Planning for significant procurement

Office of the Chief Advisor - Procurement

Department of Housing and Public Works

Queensland Government

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v1.5 July 2018

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Disclaimer

This document is intended as a guide only for the internal use and benefit of government agencies. It may not be relied on by any other party. It should be read in conjunction with the Queensland Procurement Policy, your agency's procurement policies and procedures, and any other relevant documents.

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Purpose

The purpose of this guidance is to:

- explain why planning for significant procurement is critical to successful procurement outcomes
- provide practical guidance to Queensland Government agencies regarding how to develop a significant procurement plan.

This guidance should be read together with the Queensland Procurement Policy and other related Government policies or instruments.

Context

Relationship to the Queensland Procurement Policy

Clause 6.6 of the Queensland Procurement Policy requires that plans must be prepared when procuring all goods and services that have been identified in the agency's corporate procurement plan as being of high expenditure, and/or for which there is a high degree of business risk (significant procurements).

The Queensland Procurement Policy requires plans that, at a minimum, contain:

- an analysis of demand and the supply market
- strategies to achieve value for money, including the advancement of economic,
- environmental and social outcomes
  performance measures and contract management arrangements
- an identification and assessment of risks related to the procurement and risk management
- strategies. Risk assessments address the value, complexity and sensitivity of procurements.

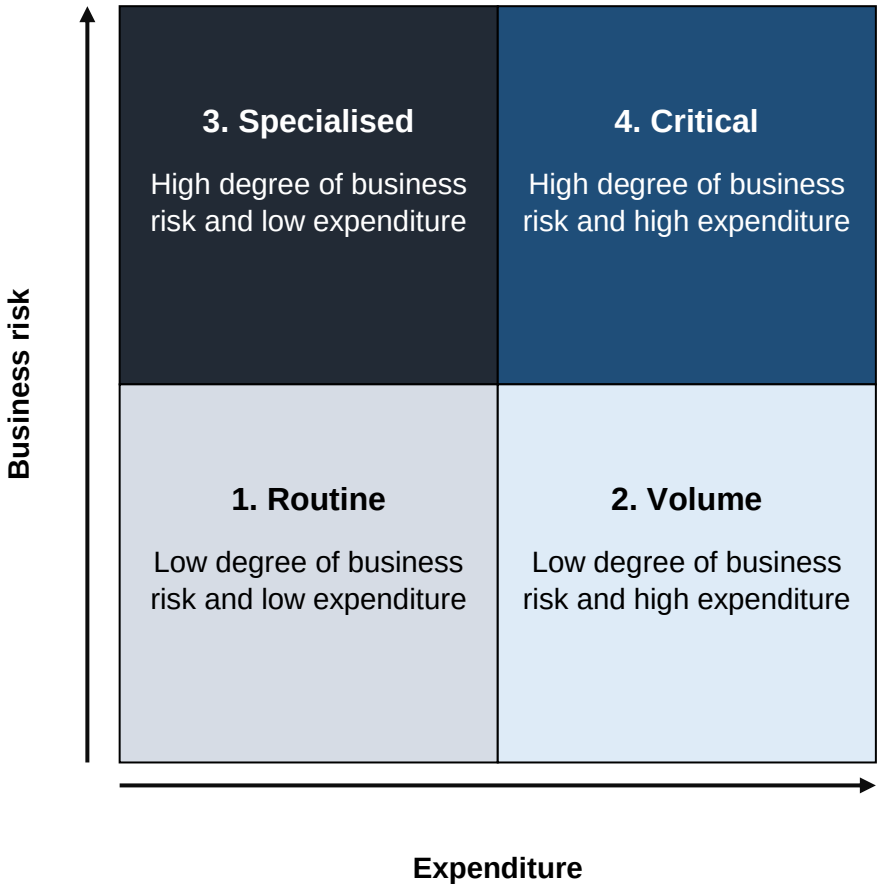
The Queensland Procurement Policy (clause 2.1) also requires that each agencies to consider strategies to ensure that capable and competitive local suppliers, including Queensland suppliers and small businesses, are given a full, fair and reasonable opportunity to supply government.

What are significant procurements?

Significant procurement includes goods and services identified by the agency as being high expenditure and/or for which there is a high degree of business risk.

Using supply positioning, the expenditure of an agency on goods and services (including capital projects) and the corresponding degree of business risk can be determined. The goods and services are segmented into four supply positioning categories, as shown in **Figure 1**.

Figure 1: Supply positioning categories



When to prepare a significant procurement plan

Significant procurement plans should be seen as the 'business case' (from the procurement function's perspective) to obtain approval to approach the market as planned.

Significant procurement plans can be prepared at either the category level or an individual procurement level project

Agencies should not, however, over-aggregate goods and services to minimise the number of significant procurement plans to be prepared, nor should they over-state the urgency of the procurement situation in order to limit the level of detail included in a plan.

Why plan for significant procurement?

Significant procurement planning and development of sound procurement strategies lead to consistently better value for money; higher quality project and service delivery; improved opportunities for sustainable procurement; and reduced risks to the agency. International strategic procurement benchmarking organisations such as Aberdeen Group report that 'best-in-class' organisations strategically source 82 per cent of their spend, and achieve twice the cost savings per procurement activity, compared with industry average companies[1].

By investing effort in the planning and management of significant procurements the procurement function can add value to the agency.

Planning considerations

Recommended practice

Agency procurement plan outputs

Time invested in preparation before developing the significant procurement plan will increase the chances of it being completed within the required timeframe and budget.

As a first step, procurement officers should refer to the following high-level outputs from the agency's procurement planning process:

- the agency's procurement objectives
- the savings and benefits opportunities
- the measures and targets and the approach to risk management.

Depending upon the size, scope and complexity of the individual significant procurement project more detailed planning may be required. In some circumstances a detailed project management plan may be necessary.

Specialist advice or assistance

Planning for significant procurement can be a complex activity which may require specialist advice or assistance. Procurement officers should consider, at the preparation stage, whether specialist expertise should be sought internally within the agency, or externally – either from the Office of the Chief Advisor – Procurement, the Category Manager, experienced procurement staff from other agencies, or private sector professionals with the requisite skills and experience in sourcing methodologies.

Procurement officers should not view the proposed significant procurement activity in isolation. It is worthwhile investigating the outcomes of previous procurements of similar categories conducted by other agencies, and considering their problems and successes in implementing their procurement strategy.

[1] Aberdeen Group, Strategic Sourcing in the Mid-Market Benchmark: The Echo Boom in Supply Management, Aberdeen Group, December, Boston, 2005, pp. 17–18.

Stakeholder engagement

Key stakeholders, including technical experts and end-users, should be identified as early as possible as they are critical to the specification of requirements.

Conducting a stakeholder analysis early in the planning process is a useful technique to identify the likely key issues in relation to the planned procurement. Consider the internal and external stakeholders who may need to be involved in the procurement planning. One method for nominating the level of stakeholder roles and responsibilities is to use RASCI categories[2].

A typical RASCI chart is shown in **Table 1**. Each stakeholder falls into one of the following categories:

- **responsible** for the project.
- **accountable** for the outcome.
- can be **Supportive** in providing resources or can play a supporting role.
- **consulted** to ensure that their needs are being taken into account.
- **informed** about the changes that will impact on them.

Table 1: Typical example of RASCI chart for stakeholder analysis

Internal stakeholder name	'RASCI'	Likely support (Y/N)	Possible objections	Key issues	Impact

Once key stakeholders have been identified and key issues determined, consideration should be given to establishing a Procurement Reference Group (PRG) to assist the agency in the development of the significant procurement plan. The need for a reference group, and the size and level of its representation, will depend on the size, scope and complexity of the significant procurement project. The role of the PRG in the planning process is principally to provide subject matter expertise in relation to the specification of requirements, as well as key information relating to the demand analysis, such as:

- current and anticipated volumes
- current and previous supplier/supply arrangement performance
- pricing data
- sustainability impacts
- likely impacts on the organisation.

The PRG should also be involved in any market sounding activities (see *Market sounding* later in this guide) and in the development of strategy options. The preferred procurement strategy is much more likely to be endorsed and successfully implemented with the involvement of a well-chosen

[2] For further information, see Value Based Management website at http://www.valuebasedmanagement.net/methods_raci.html

and committed PRG. When a PRG has been successfully maintained through the planning for significant procurement process it will often become the team which will subsequently undertake the supplier evaluation and selection stage. The PRG may also continue providing technical and end-user feedback throughout the ongoing management of the supply arrangement.

Members of the proposed PRG should be drawn from a cross-section of the agency, or from across agencies in relation to multi-agency procurements, to provide the appropriate coverage of technical, functional and business knowledge.

Processes to ensure probity, accountability and transparency

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

Agencies must ensure that the systems, policies and procedures established are able to withstand public scrutiny and preserve private and public sector confidence in the procurement process. This includes documenting procurement decisions to demonstrate a clear decision-making process. The Queensland Procurement Policy supports transparency in government procurement, including the requirement to publish basic contract details for contracts awarded over $10,000.

For major or high risk acquisitions, it is highly recommended that these systems, policies and procedures should be documented in a probity plan and overseen by an appointed probity auditor.

Significant procurement plan templates

The main factors influencing the level of detail in a significant procurement plan relate to the size, scope and risk of the procurement and uncertainty about its requirements, together with the complexity of the supply market and the timeframe needed to achieve a successful outcome.

