

Better practice guide for early market engagement with the ICT industry

ICT Strategic Sourcing

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Queensland
Government

Document history and consultations

The following people and organisations have been consulted during the development of this guide.

Version	Author/s	Organisation
0.1	Barry Shea	Queensland Government Chief Information Office
0.1	Randall Rainbolt	Queensland Government Chief Technology Office
0.2	Greg Smyth	Queensland Government Chief Procurement Office
0.3	Paul Campbell	ICT Industry Workgroup
0.3	Bronwyn Allen	
0.4	Greg Smyth	Queensland Government Chief Procurement Office
0.4	Craig Humrich	
1.0	Mike Stoopman	Queensland Government Chief Information Office
2.0	Matthew Rose	ICT Strategic Sourcing, Strategic ICT
2.1	Matthew Rose	ICT Strategic Sourcing, Transformation and Enabling Technologies

How to use this document

Agencies should consider the information provided in this guide as reference material and interpret it in the context of their own agency purchasing procedures. It is important to read this guide in conjunction with the [Queensland Procurement Policy \(QPP\)](#) and [Information Standard 13 Procurement and disposal of ICT products and services](#) as well as other relevant Queensland Government [Procurement guidelines](#). The information contained in this guide has been developed to provide agency staff involved in the selection and procurement of ICT products and services with a process to ensure the successful implementation of technology to produce optimum outcomes.

This guide initially puts the material into context with other policies and procedures relating to ICT. In particular, early market engagement is looked at: what it is and why it should be done. Market sounding is then examined together with a number of alternative engagement strategies. Each is considered in terms of its use in strategic and tactical engagement or, in some cases both.

This guide is intended only as a starting point to provide an overview of the main issues that need to be considered when conducting and analysing early market engagement in the ICT industry. It is not intended that this guide replace expertise and other valuable resources that are required to produce successful outcomes for departments and agencies.

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For more information on this document contact ICT.StrategicSourcing@qld.gov.au

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1.0 Introduction

Early market engagement is a strategic and collaborative approach for public servants to gather valuable intelligence in relation to the high level aims of large

scale and high investment programs. The Queensland Government can benefit from suppliers' knowledge of markets and trends and understand the capability and capacity of suppliers before developing their procurement strategy and requirements.

From the Queensland Government's perspective, early engagement with ICT suppliers is an important step in the program process. Early engagement ensures the buyer makes a fully informed decision, maximising buying power, minimising risk, and ensuring the right supplier is chosen to provide the right service.

ICT suppliers can show the Queensland Government how the market can meet the Queensland Government's need, provide early visibility of key risks and issues, and give suppliers the opportunity to realistically gauge expectations of what the market can and cannot contribute to the proposed program.

Both Queensland Government agencies and ICT suppliers can benefit from engagement with each other prior to formulation of a procurement plan. Agencies can benefit from suppliers' knowledge of markets and trends, and develop an understanding of the industry capacity available to agencies to meet planned demand. This understanding can then be incorporated into:

- ICT strategic plans
- business cases
- corporate procurement plans
- forward procurement schedules.

1.1 Why conduct early market engagement with the ICT industry?

There is a need for the public sector to take a strategic and systematic approach to the ICT market, rather than just engaging with it on a tactical, short-term, and program-by-program basis. A key part of this is to engage with the ICT industry at an early stage, in order to gather and consider market intelligence in relation to the aims of a program, before any individual programs commence.

Early market engagement with the ICT industry offers benefits to both agencies and suppliers including:

- enables government to better plan for and mitigate risks
- complex, innovative or high-risk programs can be adapted to better utilise ICT Industry capacities
- provides government the opportunity to realistically gauge the capacity for the ICT industry to contribute to the program.

Early market engagement with the ICT industry depends for its success on a proactive and constructive approach by agencies and suppliers. It allows the government to manage supplier expectations and confront any preconceptions regarding transacting with the government.

Agencies also need to be prepared for constructive criticism from potential suppliers and take useful learning from it.

This guide is aimed at establishing guiding principles for programs that:

- will involve significant business change for the agency or the sector as a whole
- involve high levels of risk or uncertainty

- push the boundaries of what has been achieved before (technically, organisationally or in any other sense)
- require the involvement and expertise of the private sector at the earliest possible stage in order to shape the program.

In general, there are two distinct points in the ICT procurement planning cycle at which agencies need to consider early market engagement with the ICT industry. These are:

- during [ICT resources strategic planning \(IS2\) policy](#) activities
- when planning a specific program.

These will be discussed in more detail in the following section - Market sounding in relation to ICT programs (Section 1.4.1).

1.2 Introduction to the market

Having established the requirements of the product or service, the next stage in selecting the most suitable products and/or services procurement option is to understand any existing market. This will likely include the conduct of a market analysis or market appraisal and may well progress to market sounding. Queensland Government places value upon market stimulation, where, for example, there is a sole provider and it is deemed possible to encourage new suppliers to emerge.

1.2.1 Market analysis

Market analysis identifies the ability of the market to cope with the work requests of the agency. It should gauge the levels of costs involved on a unit of work basis, allowing comparisons with internal costs to roughly determine the merits of placing this work in the open market. It is described in more detail in Section 1.3 and Section 4.1 step-by-step guide.

