market and evaluation

Outcomes

- Right methodology informs optimal choices.
- Probity assurance manages risks.

Outputs

Procurement Plan:

- Approach to market strategy
- Evaluation methodology
- Realistic timetable.

Procurement Plan approved:

- Procurement Plan endorsed by the team
- Procurement Plan approved by project sponsor (or equivalent).

Key Tasks

Approach to market:

- Identify if early supplier engagement is required & nature of engagement e.g. Request for Information, supplier briefings/workshops/one-on-one meetings.
- Clarify whether or not alternative solutions/proposals by suppliers will be considered.
- Select appropriate process options:
  - open/closed approach to market
  - single/multi-stage approach to market
  - Identify RFx document/s required: e.g. ROI plus RFP.
- Identify how prospective suppliers will be made aware of the opportunity: GETS/newspaper adverts/industry publications.
- Where a departure from government or agency procurement policy is proposed provide specific compelling reason/s justifying this approach together with senior manager approval of exemption.

Evaluation methodology:

- Decide evaluation methodology:
  - Evaluation model: lowest price/weighted attribute etc
  - One/two envelope system
  - Develop Rating Scale to guide evaluation panel scoring
  - Determine panel decision making process: mathematical average/panel moderation
  - Identify the information required from suppliers: supplier details/response to requirements/pricing/ format etc
  - Identify any required additional steps: interview/presentation/site visit etc.
  - Identify any optional additional steps: reserve the right to interview/presentation/site visit etc

- State due diligence requirements.

Evaluation criteria:

- Establish evaluation criteria
- Prioritise and weight the evaluation criteria.

Due Diligence:

- Identify what due diligence checks are appropriate
- Identify when each due diligence check will occur e.g. reference checks obtained prior to interviews with short listed suppliers.

Contract:

- Identify appropriate type of contractual arrangement: contract for services / supply of goods agreement / service level agreement etc.
- Identify specific legal risks that may arise as a result of the nature of the goods/services.
- Identify any intellectual property rights arising from the nature of the goods/services.
- Identify appropriate terms and conditions of contract.

Process plan and timetable:

- Identify key tasks and milestones in the various stages of the approach to market through to award of contract
- Identify stages where approvals or sign-offs required and by whom
- Identify individuals to be appointed to the evaluation panel
- Obtain Conflict of Interest and Confidentiality agreements
- Assign key tasks to team members.
- Set a realistic timeline for:
  - approach to market and submission of offers
  - evaluation of offers
  - identification of preferred supplier
  - due diligence
  - negotiations
  - contract development
  - handover from previous contract or lead time for new supplier to start delivering.

Procurement Plan:

- Record all of the above in a Procurement Plan
- Obtain sign-off.

Tool:	Flow Chart Tender Process (GPRP)
Tool:	Check List Tender Process (GPRP)
Template:	Tender Advert (GPRP)
Quick Guide:	Response Timeframes (GPRP)
Quick Guide:	Due Diligence (GPRP)
Check List:	Due Diligence (GPRP)
Guide:	Guidelines for the Treatment of Intellectual Property Rights in government ICT contracts (SSC)
Guide:	Sustainability: Evaluate & Select Suppliers (GPRP)
Template:	Procurement Plan (GPRP)

How detailed should my strategy be?

The level of detail and effort in developing a procurement plan should be commensurate with the nature, scope, complexity and value of the procurement.

RFPs & RFQs?

See *page 21* for an explanation of these acronyms.

Contracting for risk

Understanding the level and types of risk to be managed by the supplier can assist in determining the most appropriate type of contract arrangement.

Developing the right contractual framework entails determining what the agency is really contracting for, e.g:

inputs, *where the agency is well placed to internally manage all the major risk*

outputs, *where the contractor is likely to be well placed to manage lower level—input to output—risks, but not the overall risk (that the outputs will not yield the required outcome)*

outcomes*, where the contractor is well placed to manage all the major risk.*

Approach to market strategy

This stage involves deciding an appropriate approach to market, evaluation methodology, process plan and realistic timetable. It brings together your analysis and thinking to date. It results in a procurement plan.

There are several process options that need to be clarified. These include:

- Pre-tender supplier engagement?
- Open or closed tender?
- Single stage or multi-stage tender?
- Type of RFx document required (RFQ, ROI/EOI/PQQ, RFP/RFT)?
- Advertising the opportunity (GETS, industry publications/websites)?
- Will alternative proposals be considered?

Single or multi-stage tender

Options for a single stage process are Request for Quote, Request for Tender or Request for Proposal. Options for a two stage tender are Registration of Interest, Expressions of Interest or Pre-Qualification Questionnaire (through which suppliers are short listed) followed by a Request for Tender or Request for Proposal from short listed suppliers.

The decision as to which is most appropriate will vary depending upon the nature, scope, value, level of risk and complexity of the procurement. In an open tender where a large number of responses are anticipated it may be preferable to opt for a two stage approach. This means short listing after stage one. It ensures that only qualifying or eligible suppliers are put to the time and expense of preparing full tenders or proposals.

Evaluation methodology

Develop an evaluation methodology that will ensure that the best supplier is selected for the right reasons and at a price that represents value-for-money over whole-of-life. This includes consideration of:

- One or two envelope system?
- Evaluation model: lowest price / weighted attribute etc?
- Rating Scale to guide evaluation panel scoring (e.g. scoring system 0 to 5 or 1 to 100)?
- Panel decision making process (mathematical average or moderation)?
- Price – how will this be assessed?
- What additional process will be required (interviews, presentations)?
- What optional process will be required (interviews, presentations)?

One or Two envelopes

Where you want to ensure that price does not influence the evaluation on the merits a two envelope process can be used. In this case the supplier submits its offer in two sealed envelopes:

Envelope 1: the response to the requirements

Envelope 2: all pricing information.

It is essential that no pricing information is contained in the first envelope or seen by the evaluation panel before the evaluation and scoring on the merits is complete. Only once the scoring is completed should the pricing information be disclosed to the evaluation panel.

Evaluation model

There are numerous evaluation models available. The most commonly used[5] are:

- Lowest price
- Simple score
- Weighted-attribute (weighted score)
- Target price
- Brook's Law

It will depend on the nature, scope, value, level of risk and complexity of each procurement as to which methodology is most suitable. Here is a short description of each.

1. Lowest price

This is the most basic methodology also known as 'lowest-price conforming'. Offers are evaluated on the merits without price being disclosed to the panel. Only those suppliers who are clearly able to fully deliver against the requirements are short listed.

The assessment is made on a strict selection of only those offers which meet all prerequisite requirements. Start by determining which offers meet the requirements and are eligible to be selected. Look at the total price for each offer. The lowest priced eligible (conforming) offer is ranked first.

This methodology is appropriate if any additional quality, over and above the prerequisite requirements, is not deemed important – that is, it does not offer greater value for money.

Application

Use for simple procurements if the strongest emphasis is on price and all of the criteria have the same importance. It is usually more appropriate for procurement of goods.

This method is not recommended for complex procurements as it does not consider the relative importance of the criteria and the wider aspects of value for money.

2. Simple Score

This is a basic methodology which can be used if all criteria have roughly the same degree of importance. Agree a Rating Scale and score each offer against the criteria. Add the total scores for each offer. The highest scored offer is ranked first.