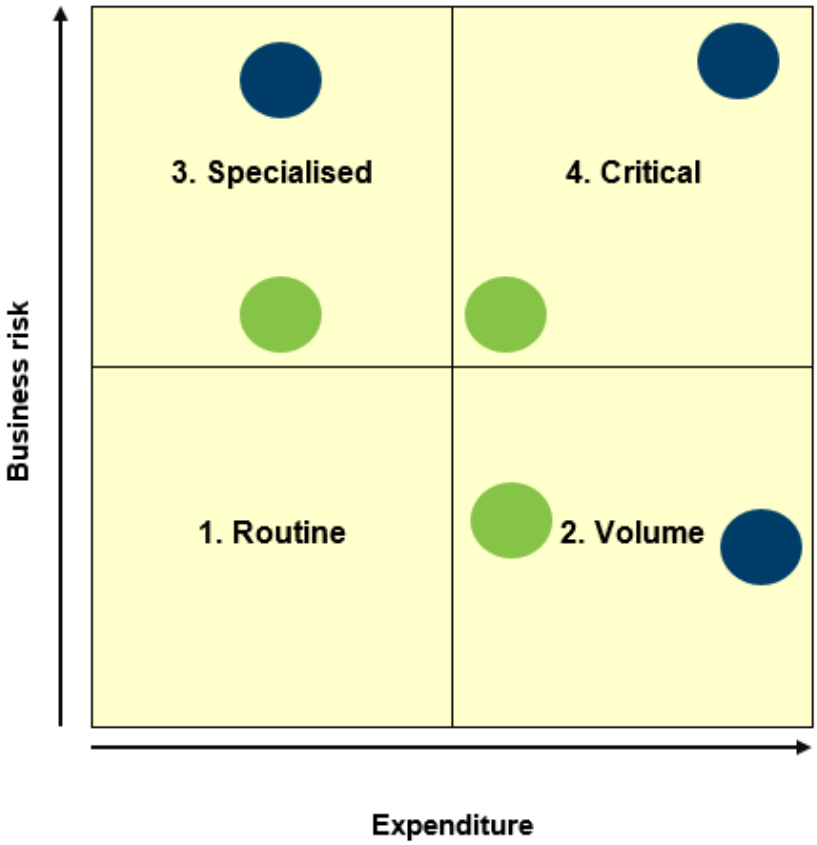
In determining the level of detail required for specific significant procurement plans, agencies must take into consideration the nature of their procurement environment and the capability of their procurement function: for example, the ability of the procurement function to analyse complex supply markets.

To assist agencies in tailoring the level of detail appropriate to a specific significant procurement project, templates for a Short-Form Significant Procurement Plan (S-F SPP) and for a Long-Form Significant Procurement Plan (L-F SPP) are provided in **Appendices 1 and 2**.

The Short-Form template may be appropriate where the business risk or expenditure of the proposed significant procurement project is relatively low in respect to a supply positioning category, where plans for significant procurement are required (i.e. categories 2, 3, and 4), as illustrated by the green dots in **Figure 2**.

The Long-Form template may be appropriate where the business risk or expenditure of the proposed significant procurement project is relatively high in respect to a supply positioning category, where plans for significant procurement are mandatory (i.e. categories 2, 3, and 4), as illustrated by the blue dots in **Figure 2**.

Figure 2: Indicative significant procurements projects appropriate for either a S-F SPP or a L-F SPP



Ultimately, however, the level of detail required in any specific significant procurement plan is a matter for professional procurement judgement and is at the discretion of the agency's accountable officer or delegate.

Key activities

There are six key activities to be undertaken in preparing a significant procurement plan. These include:

1. Conducting research and analysis, comprising:
   a) demand analysis
   b) supply market analysis and market sounding
   c) evaluating the results.

2. Identifying the procurement objectives.

3. Developing and evaluating procurement strategy options.

4. Specifying measures and supplier management arrangements.

5. Developing the implementation plan.

6. Obtaining approval to proceed to the supplier evaluation and selection stage.

The ultimate product of the planning process is a significant procurement plan (which when executed will achieve the desired procurement objectives) consisting of:

- a recommended preferred procurement strategy
- specified measures and supplier management arrangements
- an implementation plan.

Planning activities

Demand analysis

Mandatory requirements

Information must be gathered about internal demand requirements in relation to the goods or service to be purchased.

The Queensland Procurement Policy states that, as a minimum, significant procurement plans must analyse demand and the supply market.

Together with supply market analysis, the results of demand analysis need to be evaluated to identify the key insights for the development of the procurement objectives and the procurement strategy options.

Recommended practice

Overview

Information obtained through research and analysis is used to develop procurement objectives and potential procurement strategies. It is also useful for refining the degree of business risk in the corporate procurement planning process; new information may alter the supply positioning category to which the goods/services belong.

Research and analysis

Develop a detailed demand profile

A key purpose of the demand analysis is to develop a clear and in-depth understanding of the current and predicted demand by the agency for the goods or services. The analysis may draw on information used in the procurement profiling exercise in development of the agency procurement plan, but will also require more detailed information about the specific goods or services which have been identified as significant procurements.

The requirements and key questions to address, in order to develop a detailed understanding of the demand for the goods or services, are presented in the following table.

Table 2: Developing a detailed understanding

Requirements	Key questions to address
Goods/services definition	• How is the good/service defined? • Is it a pure product or service or a 'bundle' (e.g. products with services attached)? • What are the key characteristics of this category? • How does the requirement for this good/service arise—how is it used to support the organisation? • How important is the good/service in supporting the organisation's business (i.e. low, medium, high importance)? What is the basis for this rating? • Are there other more sustainable options for satisfying demand? • Has in-house provision (as opposed to buying/leasing) been considered? • Is the demand fluctuating, seasonal, one-off, critical, non-critical or stable? • Have alternative goods/services been considered? • What are the options for reducing demand?
Spend analysis	• What is the total annual current spend and forecast spend on the good/service, e.g.: – by whole-of-government (if applicable), by agency, by business unit/function, by region? • What is the current spend on the good/service by key supplier, e.g.: – by whole-of-government (if applicable), by agency, by business unit/function, by region? – per month, per year?
Current category/supply arrangement issues	• What are the key cost drivers in the good/service category? • What are the historical high, average and low prices charged by suppliers for the good/service category? • How are the costs occurring over the life of the good/service determined, e.g. purchase cost, holding costs, maintenance costs, and disposal costs? • How are sustainability impacts across the life cycle addressed? • Is there/has there been an existing supply arrangement? • How are price changes negotiated: what is the basis for price changes? • What price variation formulae are used, if any? • Are volume discounts applied by suppliers? • Are any other price incentive mechanisms (such as rebates) applied? • How have existing/previous supply arrangements performed? • What are the attitudes of buyers/suppliers towards previous arrangements? • Is this a new procurement or a repeat exercise? • What are the current procurement processes/workflows, and their strengths and weaknesses?
Key internal stakeholders	• Who are the major internal users and what are their priority needs? • What are key business needs/concerns? • Who will be impacted by this procurement? • What are key stakeholder expectations about the category?

The results of the demand analysis are used to highlight any data gaps and draw out key insights for the development of specifications and procurement strategy options.

Obtaining demand information

The agency's 'accounts payable' system is a rich source of information and is usually the best place to start to address the questions listed in **Table 2**.

Questionnaires issued to key stakeholders in the agency can also be a useful tool in developing a detailed demand profile of the good/service. To obtain the necessary information about an agency's demand profile for a particular good/service it is important to identify the right stakeholders early in the planning process. Particularly for larger, more complex significant procurements, the use of a PRG—as suggested in the *Stakeholder engagement* section above can both provide input into the design of questionnaires and enable a better response rate to the survey. As part of market sounding, suppliers can also be directly approached for information about supplier volumes and pricing (see *Market sounding* later in this guide).

Demand management strategies can play an important part in promoting sustainable procurement. Such strategies can involve consumption reduction of the product or service; packaging; transport; resources; water; and energy. Demand management may focus on reuse and recycling of materials involved in the production; whole-of-life operation; and eventual disposal of the product.

Generic demand management strategies

Clearly defining the need for the procurement will help identify appropriate demand management strategies. Different demand management strategies will be suited to different categories of procurement.

Examples of generic demand management strategies are detailed in the table below (note that these provide general guidance only).

Table 3: Generic demand management strategies, by category

Requirements	Key questions to address
Volume category	• Reduce the amount of the goods or services used. • Reduce the number of purchases through aggregation of orders. • Where practical, time the purchase to coincide with off-peak periods in the supply market. • Use alternative goods or services.
Specialised category	• Demand management strategies in this category need to focus on ensuring the goods or services are available when required. • Holding extra stocks where possible reduces risks. Often, the costs of storage are offset against the benefit of ensuring supply is available.
Critical category	• Demand management in this category is linked to the overall corporate strategy of the agency and includes ongoing evaluation of the 'make/buy' decision as well as assessing the implications for client service relating to various forms of supply.

Specification issues

The development of the specifications is interrelated with developing the significant procurement plan. For example, key stakeholders—especially end-users—identified early in the significant procurement planning process are a valuable source of information on demand characteristics, as well as providing technical, sustainability and business input into the development of specifications.

The information gained from supply market analysis and the feedback from market sounding can assist in refining the requirements definition and the scope of the proposed procurement, and for ensuring that the proposed procurement will be aligned with the market.

For many significant procurement activities there will be an obvious need for the goods or services to satisfy an intended purpose. However, there may be a number of alternative goods or services available that will meet the same need, and be preferable from a sustainability perspective. These may be overlooked due to a narrow focus on, or specification for, particular goods or services which may ultimately lead to the choice of a sub-optimal procurement strategy. Different ways to satisfy the demand for goods or services should be routinely considered as part of the planning process. For example, a rubber compound may be used instead of bitumen on some roads. There may be potential to decrease the dependency on bitumen in favour of using recycled tyres to replace a portion of the mix.

Focussing on the outcome required from the procurement activity, and not prescriptive technical specifications, often opens the market to a wider range of goods or services and suppliers. This may help to reduce the risk associated with the significant procurement, for example in situations of over-dependency on particular suppliers for particular products. Early consideration of more sustainable alternatives can lead to the selection of goods and services which will have significantly lower environmental and whole-of-life impacts.

Supply market analysis

Mandatory requirements

Information must be gathered about the supply market from which the good or service will be purchased.

As with demand analysis, the results of supply market analysis need to be evaluated to identify the key insights for the development of the procurement objectives and the procurement strategy options.