1.2.2 Market sounding

This approach develops market awareness to the stage where specific potential providers are 'sounded out' to determine their views of potential solutions. Agencies may face the need for market sounding at a program level to assess the reaction of the market to a proposed requirement and procurement approach. It is described in more detail in Section 1.4 and Section 4.2 step-by-step guide.

1.2.3 Market creation (market stimulation)

This is used in a situation where the agency believes that there may be an inadequate competitive response to its requirements or if there is no current mature market. This guide shows how agencies can stimulate the marketplace and build the capacity of a market to provide a healthy competitive response to its requirements, thereby contributing to the achievement of value for money in future procurements. It is described in more detail in Section 1.5 and Section 4.3 step-by-step guide.

1.3 Market analysis

Analysing supply markets is one part of the process of developing plans for significant purchases. Information gathered about markets is necessary for

agencies to understand their bargaining position with respect to suppliers. Coupled with an assessment of the importance of the products or service to the agency, it will be in a position to begin planning for how it will deal in a market to achieve the best outcome and to identify opportunities to advance government opportunities.

These procurement planning activities are required under the [Queensland Procurement Policy \(QPP\)](#)

Market intelligence gathering is typically performed early alongside the procurement plan and is part of the procurement process. There can be numerous stakeholders involved including agencies, suppliers, industry associations, analysts and brokers. The information-sharing process can take place through any number of different means, from face-to-face meetings, forums, newspapers, professional journals, directories and discussion boards. Further information on market analysis can be found under [Procurement guidance: supply market analysis](#)

In the market analysis the key activities are:

- identifying the supply marketplace
- assessing the agency's position in relation to suppliers
- analysing the political, economic, social-demography and technological issues and risks
- performing a strength-weakness-opportunity-threat (SWOT) analysis
- analysing the key cost drivers and total cost of ownership (TCO).

1.3.1 Supplier input into horizon scanning

The aim of horizon scanning is to systematically examine developing potential threats, opportunities and likely future developments in the ICT industry, which will influence the stakeholders to a greater extent in the future and, therefore, be of greater future importance.

Regular strategic discussions with the ICT industry can form the cornerstone of this activity. It is an opportunity to discuss innovations and obtain ICT suppliers' views on trends shaping the ICT industry, Queensland Government and agency outcomes.

This type of engagement with suppliers helps agencies to explore novel (i.e. unusual) and unexpected issues and to consider early on what implications these issues will have on the distribution of resources, existing priorities and service delivery. There is no direct equivalent for horizon scanning in programs. However a SWOT analysis is similar.

1.4 Market sounding

Market sounding is the process of assessing the response of the ICT industry (that is, all potential ICT suppliers considered collectively) to a proposed requirement and possible procurement approach. It brings supplier perspectives to agency procurements at an early stage, offering potential benefits in terms of making any subsequent procurement process more targeted and efficient.

Market sounding focuses on the group of ICT suppliers as a whole, rather than the merits of individual suppliers. It includes no element of supplier selection (choosing suitable suppliers) or bid evaluation (looking at proposals and prices). There is no commitment of any kind involved on either side.

There is no formal process for market sounding, but activities typically include researching and analysing the market as a whole and meeting selected suppliers for discussion. It is vital to ensure that the market sounding process remains transparent, and that the ICT suppliers are treated with fairness and equality. A key priority is to preserve a level playing field and the process should be formally documented. If a level playing field is not preserved it is possible that the success of future procurements will be compromised.

An agency should not undertake market sounding under the following circumstances:

- the agency has a sole supplier arrangement for a unique product or service that is unavailable from other sources
- the agency has an existing standing offer arrangement (SOA) in place.

There are some cautionary factors to consider. It is imperative to:

- avoid misleading/deceptive conduct under the Trade Practices Act
- avoid promissory statements or representations
- understand aspects of the common law including estoppels, confidentiality, intention to create legal relations and to avoid creating or breaching process contracts psychologically
- be aware of conditioning and unintentional price setting.

Market sounding can be beneficial at a strategic level and program level. It involves gathering knowledge in these key areas:

- feasibility: whether what is sought is actually feasible, or has been done before
- capability: the ability of the ICT industry (whether through a single supplier or a consortium) to achieve what is required
- maturity: whether there is an established market for the requirement, and whether there are enough suppliers in existence for a competitive procurement
- capacity: whether the ICT industry can achieve what is required quickly enough, or on a large enough scale.

A key aspect of market sounding is that it can help agencies express desired outcomes and translate them into high-level statements of business requirements that are well aligned with the ICT industry, making it much more likely that the desired outcomes can be achieved. Therefore, market sounding becomes a dialogue between agencies and the ICT industry aimed at resolving the content of the requirement.

Agency flexibility over the content of the requirement provides the opportunity for previously unforeseen and possibly innovative solutions to be proposed by the ICT industry. A key to success is that the discussions should centre on the 'ends' rather than the 'means'. An agency is to stay focused on the desired outcomes, while the ICT suppliers explain how they could help achieve those outcomes.

