

Market Approach Strategy Guideline

Purpose

This Guideline provides advice on market approaches when procuring goods and services and for using the standard market approach templates.

General principles

Public authorities are required to identify the market approach that will deliver the best procurement outcome, achieve value for money and comply with the Procurement Planning Policy and Sourcing Policy as well as the South Australian Industry Participation Policy and applicable Free Trade Agreements.

Selecting the Market Approach

Public authorities should determine the most appropriate market approach strategy based on their business need and up to date knowledge of the market for the goods and services.

Considerations when selecting the most appropriate market approach include:

- formulating procurement objectives
- identifying total estimated expenditure
- assessing barriers to securing supply
- comparing the benefits of different procurement strategies
- identifying the preferred procurement strategy
- specifying performance measures¹.

There is no one-size-fits-all way of approaching the market. Selecting the best market approach usually depends on the outcome of the market analysis together with the value and complexity associated with the procurement. It will also depend on which market approach will attract the best suppliers, the size of the supply market and how value for money will be achieved.² For example, if purchasing the same goods or services frequently, public authorities may be best served by a panel or list of prequalified suppliers.

If the supply market is unclear or unknown, the best result may be achieved with an initial expression of interest (EOI).

Aggregation and Disaggregation³

Aggregation is a process whereby the goods or services requirement is grouped or bundled. Conversely, **disaggregation** is the process of breaking up larger projects/procurements into smaller stages or components.

Aggregation is typically used to deliver economies of scope to drive efficiencies such

¹ [Queensland Government - Supply Strategy Development](#)

² [New Zealand Government - Plan your Procurement](#)

³ Planning for significant procurement, State of Queensland (Department of Housing and Public Works) 2018

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as reducing the number of suppliers or placing the responsibility for managing the supply chain with a head contractor. Equally, for the supplier, aggregation can offer economies of scale by delivering greater (more attractive) volumes to suppliers, and as a result is expected to strengthen the negotiating position and achieve lower pricing for the buyer.

Whilst there are notable advantages to aggregating requirements, it is important to be aware that aggregation also has the potential to impact the level of competition in the supply market and can also unintentionally disadvantage Small Medium Enterprises (SMEs). Very large contracts may pose significant barriers to entry for smaller suppliers, or those wishing to diversify into the market. A combination of the evolving strength of incumbents, size of contracts and high bid costs can also lead to less competitive marketplaces.

Where aggregation results in fewer, bigger procurements, suppliers that lose out are more likely to be locked out of the marketplace for a prolonged period. Buyers may risk becoming over-reliant on very large suppliers who are not in turn reliant on those contracts and therefore have strong negotiating positions. Aggregation may also limit the opportunity to trial new ideas, because opportunities and innovative progress can be lost in large-scale procurement processes.

Where innovation is sought, disaggregation can allow more managed risk-taking to pilot new ways of doing things; for example, using a 'proof of concept' stage.

Two key principles of the South Australian Government Procurement Framework include creating South Australian jobs and stimulating innovation and new businesses. It is important to consider this particularly when planning large/high value procurements. Disaggregating large projects can significantly improve opportunities for South Australian businesses to tender for government work.

Attachment 1 provides some further alternatives to aggregation to encourage participation of local SME's.

Public authorities should ensure a sound supply market and supply chain analysis is undertaken before deciding to aggregate or disaggregate requirements. For further information refer to the *Supply Market and Supply Chain Analysis Guideline*.

Types of Market Approaches

Traditional market approaches are usually well-understood by buyers and suppliers and can be lower risk. Traditional approaches include a Request for Quote (RFQ) or an Invitation to Supply (ITS). Using traditional market approaches may mean you miss out on more innovative solutions, so you should also consider non-traditional approaches, where appropriate. Non-traditional methods can often deliver more innovative solutions and should be considered where appropriate. Non-traditional methods include reverse auctions and competitive dialogue. These methods can often carry greater risk than traditional methods, so it is important to conduct a

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market analysis before proceeding. Non-traditional methods still require the usual procurement planning and approval requirements.