Recommended practice

Overview

Supply market analysis is a technique used to identify market characteristics for specific goods or services. It provides information to assist with developing potential procurement strategies and is particularly useful for projects which are innovative in nature; complex; or are characterised as high risk. This activity should be conducted in conjunction with demand analysis.

Supply market analysis can provide a strategic understanding of how a market works; the direction in which the market is heading; its competitiveness; the existence of adequate capacity; who the key suppliers are; the value that suppliers place on the agency as a customer; and the sustainability opportunities and performance within the market.

The information gathered through supply market analysis helps to manage risk by identifying and analysing potential supply difficulties associated with suppliers or the market. It can assist in developing strategies to shape the market in a way that will increase the supply base; potentially increase competition; provide innovative responses to constraints or opportunities; and progress sustainability objectives.

Research and analysis

To develop an understanding of a supply market, research and analysis is undertaken to determine:

- the number of suppliers and their respective market shares (market structure)
- the degree and type of competition between suppliers
- the nature and quality of the supply chain
- the potential for substitute or alternative goods or services
- the agency's value as a customer (supplier preferencing)
- sustainability and other broad market 'context' factors (e.g. political, economic, social/cultural, and technological) affecting the supply market.

Note that in practice, supply market analysis is undertaken in parallel with market sounding, which can be used to refine the findings from supply market analysis, and is discussed in the next section.

Market sounding

Market sounding is a technique used to assess the reaction of the market to the proposed procurement activity and approach. It should be undertaken in conjunction with supply market analysis and brings early collective perspectives from suppliers. Market sounding is undertaken through direct communication with potential suppliers, whereas supply market analysis uses primary documentation and secondary sources to gain information. Market sounding should not be used as a substitute for supply market analysis.

Market sounding should lead to an understanding of the attitude, thoughts and likely response by the market as a whole to the proposed procurement activity, through discussions with multiple individual suppliers. It can make the procurement process more specific, accurate and efficient, as well as shorter.

Market sounding does not include elements of supplier selection or offer evaluation, nor does it create commitments of any kind on the part of the agency or agencies managing the project, or the suppliers involved.

Market sounding can be particularly useful when:

- doubt exists over the existence, capacity, capability, competitiveness or maturity of a market
- the project outcome sought or the procurement specifications are complex or innovative
- there is uncertainty over the level of supplier interest
- there is a need to manage market expectations.

Tip

A key aspect of market sounding is that it can assist procurement officers translated desired outcomes into a high-level statement of business requirements that is well aligned with the market, which makes it much more likely that the desired outcome will be achieved.

Procurement strategy considerations which can be informed by market sounding include:

- project sizing, requirements specification and supplier engagement
- industry impact assessment
- aggregation and bundling of the agency's requirements.

Evaluate the results of research and analysis

The findings from the demand analysis, supply market analysis and market soundings should be evaluated in order to identify the key insights for the development of procurement objectives and strategy.

A useful technique for summarising the results of the research and analysis phase is to conduct a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis. Using this technique, strengths and weaknesses are typically internal factors to the agency, which will be largely generated from the demand analysis. Opportunities and threats are typically external factors which will be identified from the supply market analysis and from market soundings, for example, whether suppliers perceive the agency as a valued customer in that particular market.

The hypothetical example in **Table 4** of a business critical software requirement for an agency is used to illustrate the application of the SWOT analysis.

Table 4: Example SWOT analysis of a business-critical software

Strengths	Weaknesses
Example only: • level of in-house technical capabilities • good, reliable historical spend data • well-established IT project management processes • clearly defined customers and clearly defined authorities for decision-making • experience in managing similar projects • IT strategies map to whole-of-government governance frameworks.	**Example only:** • burdensome procurement/tendering procedures • low level contract management expertise • multiple touch points for suppliers, especially for post-sales support/upgrades • lack of coordination with other agencies with similar requirements • requirements that are overtly technical given likely changes in need and the market • existing sourcing approaches have not encouraged innovation • lack of procurement marketing expertise.
Opportunities	**Threats**
Example only: • aggregate demand for similar requirements within the agency (and potentially with other agencies) to improve economies of scale • potential to break up requirement into modules to encourage innovative Small and Medium sized Enterprise (SME) participation • conduct supplier development activities to promote competition, especially from local SMEs	**Example only:** • market is dominated by a few large national suppliers based interstate • competition has been reducing, especially in the government market • supplier power is disproportionately high when supply is aggregated or bundled to an all-encompassing solution • current suppliers lack responsiveness especially regarding after-sales support and upgrades

• potential to develop the market for goods/services with improved sustainability outcomes.	• supplier perceptions of agency as an 'exploitable' customer • perception by SMEs of favouritism towards major, 'embedded' suppliers • potential supply chain vulnerabilities due to over-reliance on interstate support.

***Note** that the example in **Table 4** is hypothetical and is for illustrative purposes only.*

Determine procurement objectives

Recommended practice

Specify how the procurement supports agency objectives

The objectives identified in each significant procurement plan need to be consistent with the high-level procurement objectives in the agency procurement plan. The agency procurement objectives will address, among other things, how the procurement function contributes to the core business of the organisation

This section of the significant procurement plan should specify how the proposed procurement will support the achievement of the agency procurement objectives.

Establish specific and measurable objectives

Establishing objectives to be achieved by a significant procurement project will entail reference to the higher level agency procurement objectives mentioned above (to ensure consistency), and the development of specific and measurable objectives based on the results of research and analysis.

The following are examples of generic objectives relating to each of the significant procurement categories:

- **volume category:** Generic purchasing strategies in this category aim to ensure that total costs, including the costs of processing large numbers of low value transactions, are reduced; and sustainability opportunities harnessed. Here, demand management strategies often have more potential than supply market management strategies.
- **specialised category:** The generic objectives are to ensure a secure and ongoing supply by reducing the exposure of the agency to limited sources.
- **critical category:** The general aim in this category is to achieve value for money through effective supplier relationship management. The suppliers in this category are often those that supply complex goods and services and rely on innovative solutions, high creativity and high intellectual property content.

In developing significant procurement objectives consideration should be given to establishing benefit targets aligned to the strengths, weaknesses, opportunities and threats identified through the SWOT analysis. These may be 'stretch' targets that the agency thinks could be achievable through a strategic approach to sourcing and managing the good/service. Having measurable targets provides a guiding framework for developing and evaluating the procurement strategy options in subsequent steps. The preferred procurement strategy should be the option which is deemed to be most likely to achieve the targets.

Objectives need to be measurable and meaningful, in other words **'SMART'**:

- **S**pecific
- **M**easurable
- **A**chievable
- **R**elevant
- **T**ime-bound.

Continuing with the hypothetical example of a business critical software procurement project for an agency, **Table 5** consists of suggested objectives with measurable benefit targets.

Table 5

Examples of objectives with benefit targets – hypothetical business- critical software procurement project
• Target total cost of ownership (TCO) savings of 8–12% p.a. • Reduce the level of greenhouse gas emissions produced from the manufacture, whole-of-life operation and disposal of the product/service by 30%. • Target an increase in the level of SME participation in provision of local support and service by at least 30%. • Target an improvement in cycle times for introduction of new upgrades by at least 15% through greater supplier innovation. • Improve supplier service delivery performance—in terms of response, restore and resolve times—by 20% or more.

Develop and evaluate procurement strategy options

Mandatory requirements

The Queensland Procurement Policy states that, as a minimum, significant procurement plans must contain strategies to achieve value for money, including the advancement of economic, environmental and social outcomes.

Recommended practice

Overview

Devising an effective strategy for a significant procurement activity requires considerable analytical skill, market knowledge and agency business knowledge. The approach to be taken will depend on the results of the research and analysis undertaken (using techniques such as the SWOT analysis).

The level of detail and effort in developing strategy options should be commensurate with the complexity, scope, opportunities and risks associated with the significant procurement objectives.

Procurement strategy options should address, as a minimum:

- sourcing strategy issues that will impact on the ability of the strategy to satisfy the objectives identified for the significant procurement (drawing on the key insights from the SWOT analysis)

- procurement methods outlining the best way to approach the supply market to achieve the objectives (e.g. competitive tender or select tender) and the supply arrangements best suited to engaging the supply market.

Sourcing strategy issues

Generic sourcing strategies

There is a range of sourcing strategies based on the generic characteristics of the supply positioning categories. Examples of these generic strategies are listed in the table below, and take into account the overall demand and supply market characteristics of the category. Note that these strategies should be used as general guidance only.

Table 6: Generic sourcing strategies for goods & services, by category

Requirements	Key questions to address
Volume category	**Strategies could include:** • efficient interfaces with suppliers (such as electronic transaction ordering and processing) which can deliver considerable savings • effective use of management information, identifying opportunities to improve supplier arrangements for the benefit of government • negotiating for improved service levels from suppliers (e.g. inventory management services, extended warranties and sustainability outcomes) • regionalising supply in this category under centralised arrangements, which may provide better access and service at the local level • focussing the development of procurement expertise on understanding the nature of demand patterns, the strategies of suppliers and tactics for getting the best deal from the market • aggregation and consolidation of demand, to enable leveraging of buyer power where the market for the product or services category is competitive.
Specialised category	**Strategies could include:** • modifying the demand requirements of the agency to permit the use of alternative or less specialised goods or services • using performance specifications (rather than specific technical specifications) that allow alternative goods or services to be considered • developing alternative sources of supply, usually from the local market • conducting market and supplier development activities to encourage more innovative and sustainable offerings.
Critical category	**Strategies could include:** • segmenting the supplier market into ‘tiers’; customising strategies to match the market characteristics—particularly the value suppliers place on the agency as a customer • developing long-term relationships with suppliers based on strong project risk/value sharing structures (such as alliance contracting) • consolidating volumes and carefully analysing the individual components of the ‘bundles’ or ’packages’, in order to structure procurement methods that will encourage supplier investment in long-term relationships, and commitments to local industry development and sustainability improvements • alternatively, in some markets ‘unbundling’ may be required to stimulate competitive prices and/or sustainability outcomes for the different segments

	of the category/product grouping and to develop a competitive and more sustainable marketplace • considering supplier relationship and contract management requirements in the planning phase; value is secured over the longer term through effective supplier relationship management.