Market sounding should not be considered as just an isolated or program-specific

activity. There are important contexts for agencies to consider at more strategic levels including:

- the strategic engagement with the ICT industry: market sounding links in with the general move towards a more proactive approach to the ICT industry in the public sector
- agency procurement strategies: how does the agency incorporate the results of market sounding into its procurement strategy?
- existing agreements: the possibility that the requirement could be obtained through existing agreements between agencies and suppliers.
- other programs: there may be other similar programs elsewhere (local, national, international) from which useful lessons can be learned
- joining up: it may be necessary to align the program with another agency's approach
- collaboration: the possibilities for collaborating with other agencies for mutual and/or sector benefit
- organisational learning: the wider benefits of documenting, sharing and embedding the knowledge gained from market sounding.

1.4.1 Market sounding in relation to ICT programs

Market sounding is not appropriate for every program. Where it is, it should begin at the earliest possible stage in the procurement process to assess the reaction of the market, the proposal required, and the procurement approach. Agencies should consider carrying out market sounding if the answer to any one or more of these questions is 'yes':

- Is there doubt over the existence of a market for the identified business need or product?
- assuming there is a market of some kind, are there doubts over its capacity, capability, maturity or competitiveness?
- is first-hand in-house agency knowledge of the market superficial, incomplete or simply absent?
- is there uncertainty about the level of suppliers' interest?
- is the desired outcome likely to involve significant business change within the agency?
- is the level of expected business change within the agency exceptional?
- is there a need to manage expectations of the program with suppliers?
- is the agency requirement unusual or novel?
- is the solution to the agency requirement likely to be complex or innovative?

Market sounding can help shape the requirement so that procurement is focused on what the market can deliver. For further information on developing specifications refer to the [Queensland Government Procurement Guides](#)

A poorly framed requirement can present major risks to the program. Key considerations toward mitigating those risks are:

- keep options open: avoid the tendency to 'zero in' on particular options; allow suppliers the freedom to suggest ways forward.
- consider business models: look at all the options for how the arrangement between the Agency and suppliers might work (organisationally, financially, in relation to risk management etc).
- market sub-sectors: consider how the ICT market sector works within market sub-sectors, and how they might affect the program. Basically, the ICT market sector includes the manufacturing and services activities which rely on the sub-sector markets of integrated circuits, microprocessors and electronic components, for the purpose of communications and information processing.

1.4.2 Consultants

Using consultants to help with market sounding can offer great benefit to a procurement process, by involving specialist knowledge and experience that the agency may not currently possess.

Consultants can be involved at different levels, from offering advice to managing the process of market sounding.

Points to remember when using consultants for market sounding:

- consultants can only advise on what they see as the best options, based on the information they hold and what they are told by the agency and the suppliers.
- the business risk of the program as a whole remains with the agency commissioning the consultant.
- consultants who offer advice, or who manage the market sounding process on behalf of the agency, must be impartial.
- agency staff must learn from consultants to avoid reliance upon them.

1.5 Market creation

At a strategic level, agencies, or the sector, may need to encourage the creation of a market that can be called upon to satisfy a range of business requirements over a period of time, resulting in a number of procurements as specific needs arise. This could be in response to a new/changed government policy.

There might be, initially, a perceived lack of interest amongst potential suppliers in the ICT industry to respond to the new opportunities due to:

- the scale of the requirements (being too large or too small)
- the geographical or organisational scope involved
- perceived problems in the commercial viability of the resulting contract(s)

- concerns about intellectual property and/or risk.

Early strategic engagement with the ICT industry is essential in both identifying the need for market creation and subsequently, creating the market.

In these instances agencies need to demonstrate, or engage, strong marketing skills and be proactive in the approach to the ICT industry in order to persuade a possibly reluctant industry to not only take an interest in the requirements, but to enter and maintain competition for the supply.

Having to embark on a market creation exercise would be an unusual position for most agencies (and the sector) and may require:

- a culture shift in strategic procurement planning
- significant forward planning, time and investment
- the continued strong support of senior agency and sector management
- the participation of specialist consultancy support for the exercise.

Early engagement with suppliers on specific procurement projects and programs also brings benefits. Through this process, detailed understanding of your requirements and the market response can be developed. Greater mutual understanding facilitates effective and efficient outcomes and greater value for money.

1.5.1 “Selling to” events

Agencies can host events periodically to encourage new and existing suppliers to do business with them. This gives both sides the opportunity to find out more about each other and to raise and address any queries.

It provides agencies with the opportunity to gain a better understanding of the ICT industry and identify any potential capacity issues. It may be useful to engage with suppliers on specific issues, which may be affecting, or about to affect, the marketplace. Agencies may also identify risks and barriers in the marketplace overall through these events.

2.0 Public Private Reference Groups

Public Private Reference Groups (PPRGs) are a way of facilitating supply side consultation before new procurement agreements are implemented. Their composition might include public sector officials, industry groups and CEOs of major suppliers. These groups can inform the feasibility and potential effects of a policy change by providing advice on relevant aspects of market performance and behaviour.

Setting up PPRGs requires concerted effort, resources and management time they are frequently unlikely to meet. But they can be invaluable in seeking supplier input/buy-in to changing government policies. Some PPRGs can represent a number of different public sector bodies and could be used to examine cross-sector issues such as new or changing policy, as well as systematic issues that occur in groups of programs.

3.0 Appendices

This checklist should be read in conjunction with the step-by-step guides in Section 4.0 of the appendices.