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[5] Another model, although less common, is the **Price Quality Formula** used by New Zealand Transport Agency and described in its *Procurement Manual for activities funded through the National Land Transport Programme* (as amended November 2009). For more information on how to use this model go to www.nzta.govt.nz

Application

Use for simple procurements where each criterion has roughly the same degree of importance.

3. Weighted-attribute (weighted score)

This is the most common methodology used in public sector procurement. It is used when criteria have different levels of importance.

Start by ranking the criteria in order of importance then decide a weighting for each. This is usually a % with the total weightings for all criteria adding to 100%. Agree a Rating Scale and score each offer against the criteria to obtain raw scores. Apply the weightings to the raw scores to obtain the weighted scores. Add the total weighted scores for each offer. The offer with the highest total weighted score is ranked first.

***Example*: weighted attribute model**

Criteria	Weighting	Raw Score (out of 10)	Weighted score
Criterion #1	40%	8	3.2
Criterion #2	35%	7	2.5
Criterion #3	25%	9	2.3
Total weighted score (out of 10)			**8**

Some methodologies include price as a weighted criterion. Others do not have price as a weighted criterion and treat the evaluation of price separately.

Options where price is not a weighted criterion

Where price is not a weighted criterion price information is usually kept from the evaluation panel until after the evaluation on the merits and scoring is finalised. A process to assess value-for-money is then undertaken.

a. Short listed mean/average price (two envelope approach)

This model involves reviewing the weighted scores and short listing only those offers that are clearly able to fully deliver against the requirements. Then disclose the price for the shortlisted offers and calculate the mean/average price.

Initiate negotiations with the supplier who has the highest score on the merits with the aim of achieving agreement at the mean/average price or within a pre-set % of that price (as determined by the team). If no agreement on price is reached the second ranked supplier is invited to negotiate with the same objective of reaching agreement at the mean/average price or within a % of the price. The process continues until a satisfactory agreement is negotiated. A supplier, once rejected from the process, should not be recalled for further negotiations.

***Example*: median price negotiation range**

Short listed supplier	Total weighted score	Price	Order or negotiation
A	7	$135,000	2nd (if not successful with B)
B	9	$140,000	1st
C	6	$100,000	3rd (if not successful with B & A)
	total	$375,000	
	median price	**$125,000**	**± 10% (negotiation range = $112,500 to $137,500)**

b. Cost-effectiveness ratio (two envelope approach)

This method is purely mathematically based. The total cost of the offer (cost dimension) is divided by the total of the total weighted score (effectiveness dimension). The offer with the lowest cost-effectiveness ratio is selected as the best value for money.

Example: (in this example the most cost effective offer is from supplier A)

Supplier	Total weighted Score	Price	Cost-effectiveness Ratio
A	9	$100,000	1 : 1.1
B	9	$150,000	1 : 1.6
C	9	$200,000	1 : 2.2
D	5	$100,000	1 : 2.0

c. Value-add price analysis (two envelope approach)

This model involves short listing (from the total weighted scores on the merits) only those suppliers who are clearly able to fully deliver against the requirements. Disclose the price for all shortlisted offers. The evaluation panel is then invited to identify differences between the offers that represent value-add and compare the relative prices. This discussion focuses on whether items of value-add are worth the additional cost. The panel is invited to reach a consensus on which short listed offer represents the best value for money.

Price is a weighted criterion

If price is a weighted criterion it is important to carry out some level of sensitivity analysis to ensure that the level of weighting is appropriate. Also, consideration should be given to the risk of unreasonable and unrealistically low priced offers achieving the highest overall weighted score where it is clear that the goods/services cannot be delivered within the quoted price and the offer has been structured to take advantage of the weighted price approach.

Application

Use for more complex procurements where criteria have different levels of importance. It is an effective methodology when seeking to balance the trade-offs between price and quality. It can be used for the procurement of both goods and services.

4. Target Price (one envelope approach)

The target-price model is useful when it is genuinely difficult to define the scope of the work in the specification of requirements or in situations where the budget that is available is the main constraint. In such instances, the agency would be likely to receive a range of offers with prices that are not easily compared, and that may exceed the available budget. The solution is to make the suppliers aware of the available budget (the ‘target price’) in the RFx as a guide for defining the scope of the goods/services, and then inviting suppliers to specify what they can deliver for that price. The focus of the evaluation is then on the quality and quantity of the goods/services to be provided rather than price.

Application

Suitable where it is genuinely difficult to define the scope of the requirements and there is a fixed budget.

5. Brook's Law (two envelope approach)

The Brooks' Law model is useful where quality is the most important factor. Offers are evaluated on the merits without price being disclosed to the panel. Only those suppliers who are clearly able to fully deliver against the requirements are short listed.

The highest ranked supplier is invited to negotiate. At this point the price for this supplier is disclosed. All other prices remain unopened. If the negotiation is successful the supplier is awarded the contract.

If no agreement is reached, the second ranked supplier is invited to negotiate. At this point the price for that supplier is disclosed. All other prices remain unopened. The process continues until a satisfactory agreement is negotiated. A supplier, once rejected, should not be recalled for further negotiations.

Application

This model can be suitable where the strongest emphasis is on quality rather than price.

Rating Scale

A Rating Scale sets out the range of scores used by the evaluation panel in scoring against criteria. It is important to understand the different types of Rating Scales and decide which is suitable in different procurement scenarios. Rating Scales provide a common understanding for the evaluation panel as well as consistency of scoring.

Options for scoring

The *Template: Evaluation Panel Instructions* (www.procurement.govt.nz reference: For Agencies / Tool Kit / Evaluation) contains three different examples of Rating Scales. You can choose one of these or use a different approach developed by your agency or the evaluation team.

Example Rating Scale [This example is based on the UK Office of Government Commerce rating scale]

Rating	Definition	Score
Excellent	Exceeds the requirement. Exceptional demonstration by the supplier of the relevant ability, understanding, experience, skills, resource and quality measures required to provide the goods / services. Response identifies factors that will offer potential added value, with supporting evidence.	**5**
Good	Satisfies the requirement with minor additional benefits. Above average demonstration by the supplier of the relevant ability, understanding, experience, skills, resource and quality measures required to provide the goods / services. Response identifies factors that will offer potential added value, with supporting evidence.	**4**
Acceptable	Satisfies the requirement. Demonstration by the supplier of the relevant ability, understanding, experience, skills, resource, and quality measures required to provide the goods / services, with supporting evidence.	**3**
Minor Reservations	Satisfies the requirement with minor reservations. Some minor reservations of the supplier's relevant ability, understanding, experience, skills, resource and quality measures required to provide the goods / services, with little or no supporting evidence.	**2**
Serious Reservations	Satisfies the requirement with major reservations. Considerable reservations of the supplier's relevant ability, understanding, experience, skills, resource and quality measures required to provide the goods / services, with little or no supporting evidence.	**1**
Unacceptable	Does not meet the requirement. Does not comply and/or insufficient information provided to demonstrate that the supplier has the ability, understanding, experience, skills, resource & quality measures required to provide the goods / services, with little or no supporting evidence.	**0**

Panel Decision Making Process

This step involves identifying what information is made available to the panel, and at what time and how the panel will reach its final decision. Panel decisions should aim to be based on consensus.

Scoring

It is normal to require each member of the evaluation panel to carry out their own initial evaluation of offers and scoring according to the Rating Scale. The evaluation panel chair can request that scores are submitted prior to the evaluation panel meeting. The chair can collate on an Excel spreadsheet and present to total weighted scores to the panel at the evaluation meeting.