Industry impact assessments

A clear and detailed understanding of relevant industries and supply markets is a prerequisite for developing strategies which minimise adverse impacts on industry and supply markets, optimise sustainability opportunities within industry and optimise the ability of the strategy to achieve its objectives.

The need for agencies to undertake industry impact assessments is applicable to all types of significant procurement – especially where the impact of the agency or the government's spend may be significant to a particular industry or supply market.

Common procurement strategies used by government (such as aggregation and bundling) should be considered carefully, as these approaches can potentially reduce the level of competition in certain supply markets and can particularly disadvantage smaller suppliers. The potentially adverse industry/supply market impacts of aggregation and bundling strategies are illustrated in the two examples described in **Table 7**.

Table 7: Assessing industry impacts – examples of aggregation and bundling strategies

Examples of aggregation and bundling strategies	
Example one: A strategy which consolidates supply with one vendor	Several Standing Offer Arrangements (SOAs) for the provision of various foodstuff items may be consolidated into one centrally-managed SOA with a single nationally-based vendor. ***Potential impacts*** This strategy may entail advantages in terms of significant economies of scale, leading to lower overall prices and lower transaction costs, or improved sustainability outcomes. However, it may reduce the supply base in certain regional locations that specialise in high quality or sustainable goods and responsive service, particularly in the supply of fresh produce. An alternative strategy would be to consolidate non-perishable grocery lines centrally, while providing opportunities for regionally-based suppliers to compete for fresh/perishable foodstuff lines, where responsiveness and quality is important.
Example two: a strategy which entails a large 'bundled' contract	An all-encompassing 'bundled' contract is arranged for the supply and support of a group of related products across the state. ***Potential impacts*** This strategy may provide advantages in terms of lower prices for the products, lower transaction costs, and better (more centralised) management oversight. However, large bundled contracts of this type may lock out smaller suppliers who specialise in particular technologies and are adept at bringing new products to market quickly. It could also exclude regionally-based SMEs specialising in providing customised after-sales

	service and support or sustainable practices. Agencies must be aware of any implications under the *Competition and Consumer Act 2010 (Cth)*. An alternative approach would be to consider disaggregating the supply of individual products into more manageable bundles matched to the capabilities and capacities of the relevant supply markets. Also the strategy could be restructured to encourage local SME service specialists to compete for the support components on a regional basis.

Over-dependency

It is also necessary to consider the extent of agency over-dependency on a supplier and conversely the situation where a supplier is over-dependent on the agency for its business. Understanding the impact of potential procurement strategies on the industry and supply market not only identifies (at an early stage) whether the agency's action will have an adverse impact on competition, but may also reveal whether the agency is vulnerable to exploitation by a supplier.

Examples of over-dependency and suggested strategies to address such instances are provided below.

Table 8

Examples of over-dependency and suggested strategies	
Example one	A supplier is so dependent on an agency for its revenue that any change in the agency's procurement strategy that could result in switching to another supplier, would result in the incumbent supplier experiencing severe financial hardship or becoming bankrupt. If this supplier was a provider of specialist products critical to the agency's service delivery, the results of supply failure could severely impact the agency's ability to achieve its core business objectives. ***Suggested strategies*** • To mitigate the agency's supply vulnerability, consider undertaking supplier development activities to stimulate new entrants to the market. • Ensure that the incumbent supplier is not led to believe that they will be supported via government business. Ultimately the supplier's decision to be dependent on the agency's work is a commercial decision.
Example two	A supplier's share of the agency's business is so large, based on it winning a long-term bundled contract, that it has the potential to exploit its position, charge exorbitant prices, and use its dominance to deter other competitors. Strategies which entail bundling of related requirements and which favour single suppliers not only risk over-dependency but also may contravene the *Competition and Consumer Act 2010 (Cth)*. ***Suggested strategies*** • Consider unbundling the requirement into smaller, more manageable packages which may be more attractive to a wider range of suppliers. • Use market sounding techniques to gauge the market's level of interest in the agency's business, and identify the agency's value to suppliers as a customer.

	• Based on supplier feedback, consider using market development initiatives to stimulate competition in the market for the agency's business.

In both examples of over-dependence illustrated in **Table 8**, there is a risk of loss of competition in the market, higher prices, and failure to meet procurement objectives. Good supply market information can be used to inform the development of sound procurement strategies which can mitigate the risk to the agency of supply failure due to over-dependency.

Aggregation and bundling

Aggregation and bundling are processes whereby the agency's demand for goods/services is grouped and packaged to the supply market. For the procurement entity, aggregation and bundling strategies are typically used to deliver economies of scope so that the buyer deals with the smallest number of vendors required for addressing the product or service demand. Equally, for the supplier, aggregation and bundling offers economies of scale by delivering greater (more attractive) volumes to suppliers, and as a result is expected to achieve lower pricing for the buyer.

The difference between aggregation and bundling has been explained as follows:

- ***aggregation*** is the grouping together or coordination of common or similar requirements within an agency or across government

- ***bundling*** entails the aggregation of diverse but related requirements (such as IT infrastructure, communications and application development) into one package.[3]

The following are some of the major questions to be answered in developing aggregation and bundling strategies:

- what represents a minimum or maximum order size?
- are different product types included in the bundle?
- are service and support elements included as part of the supply contract?
- does the bundle provide a pre-assembly stage, coordinating output from various sub-contractors?
- is demand to be aggregated into one contract over a period of time, as commonly occurs in SOAs?
- should a sequence of similar requirements be contracted as a program of work?
- how is the supply market structured? Does it have the capabilities and capacities to successfully implement the program of work—for example, when this is presented as an all-encompassing 'bundled', contract?

Traditionally, government agencies have used aggregation and bundling strategies in the volume category to drive efficiencies and leverage buying power to achieve often dramatic cost savings. However, it should be noted that aggregating or coordinating demand does not necessarily have to lead to the consolidation of supply and potentially detrimental impacts on the level of competition in the supply market.[4]

[3] The Office of Government Commerce (OGC), 'Aggregation – Is bigger always better?', *Best Practice Guidance*, p. 2.
[4] The Office of Government Commerce (OGC), 'Aggregation – Is bigger always better?', *Best Practice Guidance*, p. 2.

The main advantages of aggregation and bundling strategies include:[5]

- **Lower prices through reduced production costs**
  Opportunities to achieve economies of scale can be exploited, including enabling smaller organisations to benefit from the same advantageous deals achieved by larger ones, if the arrangement is set up to allow multi-access.

- **Greater leverage**
  Aggregation/bundling may facilitate improved management of suppliers at a strategic level and can strengthen agencies' negotiating position in contracting with their suppliers

- **Better management information**
  The aggregation of demand can deliver benefits through better quality management information and can also allow price benchmarking within an organisation and with others in the market.

- **Lower transaction costs**
  Aggregation/bundling across or within agencies can simplify the tendering process, leading to reduced procurement costs for agencies and reduced bidding costs for suppliers.

- **Better management of the supply chain**
  Aggregation (or more specifically bundling) may place the responsibility for managing the supply chain with a prime contractor. In some cases this may result in better supply chain management and better overall value for money.

- **Improvement in value of agency as customer**
  Insufficiently aggregated demand requires more frequent interaction with the market, resulting in a longer procurement process and higher bidding costs for suppliers. Larger suppliers may find the purchaser a nuisance customer and either not bid or offer higher prices.

However, the potential negative consequences for small firms and on the level of competition through aggregation and bundling of supply has recently been highlighted in the United Kingdom, through the then Office of Government Commerce (UK OGC):

> …there are also increasing concerns about the role of small firms in a competitive and healthy market, and the fact that in some markets a small number of suppliers are able to exert an undue influence on us.'[6]

The following are some of the potential drawbacks[7] resulting from poor aggregation or bundling decisions:

[5] The Office of Government Commerce (OGC), 'Aggregation – Is bigger always better?', *Best Practice Guidance*, p. 6.
[6] The Office of Government Commerce (OGC), 'Aggregation – Is bigger always better?', *Best Practice Guidance*, p. 1.
[7] The Office of Government Commerce (OGC), 'Aggregation – Is bigger always better?', *Best Practice Guidance*, p. 7.

- **Distortion of the market**
  Aggregation across government could distort markets by developing a situation where too few suppliers are operating. In this situation suppliers can singly or collectively raise prices above competitive levels and harmfully exploit their market power.

- **Diminishing gains of economies of scale**
  In most markets there is a point at which it is no longer possible to exploit further economies of scale. Aggregating supply beyond this point would not be advantageous.

- **Unintentional exclusion of suppliers due to large contracts**
  Very large contracts may pose significant barriers to entry for smaller firms, or those wishing to diversify into the market. A combination of the evolving strength of incumbents, size of contracts and high bid costs can lead to less competitive marketplaces.

- **Lengthy 'lock-out' periods for potential new entrants**
  Where aggregation results in fewer, bigger procurements, suppliers that lose out are more likely to be locked out of the public sector marketplace for a prolonged period. Buyers may risk becoming over-reliant on very large suppliers who are not reliant on their government contracts and therefore have strong negotiating positions.

- **Difficulties in engaging with innovators**
  Aggregation and bundling may limit the opportunity for pilots, because ideas, opportunities and innovative progress can be lost in large-scale procurement and rollout processes. Awarding smaller contracts can allow more managed risk-taking to pilot new ways of doing things; for example, using a 'proof of concept' stage.

- **Invisible supply chain**
  There may be loss of visibility of the constituents of the supply chain, causing difficulty with identifying the associated risks and costs (mark-ups) and ensuring value for money.