3.1 Checklist

3.1.1 Market analysis checklist

- Analyse the supply market-place (SWOT analysis)
- Analyse the agencies position in relation to suppliers
- Analyse the political, economic, social & technological issues and risks
- Analyse internal stakeholder expectations
- Analyse key cost drivers and total cost of ownership

3.1.2 Market sounding checklist

- Assess market feasibility
- Assess market maturity
- Assess supplier capacity
- Assess supplier capability

3.1.3 Market creation checklist

- Approach the marketplace
- Engage the supply side
- Frame the requirement
- Ensure commitment and organisation

4.0 Step-by-step guide

This step-by-step guide should be read in conjunction with the *Queensland Government Procurement guides*:

- supply markets analysis
- planning for significant procurement
- corporate procurement planning
- specifying requirements.

4.1 Market analysis (step-by-step guide)

A properly developed market analysis provides insight into the present and likely future conditions of an industry and market. Many tools are available to assist in completing market analysis tasks such as a SWOT analysis, Market and Supplier Profiles and Political, Economic, Social, Technological, Legal and Environmental (PESTLE) analysis. Results may dictate length and timing of contracts, pricing trends, selection criteria, underlying new material/product trends,

offshoring/outsourcing, and profit levels.

Use these key activities and step-by-step guide on how to analyse and compile information on the market place.

The key activities covered here are:

- analysing the supply marketplace (SWOT analysis)
- analysing the agency's position in relation to suppliers
- analysing the political, economic, social-demography and technological issues and risks
- analysing internal stakeholder expectations and satisfaction
- analysing the key cost drivers and TCO.

4.1.1 Analyze supply marketplace

Activity overview

In this activity the program team analyses the supply markets for products and services in key market groups, or market groups with a high potential for savings in spend. The program team outlines key market group drivers, analyses the forces affecting suppliers, and evaluates the strength of supplier's versus buyers.

Work products

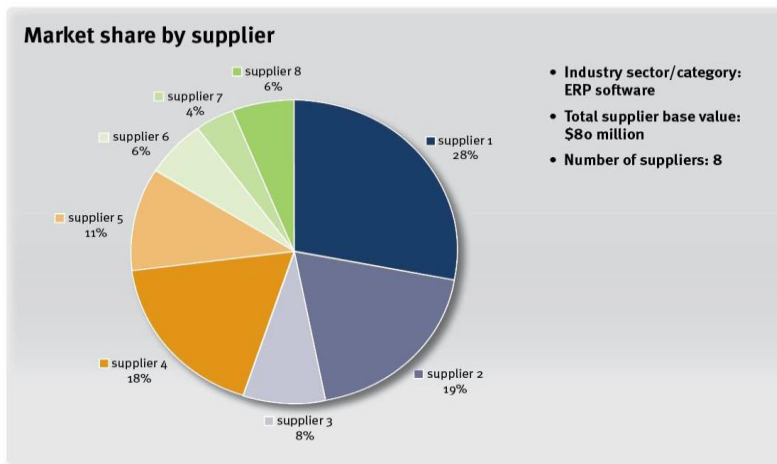
Useful tools to help analyse the marketplace are:

- market and supplier size profile chart
- market profile by category
- SWOT analysis
- supply market assessment summary.

Step 1 Develop profiles of key supply markets and suppliers

Create a clear and concise picture of key supply markets in order to understand the supply market dimensions, supplier profiles, trends and drivers. Data can be summarised as shown in the market profile charts below (figures 1 and 2).

Figure 1



In this chart enter:

1. the number of suppliers for the specific market.
2. the value of each supplier total sales for the market.

Figure 2

Market profile by category					
Market category: ICT ERP software					
Year	2004	2005	2006	2007	2008
Market size (\$m)	25m	45m	60m	75m	80m
(Volume)	5	7	12	15	15
No. of suppliers	2	4	7	8	8
Top 5 suppliers and market share:	Supplier 1. % \$__m Supplier 2. % \$__m Supplier 3. % \$__m Supplier 4. % \$__m Supplier 5. % \$__m				
Geographic restrictions:	Suppliers 1 and 3 have no offices in Australia. Small Asia Pacific presence only in Singapore				
Potential change expectations in the marketplace:	Possible takeover merger of Supplier 2 by Supplier 4				
Trends and drivers:	Suppliers gearing up to offer new delivery model offerings in 'Software-as-a-Service' and hybrid models				

In this table enter:

1. market size for each year
2. volumes of sales for each supplier
3. number of suppliers
4. highlight the top five suppliers and their market share
5. geographic restrictions
6. potential change expectations in the marketplace

7. trends and drivers.

Step 2 Perform SWOT analysis

The SWOT analysis provides information in matching the resources and capabilities of a commodity within the environment in which it operates. Environmental factors internal to the agency can usually be classified as strengths or weaknesses and those external to the agency can be classified as opportunities or threats.

Conduct a SWOT analysis for key supply market groups to assist in the development of supplier selection and negotiation strategies – refer to figure 3 SWOT analysis below.

Figure 3: Market analysis – typical example of a SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> *Good reputation amongst customers *Favorable access to distribution networks *Strong brand name 	<ul style="list-style-type: none"> *High cost structure *Lack of access to key distribution channels
Opportunities	Threats
<ul style="list-style-type: none"> *Arrival of new technologies *Loosening of regulations *Unfulfilled customer needs 	<ul style="list-style-type: none"> *Changing demand for the product *Emergence of substitute products *New regulations *Increased trade barriers

Step 3 Summarise results of the supply market assessment

Organise the findings and conclusions of the supply market assessment in a format that is easy to review. The table below is an example of a summary format.

