Growing a Sustainable Digital Sector with Smart Procurement

NZRise / MBIE 2017 Procurement Workshop

Held on 13/07/2017, Te Wharewaka, Wellington
Attendees ~100 across NZ Government agencies and NZ Private sector (NZRise members)

Background

This was the third procurement workshop co-convened by NZRise and the Ministry of Business, Innovation and Employment under the theme, 'Procuring the Future'. As in the previous two events, in 2014 and 2015, this session was a focussed discussion between industry and government about how, collectively, we can improve procurement processes and outcomes to deliver better results across the IT sector.

The 2017 session was convened as an input to initial MBIE thinking about how procurement can contribute to a vibrant New Zealand economy.

A similar format was used for the 2017 session, with the bulk of the morning structured around two round table discussions, reported back to the wider group. The first of the sessions addressed the challenges, and the second focussed on the opportunities and future state.

The themes of the discussion were underpinned by short talks from John Ivil and Kim Connolley-Stone from MBIE on Government Procurement and Digital Economy respectively. Ben Harman, of Assurity on his observations from the and Brooke Penny, of Catalyst on local experiences as a supplier.

The notes from each of the report backs from the tables were collected, transcribed and a summary of those discussions is recorded here. In keeping with the tenor of discussions on the day, more focus has been put on the opportunities and future state.

Challenges

Some of the challenges that were identified have been a consistent theme over the years that we have held these workshops, and overcoming them in some cases may not be achievable through a procurement lens, whether it be a policy, process or other change intervention.

RISK

It was noted, as an example, that MBIE (and DIA's in the case of IT) functional leadership, policies, advice and guidance, is not able to overcome some of the prevalent behaviours around IT procurement, and IT projects in general, such as risk aversion. As was noted on multiple tables, the desire to *avoid risk* leads to agencies adopting disproportionate processes in the belief that this will ensure successful delivery. Risk is an inevitability, it should be appropriately identified and managed, and that should be part of the procurement process, but not a driver of it.

ENGAGEMENT

Another consistent theme was the lack of engagement with suppliers. As it was described by one table,

> *"agencies go to market for a solution, versus being open to ideas from the market."*

This may be related to the preceding point about risk, but it was consistently identified as a barrier across the groups. An absence of dialogue between the agency and the market ensures that whatever is eventually procured is limited by the capability within the agency, which in some cases may be out of date, or in other cases may be skewed towards a pre-existing solution. In either case, open engagement with the market would identify any potential shortcomings with the proposed approach.

CAPABILITY

It was acknowledged that MBIE had made significant progress since the first workshop, in driving more professionalism, knowledge sharing and best practice across the function. In the specific area of IT procurement, capability was still seen as a significant inhibitor of innovation and delivering better value for both government and the industry:

> *"They need the skills and confidence for the government (IT procurement) otherwise the procurement process can be painstaking and meticulously ticking boxes."*

An area of consistent comment was around government's lack of capability around Agile methodologies, which was hampering innovation. It was noted that there was an increasing use of Agile in procurement documentation, but not a corresponding adoption of the methodology in practice.

OTHER

There were a range of other challenges that were discussed that did not present across all of the tables, or were acknowledged as being only partially in scope for the purposes of these discussions.

These included issues such as the fact that the Rules of Sourcing allow for "*flexibility and innovation*" *n*, but agencies often perceive them as "*rigid and prescriptive*".

Similarly, it was noted that a lot of procurement is actually "*conducted by the business*" *s*, without any professional procurement input, and this can contribute to invariably suboptimal experiences for the industry.

One table noted that direct sourcing can only happen under $100k, and that figure has not changed in several years: should it be re-evaluated?

A consequence of New Zealand businesses not winning enough government business is that there is reduced incentive or ability for them to grow and create jobs without the security of government contracts.

With the Government increasingly focussed on joined up solutions, funding models for these initiatives have not evolved, making these procurement processes even more difficult.

Compounding all of the above issues was the lack of any readily available data about current procurement practice; how much is being spent, saved (actuals, not vapourware projections). It is difficult to identify progress without transparent, robust data.

Opportunities

The session on opportunities and the constructive suggestions as to how procurement policy and practice could contribute to a vibrant and sustainable digital sector produced a significant amount of material. The major themes have been distilled here, with specific comments from the notes included to illustrate particular examples.