Invitation for Expressions of Interest (EOI) is usually the first stage in a multi-stage market approach (usually through an open, publicly advertised invitation) and outlines a general intention to buy goods and services and invites suppliers to express their interest in being considered to meet the requirement.

An EOI usually results in a shortlist of suppliers to participate in a future market approach (for example an ITS issued to the selected suppliers). In some cases, the second stage of the procurement may not proceed, for example when no suitable solution to the requirement is available. Potential suppliers are not required to provide prices and a contract is not usually formed at the EOI stage.

Request for Quote (RFQ) is a process in which a number of select suppliers are chosen to submit a quote for the chance to supply goods or services. An RFQ is often used for transactional and routine procurements and can be completed reasonably quickly. It usually requires the public authority to detail:

- technical specification as well as commercial requirements
- delivery requirements, quantities and payment terms
- proposed method of evaluation, decision timeline and review process
- contract terms and conditions

Invitation to Supply (ITS) is usually an open, publicly advertised invitation that:

- invites suppliers to offer, at their best price, to supply goods and services
- can be applied flexibly to procure goods and services where the specification can be clearly defined (i.e. technical specifications)
- can be applied where there is a need for the specification to allow variety and innovation in responses (i.e. specification is performance or function based) and a supplier can propose alternative solutions to the achieve the procurement objectives.

Competitive dialogue is a procurement approach that enables the public authority to enter into detailed discussions once market and supplier capability has been determined. It differs from more traditional approaches as the specifications are developed and refined with each supplier during the procurement process.

Competitive dialogue:

- can reduce the time to complete large-scale complex or strategic procurements by enabling the buyer to enter into detailed discussions once capability has been determined
- is useful in finding solutions when the public authority is dealing with an immature market and/or is unclear on the best way to meet a particular business need.

The competitive dialogue process gives public authorities the opportunity to work

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interactively with the supply market to better understand the market's capability and cost drivers. At the same time, supplier's costs are minimised as suppliers do not spend resources on proposals that do not meet the public authority's needs.

The process involves each potential supplier submitting, and through dialogue, improving a solution (technical/financial/legal) to meet the public authority's objectives. The dialogue with each supplier is aimed at focusing its response on the business need and maximising the potential value of the supplier's solution. The supplier then presents a formal proposal for evaluation.

For example, a public authority may have a complex service contract with a supplier. Service level improvements are difficult to secure and every time the market is retested there is limited response. Competitive dialogue could be employed in such a situation to engage interested suppliers individually (perhaps via an EOI) on how their particular service approach can meet the business need. Through the stages of dialogue, each supplier's proposal is developed to be the best value it can offer against the business objectives, and the proposal is then formalised to facilitate evaluation against a predetermined methodology.

A **reverse auction** is a type of auction in which several suppliers compete (on a price basis only) for the right to provide a good or service, with the bid price typically decreasing over the course of the bidding process. The bid price for each supplier is then inserted into the normal procurement process and all suppliers considered on a value for money basis.

Reverse auctions utilise technology such as virtual bidding, to achieve a lower price than may be achieved through a standard, once-only bidding process. This is an alternative means of establishing a price for goods and services and allows suppliers to bid in a real time environment and gives suppliers multiple opportunities to offer a price.

Reverse auctions can reduce the procurement efforts and administrative costs for both buyer and supplier. Reverse auctions are also transparent and fair as all suppliers have knowledge of the leading bid at any point in time during the process.

Reverse auctions:

- apply when procuring goods with little or no value-added or service components
- where the market is competitive, and price is a key selection criterion
- may be used as part of a multi-stage procurement or as a means of obtaining quotes from suppliers from an established panel
- establish the price elements for the procurement, with the other qualitative elements still required.

Reverse auctions generally involve the buyer seeking bids from suppliers by outlining its requirement (including goods description, delivery and warranty specifications, and terms and conditions of supply); the buyer also notifies suppliers of the starting

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price, date, time and duration of the reverse auction.

During the reverse auction, suppliers see the current best bid and make lower bids if they wish. At the close of the reverse auction, each supplier's offer is then considered against its qualitative bid (which addresses the non-price requirements of the procurement) to arrive at a value for money comparison of all suppliers.