Figure 4

Supply market assessment summary

Supplier Name	Market Groups	Financial strength H/M/L	Future in Market	Relationship with other suppliers	Negotiation Strength H/M/L
Supplier 1	ERP Software	High	Leader	Competitive	Medium
Supplier 2	ERP Software	Medium	Challenger	Aggressive	High
Supplier 3	ERP Software	Medium	Visionary	Competitive	Medium

4.1.2 Analyse the agency's position in relation to suppliers

Activity overview

In this task the procurement team addresses the position of the agency relative to potential and existing suppliers in key market groups from several standpoints:

- ability to insource and/or outsource
- attractiveness of the supplier to the agency.

Work products

Useful tools to analyse the agency's position include:

- outsourcing suitability analysis
- supplier value positioning quadrant.

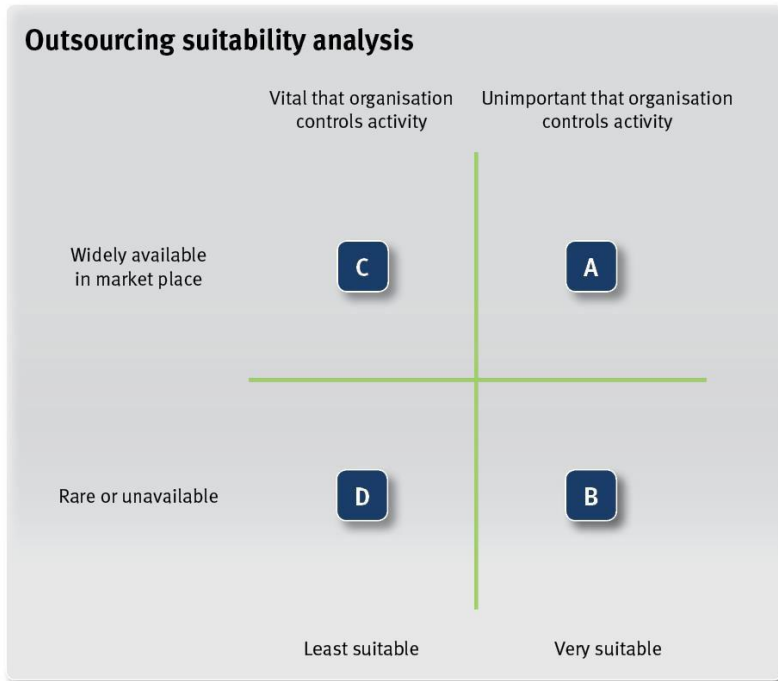
Step 1 Perform an outsource suitability assessment

Examine the relative advantages of outsourcing products and services as opposed to keeping the products and services in house.

The outsourcing suitability analysis diagram (quadrant) below can be used to help in the assessment process. It is a form of risk analysis that weighs the market availability of the commodity or service sought by the agency against the importance of internal control of the activity.

As shown in the figure 5 – Outsourcing suitability analysis quadrant, the most suitable outsourcing candidates would fall into sector A of the grid, and the least suitable would fall into sector D.

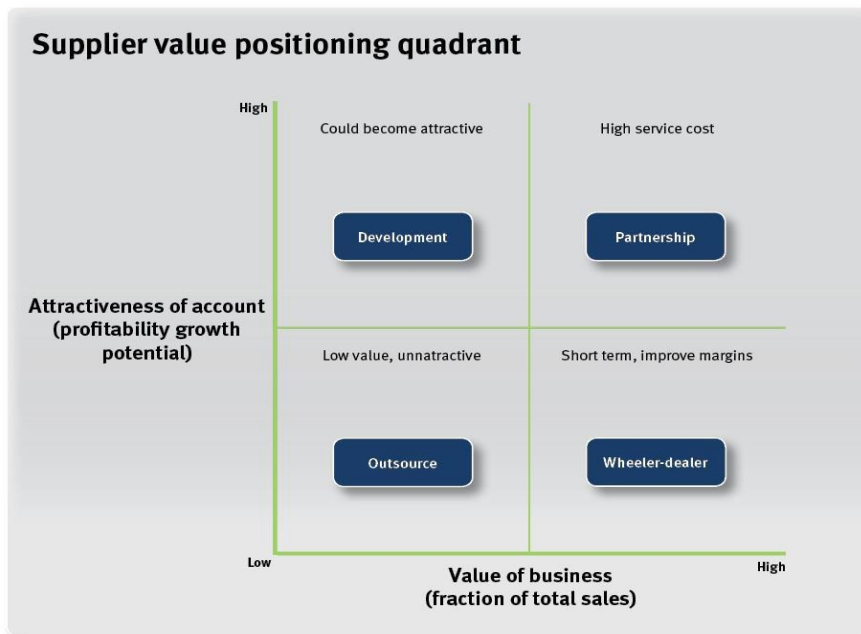
Figure 5



Step 2 Evaluate the attractiveness of the supplier to the agency

- Understand the attractiveness of the supplier to the agency for long-term supplier relationships and business value.
- The supplier value positioning quadrant (figure 6) shown below illustrates this.
- Position the suppliers in either one of the four segmentation quadrants where you see fit.