There are a number of ways that final scores can be reached including:

- Mathematical average
- Panel moderation

Discussing individual scores and reaching a team consensus through a modification process is preferable to mathematical averaging, because it allows a score to be agreed based on consideration of all the evaluation panel members' assessments, observations and opinions.

1. Mathematical average

Averaging scores is a mathematical approach. Common types of averaging are 'mean', 'median' and 'mode'.

Mean average

The 'mean' is the 'average', where you add up all the numbers and then divide the total by the number of numbers. For example:

Scores: 13, 18, 13, 14, 13, 16, 14, 21, 13

To calculate the mean: (13 + 18 + 13 + 14 + 13 + 16 + 14 + 21 + 13) ÷ 9 **= 15**

Median average

The 'median' is the 'middle' value in the list of numbers. To find the median, your numbers have to be listed in numerical order, so you may have to rewrite your list first. Using the same scores as the above exercise as an example:

Scores in numerical order: 13, 13, 13, 13, 14, 14, 16, 18, 21

To calculate the median: there are nine numbers in the list, so the middle one will be (9 + 1) ÷ 2 = 10 ÷ 2 = 5th number. So the median **= 14**

Mode average

The 'mode' is the value that occurs most often. If no number is repeated, then there is no mode for the list. Using the same scores as the above exercise as an example:

Scores: 13, 13, 13, 13, 14, 14, 16, 18, 21

To calculate the mode: add how many times a number appears. 13 = 4 times, 14 = 2 times, 16, 18 and 21 each = 1 time. number repeated most **= 13**

From the above examples the different results for the same range of scores are:

Mean = 15
Median = 14
Mode = 13

2. Panel moderation

Panel moderation involves the evaluation panel reviewing the initial individual scores, discussing the individual and collective findings and coming to a consensus as to the appropriate moderated scores to be awarded. Only slight adjustments to the original scoring profile are allowed. Moderation involves comparing scores for individual criteria as well as comparing scores across all offers.

The benefits include having a wider debate as to the relative strengths and weaknesses of each offer; an opportunity for panel members to explain their rationale in awarding specific scores and a common agreement on what is an appropriate score taking into account the views of all panel members. The disadvantage is that the process takes longer.

Price

You will already have determined whether or not price is submitted separately to the response on the merits. Where it is separate, price is withheld from the panel until the evaluation on the merits and scoring has been completed. Depending upon the nature, scope, value, level of risk and complexity of the procurement the team may wish to appoint a financial specialist to separately analyse the price of all qualifying or eligible offers and present a report to the evaluation panel providing a comparative analysis.

Financial comparisons for competitive bidding usually consider issues such as:

- whole-of-life costs
- capital related costs
- financing / leasing options
- costs of contracting out
- costs of transitioning to a new supplier.

An offer that is priced very low in comparison with others should be scrutinised to determine:

- whether all costs have been included
- whether there is uncertainty in the response to the requirements that involve high-risk
- whether the price is ‘real’ and sustainable
- whether a new or innovative solution has been proposed which results in the dramatically different price
- whether the offer includes dumped or subsidised imports that would compete unfairly with domestic products and that could be subject to an application for trade remedies under the Dumping and Countervailing Duties Act 1988.

If there are any concerns about the price you should seek clarification from the supplier. However, the supplier must not be allowed to adjust their price in the process, other than where the quoted elements of the price have been wrongly added.

Adjustments to presentation of pricing information

It may be necessary to make adjustments to the way pricing information in offers is presented to allow prices to be evaluated on a like-for-like basis. Such adjustments must only be made for the purpose of the evaluation only. For example, an adjustment may be needed to be able to demonstrate:

- Firm and variable pricing components

- Inclusion or exclusion of extras
- Discounts for early payment.

Required additional information

Depending upon the nature of the procurement the team may want to decide in advance what additional information the panel should to take into account before reaching its decision. This could include:

- Presentation by short listed suppliers
- Site visit to the short listed supplier's premises
- Site visit to the short listed supplier's clients' premises
- Examination or testing of products or samples from short listed suppliers.

Optional additional information

The team may decide that the panel should have the option of requesting additional information before reaching its decision. This could include additional process following the initial evaluation on the merits based on the written offers:

- Reference checks for short listed suppliers where specific clarifications or issues, as determined by the panel, are tested
- Interviews with short listed suppliers where specific clarifications or issues, as determined by the panel, are tested.

Evaluation criteria

A criterion is a standard or test by which something may be compared and judged. To ensure that you ask the right questions you must develop a robust set of appropriate evaluation criteria. In the selection of suppliers criteria are used to compare the merits of individual offers and determine which best meets the requirements and provides value for money over the whole-of-life of the goods/services.

Before developing your criteria envisage what successful delivery of the contract will look like. Then identify the specific attributes of the goods/services and characteristics and qualities of the supplier that will be needed to achieve that success.

Value-for-money

The principle of value for money when procuring goods or services does not necessarily mean selecting the lowest price, but rather the best possible outcome for the total cost of ownership (or whole-of-life cost).

It allows the relative benefits of different offers to be measured by taking into account all costs including, e.g.

- purchase price & upfront costs
- installation & commissioning costs
- training
- servicing and maintenance
- improved quality in delivery
- improved efficiencies in delivery
- sustainability savings e.g. lower fuel consumption
- decommissioning and disposal costs.

It represents the optimum combination of total cost of ownership and quality (or fitness for purpose) to meet the buyer's requirements.

Types of criteria

Broadly there are three types of criteria that can be applied to evaluating offers. These are:

- Mandatory process conditions
- Preconditions
- Qualitative criteria / evaluation on the merits

It is for the team to determine which types of criteria are appropriate given the nature, scope, value, level of risk and complexity of the procurement and whether the tender is single or multi-stage.

Mandatory process conditions

Mandatory process conditions, sometimes called 'conditions of tender' or 'tender rules' are the requirements or rules that the buyer sets out in the tender document regarding the procedure for lodging an offer. They are scored as 'pass/fail' or 'yes/no'. Each offer must conform to these conditions to be eligible for further evaluation. An offer that fails to meet these conditions can be rejected.

It is important to highlight such conditions and provide clear guidance for suppliers on what they must do to meet them. Mandatory conditions could include such items as:

- hard copy offer received (no fax or e-mail offers being acceptable)
- offer received on time
- offer signed
- supplier name, address and contact details included
- correct documents submitted e.g. response on the merits, plus CVs plus separate sealed envelope containing pricing details
- correct number of copies included
- electronic copy of offer attached in correct format
- signed declaration of conflict of interest included.

An agency may decide that failure to meet all conditions results in an offer being rejected. Sometimes, however a degree of discretion is allowed for minor failures such as provision of five copies of the offer instead of six. This can be acceptable if the breach is minor, can quickly be rectified and the nature of the breach does not afford the supplier unfair advantage.

The buyer's tender documents must address whether or not late offers will be received. The general rule is that late offers should only be accepted in exceptional circumstances and only if:

- the agency can be certain that there is no possibility of unfair advantage
- the late supplier has no knowledge of other offers
- the late offer conforms in all other respects to the mandatory process conditions
- the lateness of the offer does not unduly delay the evaluation process.

Preconditions

Preconditions, sometimes called pre-qualifying criteria, are prerequisite requirements that must be met. Again they are scored as 'pass/fail' or 'yes/no'. Failure to meet a precondition will result in the offer being rejected. Preconditions should be used sparingly and only for critical requirements that are essential to the deliverables.