Single or multi-stage market approaches

A market approach strategy can be undertaken as either a single stage or multi-stage process.

A single stage process allows a contract to be awarded at the conclusion of that process and is often used when the market is stable and competitive, and the requirements can be clearly specified.

A multi-stage approach (usually an EOI, followed by a RFQ or ITS) is best utilised in the following situations:

- lack of clarity about requirements: there is a high-level understanding of the business need; however detailed requirements are not yet fully understood and additional information is required to make further procurement decisions.
- limited understanding of supply market: there is a lack of knowledge of the general level of interest and capability in the market to satisfy the requirement.
- shortlisting to reduce costs to suppliers and public authority: there are a large number of suppliers or the requirements are complex. Shortlisting reduces procurement costs by decreasing the number of responses to evaluate and limiting the information that suppliers need to respond to (compared with responding to a detailed specification); suppliers can express their interest in a non-binding manner and may withdraw their offer before incurring additional expenses associated with the next stage of the procurement process.
- security issues: suppliers need to be pre-qualified for security reasons prior to providing detailed information (such as the specification requirements).
- innovation is sought: the process needs some flexibility to seek and assess innovative proposals, or where further stages of the process will facilitate additional scoping of the potential procurement solution.

Market approaches may be:

- Open – invitations to supply are open to all interested suppliers
- Limited – a limited number of suppliers (but more than one) are invited to supply
- Direct – only one supplier is invited to supply.

Open market approaches are publicly advertised invitations for suppliers to submit offers to supply goods and services and are suitable where:

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- there are many suppliers able to offer competitive solutions
- the supply market is subject to continuous change
- the procurement is subject to a high level of market interest.

Limited market approaches may be appropriate where:

- a limited number of suppliers exist, verified through extensive market research
- there is a prequalified of suppliers that meet required criteria
- a shortlist of suppliers has been determined through an EOI process
- suppliers are licensed or meet legislated standards required to deliver the requirements.

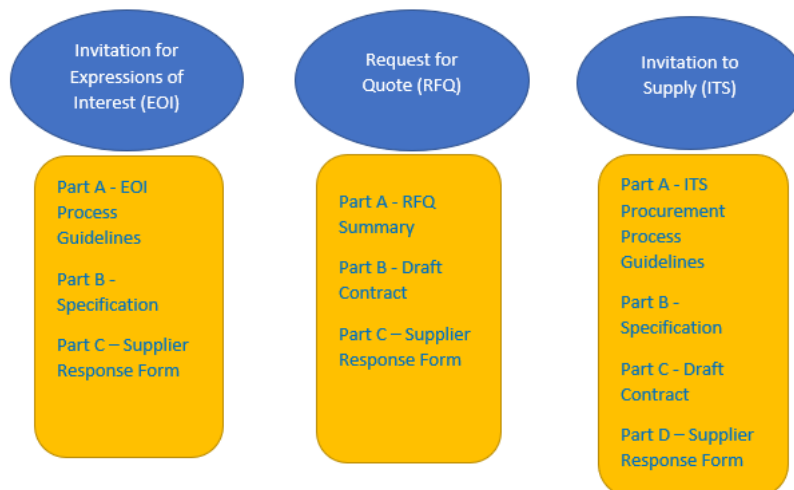
The Procurement Planning Policy outlines the limited circumstances where a direct market approach may be appropriate.

Standard Market Approach Documentation

Public authorities will follow the Sourcing Policy and use the standard market approach templates for all goods and services procurements with an estimated cost above \$55,000. These templates support consistent procurement practice across the South Australian Government which aims to make it easier to supply to government.

The standard market approach documentation can be adopted for all goods and services procurements in line with this Guideline. For other types of market approaches, the standard documents can be used to the extent that they are capable of being applied.

The standard market approach documentation framework is set out below.



The *User Guides* for each market approach template provides further information on how to use the EOI, RFQ, and ITS market documents.

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Process Guidelines and Summary

Refer EOI Process Guidelines, RFQ Summary and ITS Process Guidelines

The process guidelines and summary detail the instructions to potential suppliers and the rules that govern the way that invitations will be conducted.