Figure 6



4.1.3 Analyse the political, economic, social-demography, geographical, technological, legal and environmental issues and risks

Activity overview

In this task the procurement team reviews and evaluates potential regulatory influences on its procurement activities, such as political, economic, environmental, health and safety and technological - that might have an impact on the procurement activities of the agency.

Work products

The Political, Economic, Social, Technological, Legal and Environmental (PESTLE) analysis is a framework that assesses the impact of six major factors that shape an industry and can be used to complement the SWOT analysis above (4.1.1. Step 2). The analysis reveals key trends and issues in the industry, e.g. emerging/declining constraints or new rules in global trade.

Step 1 Review political issues and risks:

- government support, including tax subsidies and incentives
- trade regulations, such as tariffs, quotas, and duty
- political stability in the supplying country
- environmental regulations.

Step 2 Review economic issues and risks:

- exchange rates and currency fluctuations
- current and future import duties and taxes
- economic growth, interest and inflation rates
- others.

Step 3 Review social and geographic issues and risks:

- safety and consumer protection regulations
- lead time, service and responsiveness
- logistics costs
- population growth rate.

Step 4 Review technological issues and risks:

- research and design activity
- automation
- technological incentives
- rate of technological change.

Step 5 Review legal issues and risks:

- employment and resources
- quotas
- taxation

- imports and exports

Step 6 Review environmental issues and risks:

- climate
- natural disasters
- transport access
- ground and water contamination

Step 7 Summarise key issues and risks:

- Organise the risks and issues into a PESTLE analysis format that is easy to review. The PESTLE analysis diagram on the next page is an example (figure 7)

Figure 7: Typical example of a PESTLE analysis

Political	Economic	Social
<ul style="list-style-type: none"> *Change in Government and policy *New trade regulations and tariffs *Recent change in environmental regulations 	<ul style="list-style-type: none"> *Global economic downturn *Volatile exchange rates *High import duties 	<ul style="list-style-type: none"> *High logistics costs *Shortage of qualified workers *Low population rate *New safety protection regulations
Technological	Legal	Environmental
<ul style="list-style-type: none"> *Future automation of processes *High rate of technological change in this area 	<ul style="list-style-type: none"> *Discrimination laws *Health and safety laws *Consumer protection laws *Copyright and patent laws 	<ul style="list-style-type: none"> *Changes in weather and climate *Laws regarding pollution and recycling *Waste management *Use of green or eco-friendly products and practices

4.1.4 Analyse internal stakeholder expectations

Activity overview

In this task, the procurement team asks internal stakeholders to determine the desired quality, cost and service performance expectations. The team actively seeks input from the internal stakeholders on the development and identification of

these criteria. This will be used later in the development of metrics and key performance indicators when putting together the invitation to offer (ITO). In addition, the team interviews key suppliers to determine their views on doing business with the government agency, and to determine how that business can be provided.

Work products

Tools to analyse internal stakeholder expectations include:

- internal stakeholder and supplier assessment
- summary of findings.

Step 1 Outline typical stakeholder and supplier performance expectations issues

Orient managers to the importance of determining expectations as the first step toward developing and/or revising service, price, and quality metrics.

Step 2 Assess internal stakeholders' supplier performance expectations

Determine the expectations of key internal stakeholders with respect to the types of products, services and the service levels that they expect from suppliers.

Step 3 Summarise results

Prepare a summary of findings.

4.1.5 Analyse key cost drivers and the total cost of ownership

Activity overview

In this task, the procurement team gains an understanding of the impacts of significant cost drivers in key market groups and the TCO, or often referred to as 'whole-of-life' costs.

TCO analysis is used to support acquisition and planning decisions for a wide range of assets that bring significant maintenance or operating costs across a usable life of several years or more.

A typical TCO analysis for an ICT service would take into account the cost elements such things as network/server hardware and software, licence fees, installation, maintenance, integration, upgrade, storage, support, repair, service, disposal, disaster recovery and power consumption costs. TCO also directly relates to a business's total costs across all projects and processes, and its profitability.

Cost driver analysis includes understanding what activities/elements are involved in providing a product or service and what the associated costs are for the supplier. This may unearth high cost activities and processes that are repetitive, duplicated or are not required. Use this analysis to develop joint process improvements with suppliers to reduce overall costs.

Work products

The products used in analysing cost drivers and TCO are:

- TCO assessment
- commodity cost driver analysis.

Step 1 Assess the total cost of ownership for the products and services

A good TCO analysis brings out the 'hidden' or non-obvious ownership costs that might otherwise be overlooked in making purchase decisions.

Step 2 Account for the impact of process and product improvements

Suppliers are continuously improving products and processes. This will have an effect on acquisition costs, as well as other cost elements such as quality, spares and maintenance.

Step 3 Assess potential for reduction in commodity cost drivers

Assess supplier efforts to reduce commodity cost drivers, such as product refinement, maintenance and profit.

Step 4 Assess cost reduction potential

Address the potential for savings through improvements in areas such as the following. Product substitution, standardisation and reengineering business processes.

Step 5 Summarise results

Prepare a summary of findings.

4.2 Market Sounding (step-by-step guide)

Market sounding is conducted in parallel with 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. It should begin before or after the initial formulation of the proposal and internal consultation in the procurement process.