Be careful not to limit market competition through unnecessary or unduly onerous preconditions. Where there is a risk of this happening you could require instead that a condition is met now (at the time of submitting the tender), or will be met prior to commencement of the contract e.g. obtaining professional indemnity insurance.

In setting a precondition you must be explicit e.g. it is not sufficient to require that the supplier is 'fully accredited'. You should specify what accreditation/s you require e.g. 'is registered builder accredited for solar installations.'

Restrict the number of preconditions to only those that are essential. Although what is essential will vary with the nature of the procurement e.g. IT systems development where there may be many systems requirements that are of a mandatory nature.

E.G.

Examples of preconditions

- Laptop must have a minimum of 8GB data storage.
- Supplier must hold current New Zealand Law Society practicing certificate.
- Supplier must have current professional indemnity insurance up to NZ$5M.
- Supplier must hold current ISO 9001 Certification.
- Acceptance of the buyer's terms and conditions of contract.

The precondition should be stated in such a way that an assessment can quickly determine whether the offer 'meets' or 'does not meet' each precondition. If the offer only partially meets a precondition it is usually deemed not to meet that precondition. Failure to meet one precondition will result in the offer being rejected. In this case it does not proceed to the next stage of the evaluation.

Qualitative criteria

Qualitative criteria assess the merits of each offer. It is sometimes called 'non-mandatory criteria' or 'technical merits'. When price is not included it can sometimes be called 'non-price attributes'. Offers which meet all mandatory process conditions and preconditions (if applicable) become eligible to be scored against the qualitative criteria.

Where possible restrict the number of criteria to what is reasonable – both in terms of what you are asking suppliers to respond to and the evaluation panel members to assess e.g. for a simple tender where the goods/services are easy to describe, no more than six criteria.

Qualitative criteria usually include:

- technical merit (or fit for purpose)
- capability (of the supplier to deliver)
- value for money (based on whole-of-life cost)
- financial viability and risk assessment.

Examples of qualitative criteria include:

1. **Technical merit - fit for purpose**
   - Degree to which goods/services meet or exceed requirements
   - Quality of goods/service
   - Degree of innovation
   - Extent of risk.

2. **Capability - supplier's ability to deliver**
   - Size, structure and type of organisation, number of employees, annual turnover.
   - Organisation's track record in delivering similar goods/services.
   - Relevant experience and qualifications of key personnel and/or key sub-contractors.
   - Understanding of the requirements – methodology and approach to delivery.
   - IT capabilities, financial and project management systems and administrative support.
   - Identification and management of risk in delivery.
   - Quality system/processes.
   - Industry or quality awards.
   - Current commitments and availability to deliver on time.
   - Willingness to co-operate e.g. degree of acceptance of buyer's conditions of contract.
   - Relevant licences and accreditations (you must be specific).
   - Ability to offer products or services with low environmental impact or ability to reduce over life of contract e.g. carbon impact, waste reduction, avoiding hazardous substances.
   - Approach to corporate social responsibility.
3. **Value for money – total cost of ownership**
   - Purchase price based on fee rates and/or price per unit.
   - Total cost over the life of the goods/service.
   - Fixed or variable pricing.
   - Quantifiable financial benefits e.g. lower fuel consumption.
   - Financial impact of risk in innovation.

Prioritise evaluation criteria

It is important to identify the relative importance of each criterion. This prioritisation will often depend on the nature of your procurement. Prioritisation can be done by way of a simple ranking with the most important criterion ranked first, then listing the remaining in order of decreasing importance. Another method is having decided on the ranking to then assign a percentage weighting to each criterion.

Prioritisation Matrix

To help prioritise your criteria you could use a simple Prioritisation Matrix. Start by creating a table as per the example below with each criteria being identified as a letter in alphabetical order.

- Insert the criteria into the matrix twice – one in the horizontal rows and once in the vertical columns.
- Take each pairing in turn. Ask the team to determine which of the two is most important in this procurement e.g. compare criteria 'A' against 'B'. If the team decide that 'B' is most important then insert the letter 'B' in the box.
- Count the total number of 'A's, 'B's 'C's etc.
- The letter with the highest count is the most important and the letter with the lowest count is the least important.
- Prioritise as 1st, 2nd, 3rd etc on the basis of the highest count so that each criteria is ranked against the other.

- If you want you can then ask the panel to discuss and agree weightings.

***Example*: Simple Prioritisation Matrix**

Evaluation Criteria		Evaluation Criteria			
			Criterion #1	Criterion #2	Criterion #3
			A		
Evaluation Criteria	Criterion #1	A		B	
	Criterion #2	B	B		C
	Criterion #3	C	C	B	
	Criterion #4	D	D	D	D

SCORES	PRIORITISATION	WEIGHTING
A = 0	4th	10%
B = 2	2nd	30%
C = 1	3rd	25%
D = 3	1st	35%

Due diligence

It is helpful to explore at this stage the nature and scope of due diligence that may be required. These include:

- reference checks
- Companies Office checks
- analysis of audited accounts
- credit checks
- production of appropriate and valid insurance certificate
- compliance certificates / accreditations
- police check or security clearance.

Verification matrix

A verification matrix will help you see if you have asked for, and will be able to obtain, all relevant information in order to satisfy the panel that the preferred supplier has the capacity and capability to deliver. The verification matrix shows how each criterion will be verified. For example evidence of the supplier's ability to deliver should be narrated in the written offer and could be verified through further reference checking and a site visit to the supplier's place of work.

Due diligence should be designed to test the supplier's ability to deliver not only now, but throughout the life of the contract.

***Example*: Verification Matrix**

Evaluation & due diligence options	Criteria		
	Fit for purpose	**Ability to deliver**	**Value for money**
Written offer / tender documents	✓	✓	✓
Buyer clarifications	✓	✓	✓
Reference checks	✓	✓	✓
Interview	✓	✓	
Presentation	✓	✓	
Site visit		✓	
Client site visit	✓	✓	✓
Product testing	✓		
Audited accounts		✓	✓
Credit check		✓	
Companies office check		✓	
Accepts contract T&Cs		✓	
Police / security check		✓	

Type of contract

Decide the type of contract that will best suit the nature of the procurement. It is usual to seek legal advice at this stage. Options could include, for example, contract for services, service level agreement or supply agreement for goods. Your agency may be able to use the Government Model Contract templates or already have an appropriate contract template that can be used, or your legal adviser may need to draft a bespoke contract. Check if it may be appropriate to use an industry specific contract, for example Institute of Professional Engineering NZ (IPENZ) Conditions of Contract for Consultancy Services.

There are two aspects to consider when choosing a contract form:

- Management of legal risk
- Control of delivery and costs

It is good practice to attach a copy of the intended contract to the RFx at the time of advertising the opportunity. It may be a condition of your tender that suppliers state whether or not, if successful, they would be prepared to be bound by the terms and conditions of the contract.

Timetable

The next task is to develop a realistic timetable for the procurement process. This involves identifying each step in the process, assigning responsibilities, ensuring sign-offs and approvals are built in and plenty of time is allowed. It is good practice to include an excerpt from your timeline in the RFx so that suppliers have an indication of when offers will be evaluated and when they may expect to know the outcome. Don't underestimate how long the overall process will take.