- **Costs and risks for suppliers to meet bundled packages**
  Bundling involving configurations of different goods, or different phases of the production process, may require coordination among suppliers that the market is unused to delivering. Coordination costs and levels of risk are likely to increase.

- **Sub-optimal service delivery**
  Bundling involving a single procurement for a large portfolio of products—for example in ICT, construction, facilities management or service delivery—can also lead to sub-optimal delivery of the service aspect that is not a core business of the supplier.

In summary, aggregation and bundling are valid procurement strategies which can drive significant efficiencies and cost savings. However, they require a sound understanding of the capabilities and capacities of the relevant supply markets. This can be gained through the conduct of detailed supply market analysis and the early and continual engagement of industry through market sounding.

Sustainability considerations

The Queensland Government is committed to protecting the environment and doing business with ethical and socially responsible suppliers.

Sustainability considerations should be addressed as an important component of the overall procurement strategy; they include:

- strategies to manage demand and avoid unnecessary consumption
- minimising environmental impacts of goods and services over their whole life
- understanding the level of commitment by potential suppliers to socially responsible practices, including compliance with legislative obligations to employees
- value for money as a whole-of-life consideration (encompassing sustainability benefits) rather than just initial cost.

Agency significant procurement plans should consider strategy options which will have a lower impact on the environment, and be socially responsible and ethical. The 'demand analysis' and 'supply market analysis' steps will be the major opportunities to consider these issues and evaluate more sustainable options.

The following table sets out some of the sustainable procurement objectives that may be considered as part of the development of procurement strategies.

Table 9: Sustainable procurement objectives

Requirements	Key questions to address
Reduce adverse environmental impacts arising from government procurement	• Reduce waste and landfill, for example through purchasing recycled content products and products that create less waste. • Reduce the amount of resources used and the environmental effects of obtaining those resources: for example, through use of durable or lightweight products, products made from less energy-intensive materials, and recycled content products, thus increasing energy efficiency. • Save water. • Eliminate or reduce toxic materials and pollutants entering the environment. • Reduce greenhouse gas emissions. • Preserve natural habitats and ecosystems.
Make more efficient use of public resources	• Reduce whole of life costs through greater energy and water efficiency, reduced waste disposal, re-using and recycling materials and products. • Lower up-front costs for some products and services. • Increase productivity and wellbeing, through an improved work environment.
Improve social impacts associated with government procurement	• Promote ethical and socially responsible practices among suppliers.
Stimulate the market to innovate and produce more sustainable options for government and business	• Increase the availability of sustainable products at cost-effective prices. • Expand the market for sustainable products, as well as for products with reduced packaging.

purchasers and Australian consumers	• Improve the level of information available to buyers about the content and performance of products, making it easier to buy more sustainable products.

Small and Medium Enterprise (SME) involvement

Clause 2.1 of the Queensland Procurement Policy requires agencies to ensure that capable and competitive local suppliers, including Queensland suppliers and small businesses, are given a full, fair and reasonable opportunity to supply government. .

Procurement officers must comply with the requirements of the ICT SME Participation Scheme when developing procurement strategies for ICT goods and services.

There are a number of reasons why doing business with SMEs can lead to better value for money outcomes, as illustrated below.

Table 10: Benefits of using SMEs

Benefits of using SMEs	
Lower costs	• Involving a greater range of suppliers (in terms of size and capabilities) creates an environment of 'competitive tension' which can promote downward pressure on the prices charged by all suppliers in the market. • SMEs have generally lower administrative overheads and management costs than larger firms. Depending on the nature of the procurement, this can result in lower prices.
Better quality of service	• SMEs have short management chains and approval routes, so they can respond quickly to changing requirements. SMEs may also be highly focused on particular markets—making them particularly responsive to changes in those markets. • Being a large customer of a small business means your business is important to the SME. This can result in a better, and often more personal, level of service and in a better relationship with the supplier. • The SME may also be more willing and able to tailor a product or service to meet specific customer needs than a large firm that sells an established offering. • Many SMEs supply higher quality specialist products or services than larger suppliers, either because larger suppliers are discouraged by the limited demand, or because the SME has skills, originality and commitment in that field that are greater than those found in their large company competitors.
Innovation	• SMEs can bring innovation: for example, through the early exploitation of new technology, sustainable practices and alternatives; providing products or services in new or underdeveloped markets; or by using innovation to differentiate themselves from established market players.[8]

[8] The Office of Government Commerce (OGC), 'Smaller supplier….better value?', Best Practice Guidance, pp. 6–7.

However, the way in which government structures its procurement strategies and conducts its procurement can raise barriers to the participation of SMEs in procurement. Some of these barriers to SME participation and suggested strategies to overcome these are outlined below.

Table 11: Examples of barriers to SME participation and suggested alternative strategies

Barrier	Alternative strategy
There may be a trend towards aggregated and/or bundled contracts which are too large and include too many diverse products or services.	Ensure SME viewpoints are considered early in the procurement process (refer to the market sounding' section of this guide) and use this feedback to refine the size, scope and specification of requirements. Consider the advantages of dividing aggregated requirements into more manageable lots matched to the capabilities and capacities of the market—noting that coordination/aggregation of demand does not necessarily mean that consolidation of supply is the best strategy.
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.	Ensure that the size and scope of the tendering exercise matches the size and scope of the requirement and that tender documentation is as simple and jargon-free as possible.
Over-specification of requirements—which are often weighted towards particular solutions rather than outcomes.	A focus on outcomes rather than on large numbers of detailed technical requirements is more likely to encourage SMEs to bid.
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.	Ensure that the 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 an environment characterised by rapid technological change. In this instance the flexibility of a smaller, more agile company may be less inherently risky than a large conglomerate.[9]

Procurement methods

Overview

A key component in developing procurement strategies is consideration of the potential methods of procurement. This covers:

[9] The Office of Government Commerce (OGC), 'Smaller supplier….better value?', Best Practice Guidance, pp. 8–16.

- the type of supply engagement which will be most suitable for achieving the procurement objectives, including the optimal approach to addressing risk
- the optimal method for approaching the market and the extent to which the method is competitive.

An important source of information to guide the development of options for the procurement method is to review the performance of existing or previous supply arrangements for similar goods and service. Much of this information will have been collated in the demand analysis phase (regarding the attitudes of buyers) and via market sounding (regarding the attitudes of suppliers to existing/previous arrangements). This information can be important in ensuring that the proposed procurement method incorporates the positive aspects, and learns from the mistakes, of previous approaches.

Contracting for risk

A useful approach to determining the optimal method for addressing risk has been developed by the former United Kingdom Office of Government Commerce (UK OGC) in its *Risk Allocation Model for Project Strategy and Procurement*[10]. This approach was recommended by the UK OGC for ICT procurement, but is also relevant to any significant procurement activity with a high level of complexity and risk.

Understanding the level and types of risk attributable to the supplier can assist in determining the most appropriate type of supply arrangement.

In terms of addressing risk, developing the right contractual framework entails determining what the agency is really contracting for. It would contract for:

- **outcomes**, where contractors in the market are well placed to manage all the major risks
- **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)
- **inputs**, where the agency is well placed to internally manage all the major risks.

Contracting for **outcomes** should only be considered where the procurement objectives can be clearly matched to a strategic organisational goal, the fulfilment of which can realistically be transferred to a contractor. It should be noted that risks of failure in government cannot ultimately be totally transferred to a contractor and often a partnership approach, such as via a Public Private Partnership (PPP) approach, is used. Contracting for outcomes should only contemplated after a detailed business analysis of the costs and risks.

Contracting for **outputs** is where the contractor can be held responsible for a specific output which contributes to a clearly defined outcome. Here the risks should be clearly defined and allocated to the entity, (the agency or the contractor) best placed to manage them. An example is the delivery of a fully serviced IT software solution to enable a critical agency finance outcome to be delivered, where a long-term partnering approach would be recommended. This approach demands high-level capabilities in contract management within the agency.

[10] The Office of Government Commerce (OGC), 'Risk Allocation Model for Project Strategy and Procurement', ver. 1.0, 2006.

The most common approach is to contract for **inputs**, whereby the agency is responsible ultimately for nearly all risks, and the procurement is contributing to a prescribed output. An example would be the procurement of a specific item of IT hardware or the engagement of a professional contractor on a time and materials basis to complete a specified series of tasks. This approach requires strong project management skills to manage the technical and business integration aspects of the project.[11]

Types of supply arrangements

The next step is to consider the type of supply arrangement that will best achieve the desired objectives for the significant procurement, including the appropriate attribution and management of risks. This step is usually the one most procurement officers are familiar with, as there are a number of generic approaches which match the broad characteristics of the supply positioning categories.

For **volume** category goods and services ('low degree of business risk and high expenditure'), the recommended methods give the buyer flexibility to leverage their demand in the market to ensure that total costs are reduced, and sustainability progressed. The buyer's ability to be flexible is the key to reducing total costs and improving sustainability outcomes. As markets in this category are competitive, buyers generally need to approach this type of purchase with the view of keeping suppliers at 'arm's length'. A given supplier should only be used so long as they keep providing the best deals. Typical supply arrangements suited to volume requirements are:

- prequalified panel arrangements
- SOAs; either a single supplier or multiple suppliers ('panel').

For **specialised** category goods and services ('high degree of business risk and low expenditure'), long-term contracts are often appropriate, because buyers benefit from the security that long-term contracts offer. Although this reduces flexibility, the advantages of securing supply for these purchases outweigh the disadvantages. It is important to develop sound relationships with key suppliers, as the buyer will be relying on these suppliers to be able to provide the goods or services as necessary. It is important to specify the appropriate performance, standard and service levels expected from the supplier. Typical supply arrangements suited to specialised requirements are:

- long-term supply contracts
- alliance contracts
- incentive-based contracts.