Market sounding can be a critical activity in assisting the development of potential procurement strategies. It can provide a valuable opportunity to understand the feasibility of programs, the best approach to delivering it, and highlight any risks involved.

In particular, market sounding, can be used to refine or validate the findings from the demand and supply market analyses. It 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.

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 program, or the suppliers involved.

Supplier interest can be generated by publishing advance notice of likely requirements, for example through prior information notices (PINs).

Use this key activity and step-by-step guide on how to analyse and compile information for market sounding.

The key activities involve:

- market knowledge

- assess the feasibility of the market
- assess the maturity of the market
- supplier knowledge
 - assess the capacity of the supplier
 - assess the capability of the supplier

4.2.1 Assess market knowledge

Activity overview

The first activity in market sounding involves gathering market and supplier knowledge in these key areas.

Work products

To assess the market knowledge use tools such as:

- market feasibility assessment summary
- market maturity assessment summary.

Step 1 Assess market feasibility

Assess if the market will be technically capable of meeting the requirement – (and whether what is sought is actually feasible, or has it been done).

- Questions to ask:
 - is the market able to develop a solution that will meet the requirement (in so far as it is known)?
 - if not, what alternative solutions are feasible?
 - are the solutions offered by this market sufficiently well developed? What is the evidence of this?
 - is the use of untried or relatively new technology a risk that can be accepted on this program? How might it be managed by suppliers from this market?
 - what have been the notable successes and failures for those carrying out strategic outsourcing in this market?

Step 2 Summarise results

Prepare a summary of findings.

Step 3 Assess market maturity

- Assess whether there is an established market for the requirement, and whether there are enough suppliers in existence for a competitive procurement.
- Understand and assess how the market is broken into sub sectors, and how these sub sectors interact with each other.
- Understand and assess how the market is changing over time: areas of intense development, areas that are less important, areas of growth and decline, noticeable trends in the market, capabilities that are evolving or will soon appear, etc.
- Questions to ask:

- can this market be regarded as ‘established’?
- how long has this market been in existence?
- what did it grow out of, and how did it develop subsequently?
- what (or whose) needs did it evolve to serve?
- if the market as a whole is young, will younger companies have the management skills and structures required to handle the proposed arrangement?

Step 4 Summarise results

Prepare a summary of findings.

4.2.2 Assess supplier knowledge

Activity overview

Talking to suppliers is the heart of market sounding. It is crucial to talk to the right suppliers – ideally, those who have achieved outcomes of a similar nature and scale. Discussion with a range of suppliers will help to answer the questions listed below in Step 3.

Work products

The products to assess supplier knowledge are:

- supplier capacity assessment summary
- supplier capability assessment summary.

Step 1 Assess supplier capacity

Assess if the ICT industry can achieve what is required quickly enough, or on a large scale.

- Questions to ask:
 - are there actually enough suppliers, with sufficient capacity, to meet the requirement? Do they have the requisite skills in sufficient quantity?
 - is there a need for those skills to be available in a geographical location where they may be scarce?
 - assuming there are enough suppliers, can they cope with the time constraints (new legislation being introduced, for example)?

Step 2 Summarise results

- Prepare a summary of findings.

Step 3 Assess supplier capability

- Identify suppliers with whom it would be constructive to hold discussions.
- Understand, collate and assess what is heard from suppliers.
- Understand and assess how multi-supplier arrangements might be structured: which type of supplier is likely to lead such arrangements, which types of supplier add value to such arrangements and how.
- Assess the ability of the ICT industry (whether through a single supplier or a consortium) to achieve what is required.

- Compare and contrast information received from a range of suppliers to form an accurate overall impression of a market or market sub sector.
- Questions to ask suppliers:
 - are you interested in this opportunity; would you bid for it?
 - if not, why not?
 - would you bid if the requirement were packaged differently?
 - is the business model realistic? How could the arrangement be made to work better?
 - are the business aims realistic?
 - is the business attractive? Can you make a reasonable return from it?
 - what do you see as the risks? How would you manage them?
 - can you give an early indication of cost? Are there other approaches you could demonstrate that offer better value for money?
 - can you give a broad indication of the likely timescales?
 - are there other, better approaches or solutions that we have not considered?
 - what issues have we missed? What assumptions have we made?
 - are you doing (or tendering for) similar work elsewhere in government?
 - do you have the necessary means, technical competence, innovative proficiency, skilled resources, capital and facilities to deliver what's required?

Points to remember when talking to suppliers

- Estimates of cost from suppliers at this early stage are notoriously difficult to obtain.
- It must be made clear to suppliers that any discussions of cost are purely indicative. Impartiality and confidentiality must be maintained throughout.
- Suppliers involved are treated with fairness and equality.

Prior information notices (PINs)

- PINs can help to alert potential suppliers to the opportunity and open a dialogue with them.
- PINs include details of the agency, contact details and a brief overview of the requirement including background, type of service, timescales and so on.
- While they should be broad enough to allow for flexibility later, they should also be precise enough to avoid sending mixed, contradictory or misleading messages to the market.

Step 4 Summarise results

Prepare a summary of findings

- Results should give you an idea about:
 - ICT supplier's explanation on how they could help achieve those outcomes.
 - high-level statements of business requirements that are well aligned with the ICT industry.

- probability that the desired outcome can be achieved
- opportunity for innovative solutions to be proposed by the ICT industry.
- agencies stay focused on the desired outcomes.