VALUE

The overarching theme that emerged across the tables was a call for a more nuanced approach, driven by data, to how the value of procurement is calculated. Consistent with the government's Business Growth Agenda, agencies should be considering more than just the cost of the contract at the point of sale.

Similarly, rather than just focussing on the purported savings of a syndicated contract, a wider understanding of value is needed. Those "savings" are illusory if, for example, the entity pays no—or little—tax in New Zealand. A mature model for benefits realisation, a more sophisticated approach to whole-of-life assessments and a recognition that the purchasing power of the Crown is a significant lever for economic growth; these are all considered significant components to a future state.

> *"A definition of success would include a healthy local market where locally trained people generate local and export revenues."*

Specific industries and sectors where the government has taken a more active role in their development; forestry, construction, and film, were cited as case studies where a more innovative approach, including in the procurement space, had yielded social and economic benefits.

INNOVATION

There was unanimous consensus that there was much more scope for innovative procurement practice in the sector. Discussions around innovation centred around process and the acceleration of the adoption of lean and agile methodologies.

PROCESS INNOVATION

Process innovation opportunities identified included:

- Change the way government and the sector exchange information: more open days, share strategic roadmaps, and engage early.
- “Fail fast”: iterate over smaller projects rather than aggregating everything into bigger, riskier procurements.
- Use sandpits, rapid prototyping and proof of concept approaches prior to significant investment.
- Enable consortia, and reward suppliers that partner with smaller, local businesses.
- Implement channels for two-way feedback in the tendering process (“Rate My Tender”).
- Quality of Annual Procurement Plans needs to lift, dramatically.
- Measure benefits, not just process.
- Share budget as part of the tender process: it increases the sector’s understanding of the requirements.
- Change the way panel contracts are working:
  - Move to open panels, with on-ramps every 12-18 months.
  - Centralise qualification process, to minimise the cost of entry.
  - Focus much more on references, rather than voluminous and costly documentation.

AGILE INNOVATION

Comments around the increased adoption of lean and agile methodologies can be summarised under one of Ben Hayman’s slides: *Procure discovery, not solutions.*

This encapsulates much of what could drive positive change; early engagement, a partnership approach to understanding digital services, prototyping as part of the discovery process, end-user engagement and focus, and acknowledgement that service design and delivery is an ongoing process, not a project.

COMMUNICATION

There was a shared view across the groups that both agencies and the sector needed to improve the way we communicate, particularly sharing what good practice looks like; thereby rewarding and encouraging innovation within the procurement space.

The example of an agency being prepared to see an agile project as an important step in building their own internal capability and understanding about that methodology and paying for "lessons learned" as much for successful delivery is one that could be shared more widely.

> *"Reward good behaviour – if that means failure, that's OK."*

Similarly, particularly in case where the procurement process is being run by the business without the input of agency procurement personnel, there is scope for coaching around interpreting the Rules of Sourcing and understanding the inherent flexibility of the system, rather than seeing it is a prescriptive regime. Better sharing of good practice would make a positive impact here.

Conclusions

Before drawing conclusions from the 2017 session, it would be worth revisiting the outcomes of the 2015 workshop to consider what has changed in the interim. From that workshop, there were four key points:

1. Ensure that government has access to the best capability and that New Zealand digital companies are fairly considered as part of the procurement process.
2. NZRise will continue to support the sharing of best practice and growing the overall capability of the profession in government.
3. There are still significant advances to be made in both the way digital goods and services are procured, and the incentive structures to underwrite successful delivery.
4. Further progress can only be achieved by continuing engagement and dialogue, and a willingness on both sides to identify opportunities to improve our respective approaches to procurement.

2017

In the intervening two years, these four points have retained their saliency. With the current focus on addressing sustainability in procurement policy, the discussions from this year's workshop have yielded two additional points:

5. Procurement policy should incorporate a model of benefits analysis that is broader than the current one. The wider economic impact of procurement and how it can contribute to the Business Growth Agenda would be a platform for a vibrant and sustainable digital sector.
6. Accelerate the adoption of innovative procurement practice through acknowledging and rewarding Transparent, Early, Lean, and Open (TELO) procurement.

Next Steps

NZRise and MBIE will agree and ongoing series of engagements to facilitate the advancement of the six points identified in these workshops.