Response timeframes must be reasonable

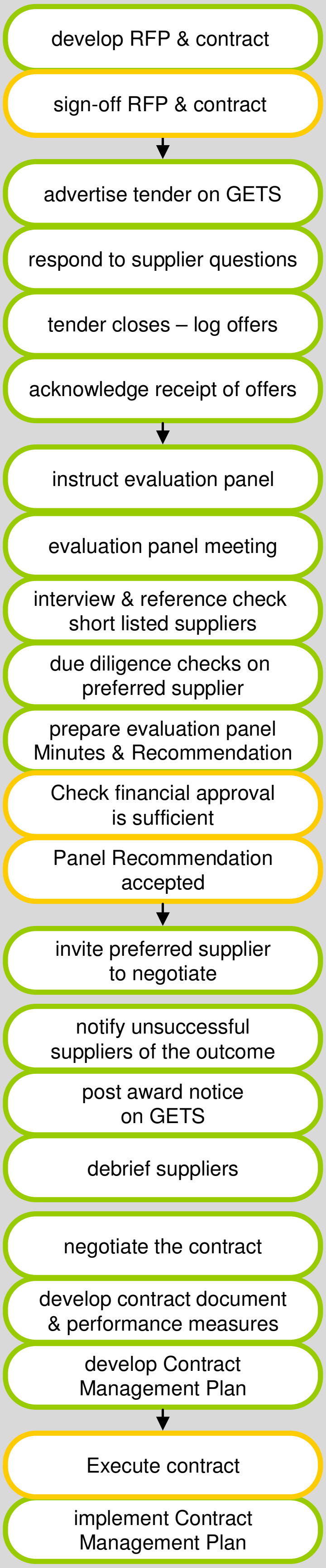
Suppliers must be given a reasonable timeframe to complete the required tasks and respond to tender opportunities, whether the tender is open or closed. If the Mandatory Rules for Procurement apply the minimum period is ten working days. For most procurements, however, this would be unrealistic. In your planning, consider how long it will take a supplier to:

- obtain the full tender documentation
- read and analyse the documents
- seek clarification, if required
- prepare pricing information
- develop and submit a responsive tender, and
- arrange for the tender to be delivered on time.

You should also consider the nature of the procurement activity and the circumstances of the approach to market, including:

- the goods or services you're purchasing
- the procurement's maximum estimated value over its lifespan
- the risks and their impacts on your agency's business
- how simple it is to define the deliverables
- the complexity of the procurement activity
- how much you need to engage with suppliers (you might need supplier briefings for unique or novel purchases)
- how much clarification suppliers might need, and
- the amount of information and level of detail the suppliers need to provide.

Example tender flow chart:



Process plan and timeline

Having decided the approach to market strategy, evaluation methodology, due diligence requirements, timetable and type of contract, all of this information should be recorded in a procurement plan. The procurement plan is a critical internal planning and control document for the management and conduct of the procurement.

Include in the procurement plan a well supported and logical submission explaining how the approach will best satisfy the procurement objectives. The level of effort in developing the procurement plan and detail contained in the plan should be commensurate with the nature, scope, value, level of risk and complexity of the procurement.

Probity

The procurement plan supports due process, robust decision making, value for money and provides for the development of a set of documents that record key information and decisions.

Although not normally released to suppliers, the procurement plan may be discoverable under the Official Information Act 1982. Following the procurement the plan and all key documents must be securely stored in compliance with the Public Records Act 2005.

Approval of procurement plan

It is good practice to have the procurement plan endorsed by the team and approved by an independent senior officer prior to making the approach to market. This provides probity in the process and reduces the risk of any accusation that the evaluation was designed to favour or prejudice a specific supplier.

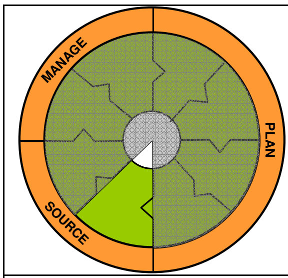
New Zealand business participation

It is important to ensure that, wherever possible, opportunities are given to New Zealand businesses to compete. This is especially the case with small to medium sized enterprises. Although agencies cannot favour New Zealand suppliers they must provide an even playing field and endeavour to ensure that local businesses and industry are given a full, fair and reasonable opportunity to compete for government opportunities.

Exclusions and exceptions

Whenever it is necessary to resort to a procurement procedure that is an exclusion or exemption to the Mandatory Rules for Procurement you should make and keep a record of the decision giving specific justification for the approach.

If your proposed approach proposes a departure from Government or your agency's own procurement policy you should seek a formal exemption from an independent senior manager. The exemption should record the specific reasons justifying the approach and must be approved before initiating any approach to the market.



Stage 5 – Approach market and select supplier

Outcomes

- Right suppliers submit quality offers.
- Best supplier selected for right reasons.

Outputs

- Record of evaluation of offers and panel recommendation of preferred supplier.
- Relevant senior manager acceptance of panel recommendation and approval to proceed to contract.

Key Tasks

- Initiate approach to market e.g. publish RFx on GETS.
- Supplier briefings, if appropriate.
- Respond to supplier questions seeking clarification.
- Publish additional information/answers to supplier questions, but keep answers that relate to commercially sensitive information from any supplier confidential.
- When tender closes two people open, date stamp, record details in tender log and check each offer meets all process requirements e.g. correct number of copies (unless you are using an e-tender system which automates these processes).
- Securely store offers.
- Contact suppliers and acknowledge receipt of offers.
- Check suppliers' conflict of interest declarations.
- Prepare instructions for evaluation panel.
- Brief or provide training to the panel, if required.
- Check conflict of interest declarations for the panel now that the suppliers are known.
- Convene panel and evaluate offers in accordance with the evaluation methodology.
- Identify whole-of-life costs and evaluate value for money.
- Be alert to any signs of bid-rigging or collusion amongst suppliers.
- Implement further process e.g. short list and request full tenders/proposals.
- Identify preferred supplier.
- Undertake due diligence.
- Prepare evaluation panel minutes and recommendation.
- Check price is within approved budget. If not seek additional financial authority.
- Present recommendation to independent senior officer for acceptance.
- Complete any outstanding due diligence.
- Write to the preferred supplier indicating points for negotiation.
- Write to unsuccessful suppliers advising that they have not been short listed.
- Retain all records relating to the procurement in a secure document management system.

	**Template:**	Log: Supplier Questions (GPRP)
	Template:	Log: Tenders Received (GPRP)
	Template:	Letter: Receipt of Tenders (GPRP)
	Template:	Letter: Unsuccessful Suppliers – late offers (GPRP)
	Guidance:	Guide for evaluation panel chair (GPRP)
	Template:	Evaluation Panel Instructions (GPRP)
	Template:	Tender Criteria Evaluation (GPRP)
	Template:	Evaluation of Mandatory Conditions (GPRP)
	Check List:	Due Diligence (GPRP)
	Template:	Evaluation Panel Minutes (GPRP)
	Template:	Evaluation Panel Recommendation (GPRP) (coming soon)
	Template:	Letter: Short Listed Suppliers (GPRP)
	Template:	Letter: Preferred Supplier (Short Form) (GPRP)
	Template:	Letter: Preferred Supplier (Long Form) (GPRP)
	Template:	Letter: Unsuccessful Suppliers (GPRP)
	Guidance:	on record keeping and the Public Records Act 2005 www.archives.govt.nz/advice
	Guidance:	Guidelines for procurers – How to recognise and deter bid rigging (Commerce Commission)

Supplier selection

Suppliers must be treated fairly, impartially and equitably at all stages in the procurement process. This means that ethical standards of behaviour must be demonstrated by all people involved in the procurement at all stages in the procurement.