4.3 Market creation (step-by-step)

4.3.1 Creating a market: guidelines

This guidance on market creation provides advice to public sector bodies planning or engaged in a procurement exercise. It deals with the situation where the public sector organisation believes that there may be an inadequate competitive response to its requirements. The guidance shows how the public sector body can stimulate the marketplace and ensure that it will obtain a healthy competitive response to its requirements, thereby contributing to the achievement of value for money in any resulting procurements.

Work products

- At a strategic level, if you wish to create a new market or develop an immature one, prepare:
 - A summary of what you are trying to achieve.
 - An outline how you are going to communicate that to all market players.
 - An assessment on the nature and gap between supply and demand in this market – set of recommendations for market shaping.
 - An assessment of the constraining factors that make the market underperform.
 - An assessment of the business risks to both the supply and demand side, and how to address them.
 - A market improvement opportunity analysis and findings.

Activity overview

This section summarizes the key activities and behaviours which a public sector organization needs to adopt in order to stimulate the marketplace to respond to its requirements.

The key activities and steps covered here are:

- approach the marketplace
- engage with the supply side
- frame the requirement
- ensure commitment and organization.

Step 1 Approach the marketplace

- Understand the marketplace in which you are operating, and the commercial drivers of the suppliers.
- Undertake the procurement as a marketing exercise, aimed at stimulating interest in your requirement and employ a range of mechanisms for communicating with the marketplace.
- Undertake market soundings and maximise the benefit to yourselves and to the supply side from these contacts.

- Understand the suppliers' position and be prepared to deal with the factors which may inhibit responses from the market.
- Prepare a summary of findings.

Step 2 Engage with the supply side

- Engage early and widely with the supply side; give suppliers an opportunity to shape the requirement.
- Work with the supply side on an equal basis: ensure openness of access to staff and information; establish good communications channels and keep bidders informed.
- Maintain genuine competition throughout the process – do not leave bidders in the competition if you do not believe they are capable of winning.
- Be transparent about the procedures and top-level criteria for evaluation of bids.
- Maintain the commercial confidentiality of information received from suppliers.
- Be willing to consider commissioning pilots, paid studies, proof of concept exercises, design and build exercises.
- Prepare a summary of findings.

Step 3 Frame the requirement

- Focus on the desired outcomes.
- Be willing to reconsider the requirement and scope, and the safety work package of the requirement for procurement.
- Be willing to consider a range of commercial/contractual options, e.g. multiple suppliers, geographical split.
- Consider what the position will be in the event of re-tendering – frame the requirement in a way which can be changed and adjusted to avoid being fenced by the supplier's terms.
- Prepare a summary of findings.

Step 4 Ensure commitment and organization

- Ensure you have the commitment and support of senior management in dealing with the marketplace.
- Have a good understanding of the risks involved for both sides.
- Work with suppliers closely over the long term to achieve joint objectives.
- Apply rigorous program management procedures to any procurement exercise and make these visible to the supply side (refer to Queensland Government Program Management Methodology).
- Ensure that all the necessary skills are available to the procurement program team.

Additional points to consider

- Understand the marketplace and the commercial drivers of suppliers.
- Re-examine your own requirements – the lack of potential suppliers may arise from the scale of your requirement, perceived issues with

commercial or concept viability, or suppliers' concerns about your own organization's capability.

- Consider revising the scope of your program or selecting an alternative procurement approach.
- Be willing to consider a range of commercial and contractual options for example multiple suppliers or framing the requirements in a way that will not lock in the supplier.
- Be transparent and work with the supply side on an equal basis, establish good communication channels and keep potential suppliers informed of any developments.
- Be aware of the capacity for suppliers to engage in the conditioning of purchasers to benefit only their own preferred conditions for supply.
- Avoid false promises, that long-term commitments are credible or even possible, and the issue of maintaining policy/strategy over different administrations when the relationship rests on sequential contracting.

Other techniques for developing markets and suppliers

Procurement marketing tactics focus on improving suppliers' perceptions of the desirability of the agency as a favoured customer. By selling the full range of benefits of supplying to the agency, procurement marketing can establish the buyer organisation as a preferred customer in key supply markets. It may include tactics such as offering awards for top performing suppliers or contributing to/assisting with the development of a supplier.

While procurement marketing is a technique commonly used by procurement officers to improve the status of their agency with suppliers, other techniques such as reverse marketing and affirmative vendor improvement programs require detailed planning and the involvement of key stakeholders in the organisation. Reverse marketing and partnering may entail financial incentives and risk-sharing arrangements which should be undertaken in conjunction with expert advice.

Partnering or working with suppliers closely over the long term to achieve joint objectives is another technique for developing markets.

5.0 Suggested reading links

Queensland Indigenous Procurement Policy (August 2017)

<https://www.datsip.qld.gov.au/resources/datsima/publications/policy/queensland-indigenous-procurement-policy.pdf>

ICT SME Participation Scheme Policy

<https://www.for.gov.qld.gov.au/guidelines-working-smes>

Early Market Engagement – Principles and Examples of Good Practice Office of Government Commerce, UK

https://webarchive.nationalarchives.gov.uk/20100402171309/http://www.ogc.gov.uk/documents/Early_Market_Engagement_Guidance.pdf

International Organization for

Standardization <http://www.iso.org/>