For **critical** category goods and services ('high degree of business risk and high expenditure'), longer term arrangements are also common. Performance outcomes need to be defined and milestones monitored. Arrangements should be reviewed regularly and performance assessed. Strategies need to support the objective of reducing risk and costs while considering sustainability, by effectively managing supplier relationships—since procurements in this category are often critical to the service delivery of the agency. The agency must work closely with the supplier by understanding the supplier's production processes and marketing strategies, while the supplier

[11] The Office of Government Commerce (OGC), 'Risk Allocation Model for Project Strategy and Procurement', ver. 1.0, 2006, p. 4.

needs to thoroughly understand the agency's needs. Typical supply arrangements suited to critical requirements are:

- long-term supply contracts
- bundled fully-serviced contracts (prime contractor)
- alliance contracts
- outsourcing contracts.

Advanced techniques such as alliance contracting can be used for the effective delivery of projects with very high risk and complexity. For example, very high risk projects include those that involve a large amount of geotechnical risk, are software intensive or involve systems with uncertain configurations.

Approaching the supply market

Developing strategies for approaching the supply market should be undertaken concurrently with determining the optimal type of supply arrangement, and will draw upon the analysis already carried out. In this respect the insights from conducting research and analysis, and the consideration of relevant sourcing strategy issues, will be invaluable in structuring the approach to the market.

Some of the common ways of approaching the market, and the general circumstance and characteristics of their use, are summarised below.

Table 12: Summary of generic approaches to the supply market

Generic approach	
Direct negotiation	Used where there is a highly reduced supply base and the agency is vulnerable to supply failure, especially for requirements in the specialised category. In conjunction with supplier development activities, the agency might directly negotiate an initial, 'proof of concept' contract to a supplier in order to establish a new viable source of supply in the market.
Request for Proposal (RFP)	Used to encourage suppliers to propose solutions to achieve a desired outcome or resolve a specific problem, especially for larger, more complex requirements. An RFP should focus on the broad capabilities or capacities of suppliers to meet the need. There is generally more scope for suppliers to provide innovation or alternative options via an RFP than in other methods.
Request for Information (RFI)/Expression of Interest (EOI)	Used for shortlisting suppliers that would be most capable of submitting a viable response to a request to tender/quote. Should not be used as an alternative to supply market analysis and market sounding, but rather as part of a staged approach to ensuring that only competitive firms respond to an open tender request.
Request for Tender/Quote/Offer (RFT/Q/O)	Used in circumstances of a competitive market and where market soundings have confirmed a viable level of interest and capacity amongst prospective suppliers. Can entail multiple phases for more complex requirements. Is the most visible and transparent method.
Restrictive or select tender	Used in circumstances where there is limited competition in the market. There may be a limited number of suppliers with the requisite technical

	capabilities. The selection of suppliers could also be based on a previous pre-qualification exercise.
Sole source tender	Used in very limited circumstances where there may be one supplier with the requisite capability to meet the need. Any decision to use a sole source strategy should be based on a sound supply market analysis and market soundings, as documented in the significant procurement plan.
Note: There is a significant difference between justifying a sole source market engagement strategy on the grounds of there being one viable supplier in the market, and approaching one supplier on the grounds of genuine urgency. In the latter case, there may be a competitive market, but the real reason for the sole tender is because of genuine urgency, not the market situation. Repeated use of the 'urgency' justification may also be symptomatic of poor procurement planning.	

The generic methods of approaching the market listed in **Table 12** are all traditional sealed-bid formats where competing suppliers are not aware of each other's prices. The **reverse e-auction** is an alternative approach, relatively new to government, which involves an open-bid format conducted online. This is discussed in more detail in the next section.

Reverse e-auction

A reverse e-auction is a real time, online open-bid auction between a buying organisation and a group of pre-qualified suppliers. The suppliers compete against each other to win the business to provide the goods or services that have clearly defined specifications for design, quantity, quality, delivery, and related terms and conditions. These suppliers compete by bidding against each other online using specialised software. The auction is open, so a supplier's bid can be seen by all other bidders, and involves suppliers submitting successively lower bids during a scheduled time period.

The attributes that identify if a reverse auction is suitable to use for a particular good or service include the following:

- items can be clearly specified (design, terms and conditions) and translated into prices a supplier will commit to charge the buyer
- there is a strong likelihood that the current price is sufficiently higher than the market price so as to make the reverse e-auction event cost-effective
- the costs of switching suppliers are acceptable
- a sufficient number of qualified, competitive suppliers exist in the marketplace
- qualified suppliers of the items are willing to participate in a reverse e-auction
- buyer-supplier relationships are not likely to be damaged by the use of a reverse e-auction.

However, reverse e-auctions are not suitable for sourcing goods or services which are characterised by:

- long-term relationships with suppliers (here value is secured over the longer term through effective supplier relationship management)
- a limited supply market (here there are insufficient suppliers to participate in the reverse e-auction)
- high cost of switching suppliers.

Caution should also be taken in relation to commodity items from mature markets that have a low degree of 'value-add' by the suppliers and are already priced with low margins. For these items, the cost saving potential from a reverse e-auction is limited and it may therefore not be suitable.

As a procurement method, reverse e-auctions may be suitable in some instances for significant procurements involving goods and services in the volume supply positioning category, but would not be suitable for the specialised or critical supplier positioning categories.

Develop and evaluate options

Overview

The purpose of developing and evaluating procurement strategy options is to present a compelling recommendation to the agency's accountable officer or delegate as to the procurement strategy which is most likely to achieve the significant procurement objectives. The number of options and associated level of detail will of course depend upon the size, scope and risk/complexity of the specific significant procurement project.

Qualitative evaluation

Each option should entail a brief description followed by a written statement explaining the respective merits of the option. A qualitative evaluation of the option using a SWOT analysis is recommended, especially for more complex/higher risk requirements. Any significant assumptions in developing the options should also be outlined. A summary of the overall suitability of each option should be provided following the SWOT analysis.

Using the example of a hypothetical business critical software requirement for an agency, **Table 13** illustrates how to evaluate an option using the SWOT approach, and includes a summary of the merit and suitability of the option. Note that as a 'hypothetical' the example is for illustrative purposes only.

Table 13: Example of SWOT analysis of a procurement strategy option

Example option one: aggregated/bundled prime contract

The key components of the software solution (design, development, supply, installation, implementation and ongoing support) are bundled into an all-encompassing prime contract. This procurement method entails a single prime (fixed price) contract via a single stage open tender process. The tender should be structured to encourage SME participation at the sub-contractor level.

Strengths	Weaknesses
• Maximises economies of scale and the incentive for prime contractor to reduce the TCO throughout the term of the contract. • Lower transaction and contract management costs of dealing with one prime contractor. • Supports long-term supplier relationship/commitment. • High level of agency leverage and influence, translating to stronger negotiating position. • Can facilitate a more comprehensive and integrated approach to sustainability (e.g. cradle-to grave approach). • Prime contractor is responsible for supply chain and for quality of sub-contractors.	• Large bundled contract is a barrier to local SMEs tendering. • Will lock out potential innovative, agile vendors for the period of the contract. • Doesn't allow for a more managed risk-taking approach (e.g. pilots and proof of concepts for design phase). • The supply chain and the actual value being added by the prime contractor's lack of visibility. • Potential for sub-optimal quality of discrete offerings within the package, such as being offered a compromise solution rather than 'best of breed,' especially in relation to service.

• Size of contract gives prime contractor incentive to partner with regionally-based suppliers.	
Opportunities	**Threats**
• Strong incentive to invest in regional infrastructure to improve regional service standards. • Positions the agency as a major customer: moves agency towards being a 'core' customer. • Potential to collaborate with other agencies (with similar needs) to increase economies of scale.	• Perception that the approach favours large, interstate-based suppliers. • Significant levels of scrutiny and complaints over process from unsuccessful tenderers. • Significant potential for a reduction in the level of competition. • Potential for a loss of innovation capability in the supply market. • Potential for the prime contractor to use its incumbent position and size of contract to raise prices over time.

Summary of option

Example only:
A key strength of this option is that it maximises the incentive for industry to offer a low-priced solution, and reduce TCO over time, as well as achieve whole-of-life sustainability outcomes, based on the economies of scale and the limitation of competition to one prime contractor. This 'maximisation of volume, economies of scale and prime contractor' approach could be leveraged by the agency to encourage the successful vendor to provide a high level of service delivery, particularly in regions. This option appears as the cheapest for both government and industry.

However, there are significant weaknesses and risks which reduce this option's real benefit. The option may result in a sub-optimal solution and low level of visibility of the actual value being added in the supply chain. It sharply reduces the likely level of innovation and flexibility required; in a supply market characterised by rapid technology change and short product lifecycles. There is a risk of the prime contractor exploiting its market position.

Quantitative evaluation

A quantitative evaluation of each option in terms of how well it contributes to the significant procurement objectives can then be undertaken, drawing from its respective (qualitative) SWOT analysis of the kind presented above. It is recommended that a simple evaluation matrix is used to evaluate each option. Weightings can also be assigned to the objectives, based on the determination of procurement objectives and depending on the level of sophistication and accuracy desired for decision-making purposes.

A suggested template for a quantitative evaluation matrix, incorporating weightings, is illustrated below.

Table 14: Quantitative evaluation matrix template

Procurement objectives	Options						
	Option one			Option two			Option *…n*
	Score	Weighting	Weighted score	Score	Weighting	Weighted score	
Objective 1							
Objective 2							
Objective 3							
Objective …							
Total score							

Recommend the preferred procurement strategy

The recommendation of the preferred procurement strategy, and how it will best satisfy the procurement objectives, should be presented as a well-supported and logical submission to the agency's accountable officer or delegate. As noted under the planning considerations section earlier in this guide, the level of effort and detail should be commensurate with the scope, scale, and risk/complexity of the requirement. This is a matter for professional procurement judgement.

Any recommendation must be supported in writing, rather than relying purely on a quantitative score. In supporting their recommendation procurement officers may need to summarise the results of the evaluation and any key insights identified in the preceding analysis.

The recommendation should also refer to the specification of measures and supplier management arrangements, and the key implementation issues. The detailed development of these measures and plans may follow approval.