Supplier selection must be based on the process and methodology set out in the procurement plan. You should not deviate from the plan as this can affect the integrity of your process and may result in a legal challenge. If you must change any aspect of the process or methodology you are obliged to notify all potential suppliers and give them sufficient time to respond to the change being made. What is sufficient will depend on the nature of the change.

When implementing the procurement plan here are some key points to remember:

- Each offer must be carefully considered, on an equal basis, against the published evaluation criteria. Your process must follow the approach and methodology set out in the procurement plan and reflected in the RFx.
- The evaluation panel must determine the best supplier based on the information provided by suppliers in their offer. The evaluation should take into account capability, capacity and value for money over the whole-of-life of the procurement. Due diligence should be used to verify that the preferred supplier has the capacity and capability to successfully deliver against the specified requirements.
- Clear, succinct and comprehensive notes are to be taken of all evaluation panel discussions and findings. You should keep a full record of how each offer was assessed against the criteria and demonstrate that each received due and fair consideration. Where an offer is rejected the reasons for the rejection must relate to the criteria, be justifiable, clearly explained and recorded in writing.
- The panel recommendation must be documented with sufficient information to support the scores awarded and the ranking of offers. The rationale for the evaluation panel's recommendation must be based on the findings of the evaluation panel. The recommendation must by supported by clear, transparent and justifiable reasoning.

Commercially sensitive supplier questions

If the nature of the supplier's query relates to information that is commercially sensitive to the supplier care must be taken to protect the commercially sensitive information. This may mean not publishing the question and answer, or the part of the question and answer that is commercially sensitive.

Official Information Act 1982

Remember that all information held by your agency, and any third party acting on your behalf, is discoverable under the Official Information Act.

Due diligence

Due diligence is usually part of the evaluation process that flows through into contract negotiation.

Public Records Act 2005

'Records' are defined as any information that is compiled, recorded or stored in any format.

Supplier questions

Always provide prompt responses to questions from suppliers. Where the answer provides more information than is published in the RFx, and the information is material and of value to other suppliers, this should be made available to all suppliers so that no supplier gains an unfair advantage. Usually the information is made available by publishing supplementary information relating to a listed tender on GETS.

If the nature of the supplier's query relates to information that is commercially sensitive the onus is on the supplier to make this clear. Any information that is commercially sensitive must be protected.

Tender log

Where tenders are to be lodged in hard copy it is best to require delivery to a secure tender box. However, your agency may allow tenders to be sent and received electronically in which case the rules around submission and receipt of electronic tender need to be made clear.

It is important that when logging and opening tenders a second person is present to witness what was received. Both people sign the log.

Evaluating offers

Judge the financial, commercial and technical capacity of a supplier on the basis of both their global and New Zealand business activity.

Consider for award only those tenders which, at the time of opening, conform to the essential requirements of the RFx. Any tender failing to meet mandatory or prequalifying requirements must be eliminated from the process.

Due diligence

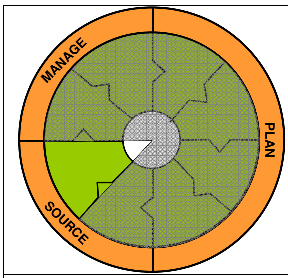
Due Diligence is about independently verifying the ability of the supplier to fully deliver against the contract, over the term of the contract. It is a matter of prudence and good business practice.

It is an opportunity for both parties to test their expectations and understanding of the deliverables and the contract. During this phase assumptions should be checked and roles and obligations clarified. If serious issues arise during due diligence that cannot be resolved your should find another supplier, which usually means selecting the second ranked supplier.

Record keeping

Under the Public Records Act 2005, all agencies are required to create and maintain full and accurate records in accordance with normal, prudent business practice. This includes activities carried out by contractors on an agency's behalf. These records must be available over time.

For procurement this means that all records relating to the planning, approach to market, supplier selection, negotiation, award of contract, contract management and review must be retained.



Stage 6 – Negotiate and award contract

Outcomes

- Best deal (quality goods/services representing value for money) agreed with best supplier.
- Contract drives performance.
- Agency regarded as fair and ethical buyer.

Outputs

- Negotiation plan.
- Signed contract.
- Post award notice published.
- Suppliers debriefed.

Key Tasks

- Prepare a negotiation plan and check list.
- Implement the negotiation plan.
- Develop key performance indicators/service levels.
- Negotiate terms & conditions of contract.
- Prepare contract document.
- Award contract and execute contract document.
- Debrief successful and unsuccessful suppliers.
- Internal communications of outcomes – initiate transition plan to new supplier (if appropriate).
- Post award notice on GETS.
- Prepare contract management plan.

Tools:	Check List: Negotiations (GPRP)
Guide:	Supplier Debrief (GPRP)
Tools:	Check List: Supplier Debrief (GPRP)
Guide:	Contract Management (GPRP)

Negotiation

Negotiation is about reaching agreement on the essential terms of the contract and the deliverables under the contract. It can be a form of trading where both parties are seeking something from the other, there is an exchange of offers, concessions and bargaining.

For collaborative relationships the focus will be on gaining a win-win solution. For tactical relationships the approach will be competitive.

***Diagram*: 5 steps to negotiation:**

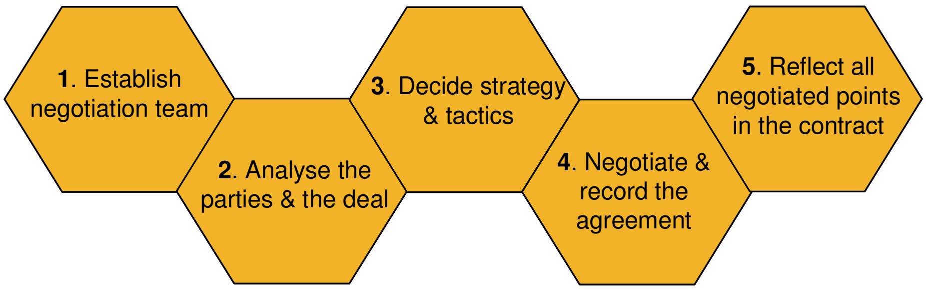
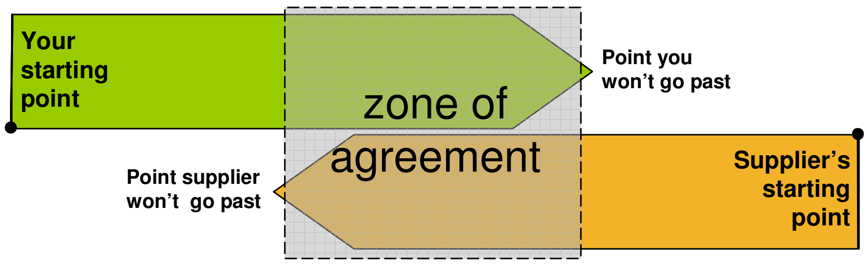


***Diagram:* identifying the zone of agreement**



Post negotiation

It is essential to record the exact terms of the negotiated agreement and reflect these in the contract. It is good practice to have an independent officer check and sign the contract. There should be a separation between the person signing the contract and the person who will have day-to-day responsibility for contract management. Most agencies adopt the 'one-up' system, where a manager at the next level up signs the contract.