Specifications

Refer EOI Specifications, RFQ Summary (RFQ Details) and ITS Specifications

A specification is the statement of requirements to be procured from suppliers which accurately describes the goods and services and is the basis of the offers that are received from suppliers. Once a contract has been awarded, the specification is a key document to ensure the supplier delivers what has been specified. The *Developing a Specifications Guideline* provides a format for a specification and suggested content.

Contracts

Public authorities should provide a copy of the draft contract terms and conditions with the market approach documentation.

Supplier Response Forms

Refer Supplier Response Forms (refer Part C (EOI), Part C (RFQ) and Part D (ITS))

The response schedule is the key document to enable suppliers to respond to the requirements set out in the Invitation. Sufficient information should be requested to enable an appropriate evaluation of the supplier's offer (response).

Key areas for consideration in developing response schedules include:

- supplier information
- prior experience and references
- capacity and capabilities (key staff, quality systems, organisational details)
- supply approach (methodology, customer service, work plan)
- subcontractor information (proposed transition or implementation plan, consortia)
- industry participation policy information
- innovation and value for money
- free trade agreements (procurement obligations)
- compliance with contract, specification, evaluation
- financial viability (supplier's capacity to deliver procurement requirements)
- conflicts of interest related to the supplier
- pricing information (assumptions, fixed or variable pricing, whole of life costs)
- risk management

Response schedule templates (EOI, RFQ and ITS) provide an optional format for response schedules and suggested content.

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Public authorities will only seek the minimum information required from suppliers to fairly evaluate quotes/offers received. However:

- where the EOI documents are used, public authorities will in every case apply all the response questions set out in Part C Section 1 of the EOI template
- where the RFQ document is used, public authorities will in every case apply all the response questions set out in Part C Section 1 of the RFQ template
- where the ITS documents are used, public authorities will in every case apply all the response questions set out in Part D Section 1 of the ITS template.⁴

Developing response schedules: NFP Sector

Additional key areas for consideration in developing response schedules with the NFP Sector include:

- community outcome, desired impact or change being sought in the procurement
- the potential for the procurement to improve economic or social outcomes for South Australia
- a community development approach which builds resilience in the community and the capacity to respond to change and crisis and empowers individuals in the process of development and service delivery
- the supplier's capacity to undertake the procurement through a fee-for-service arrangement (to be used wherever possible) compared to the suitability of up-front block funding (which may assist to create capacity to meet expected service demands).

⁴ South Australian Government - Sourcing Policy

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Attachment 1 - Examples of aggregation barriers to Small Medium Enterprise participation and suggested alternative strategies⁵

<p>There may be a trend towards aggregated and/or bundled contracts which are too large and include too many diverse products or services.</p>	<p>Ensure SME viewpoints are considered early in the procurement process and use this feedback to refine the size, scope and specification of requirements.</p> <p>Consider the advantages of dividing aggregated requirements into more manageable lots matched to the capabilities and capacities of the market - noting that aggregation of demand does not necessarily mean that consolidation of supply is the best strategy.</p>
<p>Burdensome and over-complicated tendering procedures are highly costly for SMEs, who do not have the capacity to carry high overheads, such as maintaining a tender development team for prolonged periods of time.</p>	<p>Ensure that the size and scope of the market approach matches the size and scope of the requirement, and that market approach documentation is as simple and jargon-free as possible.</p>
<p>Over-specification of requirements - which are often weighted towards particular solutions rather than outcomes.</p>	<p>A focus on outcomes rather than on large numbers of detailed technical requirements is more likely to encourage SMEs to bid.</p>
<p>Pre-qualification criteria which, in pursuit of mitigating risk, require suppliers to have unrealistic levels of previous experience and a track record in government procurement.</p>	<p>Ensure that any pre-qualification criteria match the risks associated with the requirements and the supply market, and that the weightings have a meaningful relationship to the risks being mitigated. For example, weighting the criteria in favour of companies with a large revenue base and longstanding experience in large-scale projects may not be relevant to a requirement where an innovative solution is required. In this instance the flexibility of a smaller, more agile company may be less inherently risky than a large conglomerate.</p>

⁵ Planning for significant procurement, State of Queensland (Department of Housing and Public Works) 2018