Specify performance measures and contract management arrangements

Mandatory requirements

Clause 4.4 of the Queensland Procurement Policy requires that for significant procurements, a contract management plan will be developed.

Recommended practice

Overview

The key issues and actions to be addressed in complying with this requirement are:

- What is to be measured and therefore monitored and managed?
  - Specify the key performance measures to ensure that the supply strategy is implemented successfully.

- How will the supply arrangement be managed effectively?
  - Determine the key skill sets and capabilities required.

- Establish the governance and contract management framework.
- Identify enabling processes and technologies.

A category management approach may also be used when the significant procurement addresses a goods or services category, defined as an aggregation or grouping of like goods or services, such as ‘IT Hardware’ or ‘Medical Equipment’.

A category management approach is used for strategically managing the goods or services category, so that the benefit targets (as addressed by the preferred procurement strategy) are achieved on an ongoing basis.

Specify measures

Overview

Performance measurement, in the context of planning for significant procurement, is a means of establishing whether:

- at a **strategic level**, the implementation of the procurement strategy is achieving the significant procurement objectives
- at an **operational level**, the supplier is meeting the performance measures set out in the supply arrangement.

A cross-section of measures and indicators may be required to accurately gauge the success of a significant procurement strategy. A recommended approach involves monitoring the measures, analysing the trends and assessing the rate of improvement. The agency’s management information system must also be capable of providing the information required (refer to the sub-section below on enabling processes and technology).

Strategic measures

In the context of significant procurement planning, strategic measures will relate to the procurement objectives that have been determined. These measures addressing the realisation of the significant procurement objectives (such as benefit targets) must be ‘tracked’ over time so corrective action can be taken if required. The measurement and tracking approach should be:

- as quantitative as possible
- consistent in format (e.g. what to measure, when, what value, what report/source).

The purpose of monitoring the achievement of these strategic measures is to ensure that the benefits(such as continual cost, performance and/or sustainability improvements)are realised, as identified in the recommended procurement strategy, on an ongoing basis.

A suggested template and example for supplier performance monitoring and objectives achievement tracking is provided at **Appendix 3**.

Operational measures

Measures addressing the performance of the supplier are classed as operational and will focus on the Key Performance Indicators (KPIs) established within supply arrangements. Targets for KPIs are often set as percentages: for example, ’98 per cent of product components were Delivered In-Full-On-Time (DIFOT) and without fault’, or ‘100 per cent of complaints responded to by the supplier within 24 hours’ or ‘100 per cent of packaging is recycled’. Measures should be within the control of the supplier, and also within the agency’s management information capabilities.

Establish supplier management arrangements

Skill sets and capabilities

To manage the supply arrangement effectively, determine the optimum level of skill sets and capabilities required. Depending on the complexity and type of supply arrangement, requisite skills and capabilities include:

- supplier relationship management
- contract administration
- negotiation
- legal, contractual and commercial issues.

The ongoing involvement of a PRG (refer to the stakeholder engagement section, above) is also useful for ensuring that the right mix of skills and experience continue to be available to the contract management team.

Governance and contract management framework

The purpose of the governance and contract management framework is to identify the key roles and responsibilities of people, as well as the processes and procedures proposed for ensuring the supply arrangement will be managed effectively. Some of the questions that should be addressed in developing the framework are:

- Who will have overall responsibility for the supply arrangement and what is their level of authority?
- Who will have assigned authorities or delegations for aspects of managing the arrangement and at what level (e.g. with authority to accept supplier amendments within a certain dollar threshold)?
- Who will be responsible for the day-to-day monitoring of the supplier's performance?
- What will be the system of supplier performance review (e.g. self-monitoring by the supplier, supplemented by random audits conducted by the contract manager)?
- Who will be responsible for routine contract administration aspects, such as action and control of amendments and documentation of decisions?
- What will be the reporting mechanism to higher level governance bodies?
- What additional sources of advice may be required (for example legal or commercial)?

The questions above are not exhaustive.

The contract management framework should support the agency's senior management in ensuring compliance with the procurement strategy and drive continuous improvement in managing the supplier relationship.

Enabling processes and technologies

Enabling processes involve workflow solutions designed to ensure a standardised approach to procurement under the supply arrangement. An effective workflow solution should encompass the 'business rules' and standard processes and procedures to maximise the 'compliant spend' under the procurement strategy.

Technology can also facilitate measuring the success of the procurement strategy according to the established performance measures, and tracking the realisation of benefits. E-procurement

systems, including Contract Lifecycle Management Systems (CLMS), may be used to effectively monitor and manage arrangements arising from significant procurement plans.

The benefits from accessing quality procurement information include:

- identifying and forecasting new savings opportunities
- better contract negotiations
- placing more expenditure under management
- identifying and prioritising categories of expenditure
- tracking off-contract expenditure
- influencing policies and programs for categories of expenditure already under management
- continually leveraging spend intelligence to enable adoption of category management programs.

Develop the implementation plan

Recommended practice

Overview

The implementation plan sets out the steps that need to be taken in order to successfully implement the preferred procurement strategy. The level of detail in an implementation plan will depend on the scale and complexity of the procurement project. The plan should address:

- resources
- roles and responsibilities
- implementation schedule
- key stakeholders
- communication
- risk management.

Much of the guidance in this section is applicable to any significant project management activity.

Resources

This activity entails identifying the human, physical and financial resources required to implement the strategy. The first step is to determine the project team resources. These will usually comprise a project manager (and depending on the scope, additional team members) but will also involve part-time resources and the cost of oversight of the procurement by governance bodies. Depending on the project, resources requiring identification and costing may include:

- salaries
- accommodation
- consultants
- probity auditor
- evaluation software
- printing.

As part of the overall significant procurement plan approval process, in order to obtain budget approval it may be necessary to fully cost the implementation plan.

Roles and responsibilities

Based on the human resources identified above, this section of the plan will summarise the roles and responsibilities of (as a minimum) the following key stakeholders in the implementation:

- governance body
- program/project director
- project manager
- project team members.

Depending on the project, the accountabilities of the PRG and other relevant stakeholders will need to be defined. The responsibilities of the probity auditor and/or advisor (if applicable) with respect to the procurement activity should also be outlined.

Implementation schedule

A basic implementation schedule will outline key activities, target dates, and those responsible for key activities. The schedule should identify (as a minimum) the key activities outlined in the following table.

Table 15: Example of a basic implementation schedule

Key activity	Target date	Action officer
Significant procurement plan approval by accountable officer		
Specifications completed and endorsed		
Request documentation complete and endorsed		
Request advertised		
Request closes		
Offer evaluation and recommendation		
Evaluation report completed and endorsed		
Contract negotiations		
Contract awarded		
Contract commencement date		

Optional additional steps recommended for more complex and uncertain procurements include:

- draft request documentation advertised for industry comment
- briefings of a tender review committee, or equivalent, at key steps in the process
- industry/tender briefings
- multi-round negotiations.

Also, for large, more complex procurement activities it may be beneficial to list key tasks, timings, resource allocations and the linkages between tasks in a GANNT chart using specialised project management software, such as Microsoft Project.

Key stakeholders

The key stakeholders will be a broader group than those stakeholders with direct accountabilities for elements of the implementation plan. It is important to identify the internal and external parties, including the contact names of key individuals and their linkages/interests pertaining to the project. A generic example of mapping the key stakeholders to their expectations from the procurement activity is provided below.

Table 16: Example of 'key stakeholders and expectations' mapping

Name	Expectation of the process (example only)
Budget sector agencies	• New arrangement to be established on schedule. • Agencies to be consulted through key phases of the project. • New arrangement to be value for money/easy to use. • Smooth transition from current arrangements to new arrangements.
Industry	• Tendering process to be streamlined and not onerous. • Opportunity for suppliers with relevant capabilities to be able to tender. • To be consulted prior to release of request documents. • Sufficient time allowed for tender.
End users	• Good quality, reliable goods/services with guaranteed levels of support.
Executive management	• The implementation of the procurement strategy in the scheduled timeframes. • The ongoing realisation of benefits targets through effective ongoing category management.

Communication

Effective internal and external communication with stakeholders is important to ensure that those responsible for implementing the plan, and those with a vested interest, understand the basis for decisions and why particular actions are required. The preparation of a communication plan is recommended for higher risk or politically sensitive significant procurement projects. A communication plan should, as a minimum, address the following issues:

- target audience/stakeholder group
- aim/objective of communication
- method of communication (e.g. written, briefings, face-to-face meetings)
- responsibility
- frequency
- costs.

At major milestones such as the contract award, it may be desirable to issue a formal media release to ensure that stakeholders receive a consistent message. If the procurement is potentially sensitive a well drafted and timed media release may be crucial to overcoming stakeholder concerns. If a media release is warranted, then contact should be arranged early in the implementation process with appropriate communications/marketing personnel.

Risk management plan

Risk is any factor (or threat) that may adversely affect the successful completion of the project in terms of achievement of its outcomes, delivery of its outputs, or adverse effects upon resources,

time, cost, and quality. It is recommended that a risk management plan is prepared for all significant procurements. The level of detail in the plan will be commensurate with the size, scope and risk/complexity of the procurement.

The purpose of the risk management plan is to identify, analyse and document risk strategies associated with the implementation of the procurement strategy. The objective of this process is not only to reduce negative outcomes but to identify opportunities to improve performance. As a minimum, for each identified area of risk the plan should include:

- a brief description of the risk
- consequences of the risk occurring
- likelihood of the risk occurring
- overall rating of the risk (e.g. high, medium, low)
- options for managing the risk
- party or parties responsible for managing the risk.

Seek approval to proceed

The final activity in the planning for significant procurement process is to seek approval from the accountable officer or delegate to proceed to the supplier evaluation and selection stage. This will involve submitting the finalised significant procurement plan as part of a submission, in accordance with the agency's procurement procedures. The finalised plan should include, as a minimum, the following sections in accordance with the templates (S-F SPP or L-F SPP) at **Appendices 1 and 2**:

- executive summary, including request for approval
- demand analysis
- market analysis
- results of research and analysis
- procurement objectives
- procurement strategy options
- preferred procurement strategy – recommendation
- measures and supplier management arrangements
- implementation plan.