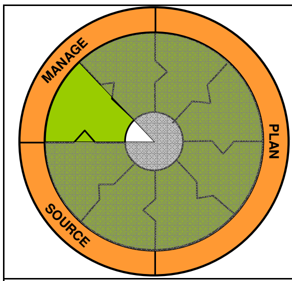
Supplier debriefs

A good debrief to both successful and unsuccessful suppliers at the end of a tender helps to identify areas where they can improve in future tenders. It gives suppliers the chance to ask questions about the process and to improve their knowledge and understanding of government procurement. It also allows you to show your transparency and accountability in awarding contracts. And it's a two-way street – suppliers can provide feedback to your agency and suggest ideas that could make it easier to do business with government.

Post award notification

The decision to award a contract is typically made when the evaluation panel's recommendation on the preferred supplier has been approved, and any conditions attached to the recommendation (e.g. subject to reference checks) have been resolved. To ensure transparency you need, at the very least, to communicate the two key decisions relating to the award:

Step 1: Once the contract award decision has been made, promptly inform all the suppliers that submitted tenders – either directly (by phone, e-mail or letter) or by publishing a notice.	**Step 2:** Once the contract has been awarded (signed by both parties), promptly publish a notice (the Post-Award Notice) on GETS.



Stage 7 – Manage contract and relationships

Outcomes

- What was intended to meet the needs is delivered to specification.
- Issues don't become problems.
- Agency, supplier and stakeholders collaborate - focus on continuous improvements and efficiency gains.

Outputs

- Regular reporting, monitoring and evaluation of delivery – Contract Management Plan.
- Development of effective working relationships with supplier and key stakeholders.
- End of contract strategy / transition plan.

Key Tasks

<u>Implement contract management plan:</u>

- Service delivery management, relationship management, contract administration
- Establish and implement relationship management structure and communications plan
- Control changes (scope and cost)
- Manage risks and issues resolution
- Asset management
- End of contract handover.

<u>Performance management:</u>

- Receive and review supplier's reports
- Regularly review supplier's performance and delivery against contract
- Aim for continual improvement
- Track and monitor to ensure delivery meets requirements including quality, standards and service levels
- Proactively manage under-performance.

<u>Financial management:</u>

- Check invoices and authorise payments
- Track and monitor budget/costs.

Guide: Managing contracts and relationships (GPRP)

Key activities

Contract management activities can be broadly grouped into three areas:

- **Service delivery management** ensures that the service is being delivered as agreed, to the required level of performance and quality.
- **Relationship management** keeps the relationship between the two parties open and constructive, aiming to resolve or ease tensions and identify problems early.
- **Contract administration** handles the formal governance of the contract and changes to the contract documentation.

All three areas must be managed successfully if the arrangement is to succeed.

Contract management

Contract management is the process that enables the agency and supplier to meet their obligations in order to deliver the objectives required from the contract, on time, to quality and specification and within budget.

This means actively tracking and monitoring delivery and costs, managing risks, and actively managing the relationships between the agency, the supplier and key stakeholders.

This process continues throughout the life of a contract and involves managing proactively to anticipate future needs as well as reacting to situations that arise.

Managing service delivery

Service level management is the process of managing the performance provided to the agency as specified in the contract's performance requirements, for example, key performance indicators or quality standard indicators.

In order to meet an agency's business needs the supplier has to optimise the relationship between cost and quality of the services delivered. Service level management plays an important role for the supplier in balancing these factors, in order to provide the agency with what it wants and best value for money.

Relationship management

Ultimately the success of the commercial relationship often comes down to the relationship between the agency and supplier - get it right and the benefits will flow. The benefits of developing and maintaining a good supplier relationship fall on both parties.

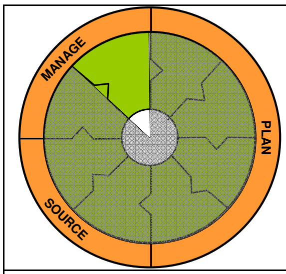
The three key factors for successful supplier relationships are:

- openness and excellent communications
- developing mutual trust and understanding
- a joint approach to managing delivery and any related problems.

Contract administration

Contract administration involves the formal governance of the contract and changes to the contract documentation including:

- maintaining documentation relating to the contract
- regulating change control
- monitoring charges and costs
- checking invoices and authorising payment
- reviewing reports and requesting information
- asset management.



Stage 8 – Review

Outcome

- Agency demonstrates that it is a learning organisation.
- Verification that good procurement delivers quality results.

Outputs

- Review outcomes / results.
- Identify lessons learned.

Key Tasks

- Have the anticipated benefits been received?
- Does the initiative represent value for money?
- Are there opportunities for further improvements?
- What lessons can be learned and how can these be implemented?

Importance of reviews

Review outcomes

A review checks whether the anticipated benefits have been achieved and identifies opportunities for further improvement.

Reviews are an important part of the overall procurement process. A review can improve procurement management and demonstrate public accountability by providing an honest independent appraisal of the procurement, the delivery of the contract and the outcomes achieved.

A review provides an opportunity to check if the anticipated benefits have been achieved, and if there are opportunities for improvements in what we do and how we do it.

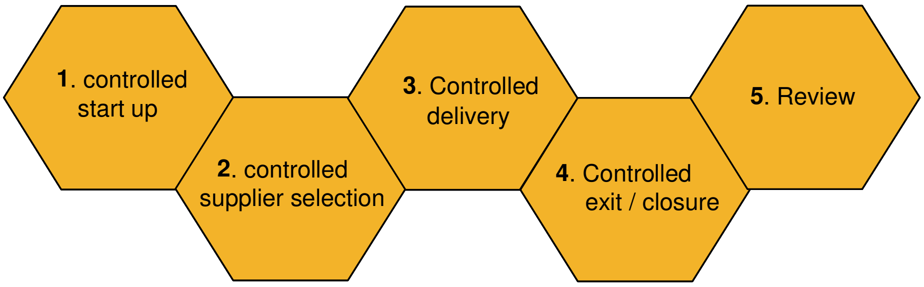
Reviews are a way of communicating the value of the procurement to the responsible Minister and to the New Zealand taxpayer.

Review recommendations must be implemented by the agency if a 'learning organisation' is to succeed and real opportunity for continuous improvement provided.

Governance and accountability

The roles and responsibilities for delivery (governance) and the transparency of the decisions made, money spent and results achieved (accountability) are all subject to review. This emphasises the need for due process at all stages of procurement.

***Diagram*: Project implementation**



Conduct of Reviews

Reviews must be conducted in an open manner. Agencies must be prepared to learn in order to get most value from a review. Participants must be prepared to make constructive criticism. It is only in this way that real lessons will be learned or improvements to policy or business objectives made.

If the review is to add real value its recommendations need to be implemented by the agency and key stakeholders. This may involve realigning policy settings or changing business systems or processes. Recommendations must be sufficiently robust for the agency to be able to act upon them.

Analysis

Analysis of the information gathered will involve comparing what actually happened against that which was predicted. It will examine what was done well and what was done badly. The data obtained from the information gathering is brought together and coherent, useful and supportable recommendations are formulated.

Who do you involve in the review?

Who should be involved will depend upon the nature of the review and when the review is being undertaken. Usually the senior 'business owner' or 'sponsor' of the initiative, under review, is ultimately responsible for the review. Team members conducting the review will typically include:

- people with working knowledge of the procurement process
- people with working knowledge of the policy/business area under review
- people with relevant specialist or technical knowledge of the procurement initiative
- people involved in using the outcomes or receiving the benefits of the initiative.

Different types of reviews

Different types of review include options such as:

- On award of contract
- During contract implementation
- Post implementation

Reviews can occur at different stages in the procurement and even after the contract has been completed. Deciding what to review and when to review should be part of your procurement plan. The type and depth of review will depend on the nature, scope, value, level of risk and complexity of the procurement.

Review - on award of contract

It may be valuable to review the procurement process once the contract has been awarded. This review is tactical/operational and may consider such factors as:

- stakeholder engagement and relationship management
- quality of specification of requirements
- market research and approach to market strategy
- effectiveness of evaluation methodology and due diligence
- performance of the evaluation team
- conduct of negotiations
- award of contract
- outcomes against objectives
- lessons learned
- report back to sponsor and management team.

Regular reviews - contract implementation

As well as monitoring and tracking progress during the delivery of the contract it may, in longer term contracts, be helpful to have specified review points. This may be valuable to inform ongoing implementation and contribute to the process of continuous improvement.

Regular reviews during implementation are tactical/operational and may consider such factors as:

- deliverables against specification
- charges against contract price
- quality against key performance indicators/standards
- improvements in key performance indicators/standards
- opportunities for cost or efficiency gains
- supplier's performance
- agency's performance in contract management
- quality of relationships with supplier and key stakeholders
- identify lessons learned
- report back to contract manager, supplier and project sponsor.

Post implementation review

A post implementation review (PIR) is a formal review of a procurement initiative. It is used to answer the question: '*did we achieve what we set out to do, in business terms and if not, what should be done?*'

This type of review is undertaken when there has been time to demonstrate the business benefits of a new procurement initiative. It is usually appropriate for a procurement that represents a major financial investment, or a new initiative. It can be carried out as a single review or several reviews over time.

PIRs are strategic/high-level reviews and may consider such factors as:

- the achievement (to date) of business case objectives
- costs and benefits to date against forecast, and other benefits realised and expected
- continued alignment to the public policy/business strategy
- the effectiveness of revised public policy/business objectives
- ways of maximising benefits and minimising cost and risk
- the sensitivity of stakeholders to expected change
- end user satisfaction
- identify lessons learned
- report back to project sponsor and senior management.

Assessing benefits

Benefits will not materialise simply through the delivery of a contract. Benefits must be actively managed to be achieved.

PIR is a key element in managing benefits realisation because it assesses whether the changes that have taken place have improved effectiveness.

PIRs identify and appraise opportunities to improve effectiveness by maximising benefits and minimising costs and risks.

PIR timing

The timing of the first PIR will depend on the predicted benefits brought about by the procurement, as forecast in the business case. Although time must be allowed for benefits to accrue, it is important that the PIR is completed early enough to identify any problems. Remedial action can be taken promptly if predicted benefits are not realised. The initial PIR would usually be carried out 6-18 months after completion of the contract.

Key sources of information

The views of stakeholders and end users form the basis for information gathered at interviews and workshops. The main sources of documented information will include:

- the business case
- information kept to track costs and benefits
- previous review reports.

Reporting the results

The PIR is concerned mainly with maximising the effectiveness of the public policy/business change. Reporting of the results is typically to the leadership teams within the area(s) most able to influence changes to the day-to-day operation of the procurement arrangements.

Common problems

There are a number of common problems that may be encountered in carrying out PIRs and the review team needs to be aware of these, although they may not be able to solve all of them.

Common problems include:

- more than one organisation involved, where there is no common standard for measuring and recording the benefits and costs
- lack of documentation recording the procurement and contract implementation
- lack or inadequacy of baseline measures: for a PIR, measures of success can only be made accurately by comparing the level of performance before the project implementation against that at the time of the PIR
- sensitivities – examining the performance of project teams, or current operations against a predicted level may lead to feelings of insecurity or grievance for those who were involved with the project, or in the business area supported by the change
- management of expectations – although the use of reviews will improve the effectiveness of the agency, the review team should ensure that they raise expectations of public policy changes, system enhancements or business change. They may cost more to implement than the value of the benefits they would deliver
- the agency is too busy to do a PIR and never gets it done. There should be policies to ensure that reviews are carried out as part of the agency's normal practice.

Some actions that can be taken to avoid or reduce these problems:

- rigorous investment in ongoing appraisal and reviews
- identification of benefits and efficiency gains and a system to implement them
- careful selection of the project team to ensure independent review
- formal agreements with suppliers to participate in the post implementation review process.

Appendix 1

Procurement process acronyms

Procurement is full of acronyms and jargon. Here are explanations for some of the common terms used in procurement processes.

Acronym		Explanation
RFI	**Request for information**	The purpose of an RFI is to get more information on and gain a better understanding of the suppliers in the market and their goods/services. It helps identify the range of possible solutions available. It is not a request for offers and must not be used as a mechanism from which to directly select suppliers.
RFQ	**Request for quotation**	The purpose of an RFQ is to seek quotes from suppliers for specified goods/services. It is usually used in low-risk procurement where price is the main factor and the goods/services are easy to describe, ‘stock standard’ or ‘off the shelf’.
EOI	**Expression of interest**	The purpose of an EOI is to enable an agency to identify and short list potential suppliers. The request for EOI seeks basic information from interested suppliers to allow an initial evaluation of their suitability. An EOI is the first stage of a multi-stage tender process. Shortlisted suppliers are asked to submit full proposals/tenders through a RFP/RFT. The responses provide more detailed information on capacity, capability, technical knowledge, experience and organisational and financial standing. This allows a full evaluation and selection of the preferred supplier. An EOI can be used where there are potentially very large numbers of suppliers and it is not sensible to invite all to submit full proposals/tenders. An EOI is the same as a ROI.
ROI	**Registration of interest**	An ROI is the same as an EOI.
PQQ	**Pre-qualification questionnaire**	A PQQ is similar to and EOI/ROI. It enables an agency to identify the most suitable suppliers to invite to submit proposals/tenders. This method asks interested suppliers to complete a pre-qualification questionnaire from which they can be short listed.
QSL **RSL**	**Qualified or Registered supplier list**	A process where potential suppliers are selected, based on their ability to deliver a specified good or service. On being listed the agency may purchase from listed suppliers direct (where cost is less than the Mandatory Rules value threshold – if this applies), or invite them to tender.
RFP	**Request for proposal**	An RFP is used if you want to receive proposals for goods/services. Typically, the agency is open to innovation in the type of product or how the services are delivered. The outputs and outcomes are important, rather than the process that the supplier follows to deliver them. Interested suppliers are invited to submit proposals, giving details of how their goods or services will deliver the outputs and outcomes, along with the proposed prices.
RFT	**Request for tender**	An RFT is used if you want to receive tenders for goods/services. Typically, the goods or services are easy to define and there is little room for flexibility or innovation in delivery. RFTs are used mostly for goods and services with highly technical requirements. The agency invites interested suppliers to submit tenders, giving detailed information on how their goods or services meet the specific requirements, along with their proposed prices.
RFx	**Request for x**	A generic term for RFQ, EOI, ROI, RFP or RFT

Procurement jargon buster

For more information on procurement terms and definitions refer to the *Procurement Jargon Buster* (GPRP) (coming soon).