As a final step it is recommended that a 'Document reference list' is developed to ensure the capture of all relevant documents for future reference: see template below.

Table 17: Document reference list template

Document	Author	Summary	Input to plan

References

1. Queensland Government, Queensland Procurement Policy.

2. Aberdeen Group, *Strategic Sourcing in the Mid-Market Benchmark: The Echo Boom in Supply Management*, Aberdeen Group, December, Boston, 2005, pp. 17–18.

3. D Pugh, 'Managing Stakeholder Engagement', in *Chartered Institute of Purchasing and Supply Australia* (CIPSA) conference, Melbourne, 2005.

4. Value Based Management website.

5. Queensland Government, 'Supply Development Stage', Project Assurance Framework (PAF), 2009.

6. The (former) Office of Government Commerce (OGC), 'Early Market Engagement – Principles and Examples of Good Practice'*, Procurement Documents*, 2006.

7. The (former) Office of Government Commerce (OGC), 'Aggregation – Is bigger always better', *Best Practice Guidance*.

8. The (former) Office of Government Commerce (OGC), 'Smaller supplier….better value?', *Best Practice Guidance*.

9. The (former) Office of Government Commerce (OGC), *Risk Allocation Model for Project Strategy and Procurement*, ver. 1.0, 2006.

10. R. Saia, *The Spend Intelligence Benchmark Report*, Aberdeen Group, Boston, 2006.

Definitions

Term or abbreviation	Definition
Aggregation	The grouping together or coordination of common or similar requirements within an agency or across Government.
Alliance contracting	Alliance contracts are collaborative arrangements where parties jointly work together to deliver the outcomes of a project. They are characterised by risk sharing and a no-disputes/no-blame regime.
Bundling	Entails the aggregation of diverse but related requirements (such as IT infrastructure, communications and application development) into one package.
Category management	Strategically managing a 'category' of goods or services (such as IT hardware), so that the benefit targets, as addressed by the preferred procurement strategy, are achieved on an ongoing basis.
CLMS	Contract Lifecycle Management System.
Market sounding	Market sounding is a technique used to assess the reaction of the market to the proposed procurement activity and approach.
Reverse e-auction	A real time, online open-bid auction between a buying organisation and a group of pre-qualified suppliers. Suppliers compete against each other to win the business to provide the goods or services that are generally characterised by clearly defined specifications.
Small and medium enterprise	As per the Queensland Procurement Policy, small and medium sized enterprise means a business employing less than 200 people.
Strategic sourcing	Strategically analysing needs and supply markets to develop plans for acquiring goods or services to achieve optimal business outcomes.
Supplier preferencing	Entails understanding how suppliers categorise the agency's account in terms of its value and attractiveness to them.
Supply positioning	Analysing an organisation's total annual spending on categories of goods and services against the degree of business risk. Supply positioning helps identify general buying strategies that are cost-effective and efficient. It also flags potential risk exposures that could occur from supply difficulties, thus enabling contingency planning.
Whole-of-life costing	This includes initial purchase cost as well as costs arising from holding, using, maintaining and disposing of the goods or services.

Appendix 1 – Short-form significant procurement plan (S-F SPP) template

Section title	Minimum plan requirements	Optional plan requirements
Executive summary	• Background. • Scope. • Procurement objective(s). • Key findings of research and analysis. • Summary of procurement strategy options evaluated. • Recommendation(s) for preferred procurement strategy. • Implementation and management. • Request for approval from the accountable officer or delegate. • Indication of next steps to proceed to the supplier evaluation and selection stage.	• Estimated benefits summary.
Demand analysis	• Analyse internal demand for the procurement. • Definition of the good/service. • Spend analysis. • Cost breakdown. • Any current supply arrangement issues. • Key internal stakeholders. • Specification of requirements issues (e.g. scope, scale, outcome-focussed vs. technical, alternatives, sustainability). • Highlight data gaps and plan to address. • Clearly drawn insights from the analysis.	• Establishment of a Procurement Reference Group (PRG) or equivalent advisory group. • Analysis of demand management strategies. • Conduct market soundings to validate demand analysis.
Market analysis	Conduct supply market analysis to ascertain: • the number of suppliers and their respective market shares (market structure) • the degree and type of competition between suppliers • the nature and quality of the supply chain • substitute or alternative goods or services • the agency's value as a customer • sustainability impacts within the supply market.	Conduct market sounding in relation to: • project sizing, requirements specification and supplier engagement • aggregation and bundling. Consider issue of development of suppliers and markets.

Section title	Minimum plan requirements	Optional plan requirements
	Conduct market sounding in relation to industry impact assessment.	
Results of research and analysis	The results of the demand and market analyses, including the key insights for the development of procurement objectives and strategies.	Use the key Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis.
Procurement objectives	• Outline how the significant procurement supports the achievement of agency procurement objectives. • Show that the objectives for the procurement are based on the outcomes of the previous demand and market analyses.	• Objectives developed in accordance with SWOT outcomes. • Benefits targets to be addressed by the procurement strategy included.
Procurement strategy options	Address the following sourcing strategy issues: • current whole-of-government and other agency arrangements • generic sourcing strategies • industry impact assessment • sustainability considerations • ICT-specific requirements (ICT only). Consider potential procurement methods: • types of supply arrangement • approaching the supply market • evaluate options in a written explanation of the merits of respective options.	Sourcing strategy issues: • aggregation and bundling • risk of over-dependency • Small and Medium sized Enterprise (SME) involvement. Specialist procurement methods: • contracting for risk • reverse e-auctions • alliance contracting. Evaluate options: • detailed qualitative evaluation (SWOT analysis) of respective options • quantitative evaluation matrix.
Preferred procurement strategy -recommendation	Based on the evaluation of options, provide a statement recommending the preferred procurement strategy and how it will best satisfy the procurement objectives.	• Explicit benefit target range: e.g. economic, environmental and social benefits. • Short, medium and longer term recommendations (and relative priority).
Measures and supplier management arrangements	• Strategic and operational performance measures. • Governance and contract management framework.	• Skills sets and capabilities • Enabling processes and technologies (e.g. Contract Lifecycle Management System (CLMS). • Category management.
Implementation plan	• Resources. • Roles and responsibilities. • Implementation schedule. • Risk management plan. • Communication plan.	• Key stakeholders.

Appendix 2 – Long-form significant procurement plan (L-F SPP) template

Section title	Minimum plan requirements

Executive summary	• Background.
	• Scope.
	• Aim and purpose of the plan.
	• Procurement objective(s).
	• Key findings of research and analysis.
	• Summary of procurement strategy options evaluated.
	• Recommendations:
	  – preferred procurement strategy
	  – estimated benefits summary.
	• Implementation and management.
	• Request approval from the accountable officer or delegate.
	• Indicate next steps to proceed to the supplier evaluation and selection stage.

Demand analysis	• Definition of the good /service. • Detailed spend analysis. • Detailed cost breakdown. • Any current supply arrangement issues. • Key internal stakeholders. • Specification of requirements issues (e.g. scope, scale, outcome-focussed vs. technical, alternatives, sustainability). • Establishment of a Procurement Reference Group (PRG) or equivalent advisory group. • Demand management strategies. • Conduct market soundings to validate demand analysis. • Highlight data gaps and plan to address. • Clearly draw insights out of the analysis.
Market analysis	Conduct supply market analysis to ascertain: • the number of suppliers and their respective market shares (market structure) • the degree and type of competition between suppliers • the nature and quality of the supply chain • substitute or alternative goods or services • the agency's value as a customer • sustainability impacts within the supply market. Conduct market sounding in relation to: • project sizing, requirements specification and supplier engagement • industry impact assessments • aggregation and bundling. Explore opportunities for developing suppliers and markets.
Results of research and analysis	• The results of the demand and market analyses, using the key Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis.

Section title	Minimum plan requirements
	• The key insights from the SWOT analysis for the development of procurement objectives and strategies.
Procurement Objectives	Plan shows: • how the significant procurement supports the achievement of agency procurement objectives • the objectives for the procurement based on the SWOT analysis outcomes • the benefits targets to be addressed by the procurement strategy.
Procurement Strategy options	Address the following sourcing strategy issues: • current whole-of-government and other agency arrangements • generic sourcing strategies • industry impact assessment • sustainability consideration • aggregation and bundling • over-dependency • Small and Medium sized Enterprise (SME) involvement • ICT-specific requirements (ICT only). Consider potential procurement methods: • contracting for risk • types of supply arrangement • approaching the supply market • reverse e-auctions • alliance contracting. Evaluate options: • detailed qualitative evaluation (SWOT analysis) of respective options • quantitative evaluation matrix.
Preferred Procurement Strategy-recommendation	• Based on the evaluation of options, provide a statement recommending the preferred procurement strategy and how it will best satisfy the procurement objective(s). • State the explicit benefit target range e.g. economic, environmental and social benefits. • State the short, medium and longer term recommendations (and relative priority).
Measures and supplier management arrangements	• Strategic and operational performance measures (including benefits tracking). • Governance and contract management framework. • Enabling processes and technologies (e.g. Contract Lifecycle Management System (CLMS). • Skills sets and capabilities. • Category management approach (if applicable).
Implementation plan	• Resources. • Roles and responsibilities. • Implementation schedule. • Key stakeholders. • Communication plan. • Risk management plan.

Appendix 3 –Objectives realisation tracking template

Objective	Target	Measure	Source	Measure frequency	Measure data (actual)	Target value at measure date	Gap	Corrective action	Action entity
Example Objective one	40% decrease in system failures	% system failures per month	Supplier-generated system failure reports	Monthly	September 20XX	25%	15%	Meeting with supplier to address reasons for poor performance and identify/agree to supplier action to address	Contract manager