

# Innovation Procurement: Overview of BPS Primer

High Level Overview of "BPS Primer on Innovation Procurement" (2016), Supply Chain Ontario, Ministry of Government and Community Services

## Definition

Innovation procurement is defined as the purchase of solutions that do not exist in the market, or need to be adapted or improved to meet specified needs and create value for users and the procuring organization.

## Benefits of Innovation Procurement

- **For procuring organizations:** Allows an organization to potentially identify a new solution that better meets user needs and ultimately leads to increased end-user satisfaction and quality service delivery.
- **For suppliers:** Provides early visibility into the user needs to better anticipate demand for new products.
- **For society:** Leads to economic benefits like the development of more effective services and new markets, and tackle environmental and social challenges through new and innovative practices.

## When is innovation procurement appropriate?

The following are circumstances in which innovation procurement may be preferred to traditional procurement:

1. When there is no existing solution in the market
2. When needs cannot be met without significant modifications to existing solutions
3. When looking for alternative approaches
4. When the solution is complex and involves multiple stakeholders
5. When the value of procurement is high enough to justify the time and resources
6. When collaboration and partnership with suppliers in solution development may be required
7. When the solution cannot be objectively defined
8. When the technical specifications cannot be established with sufficient precision

## Innovation Procurement vs Traditional Procurement

Innovation procurement can be time and resource intensive, as it often requires extensive planning, research and stakeholder engagement. It may involve many phases, including research, design, development, prototyping, and/or testing of a proof of concept (development phases), before procuring the solution (production phase). Given the characteristics of innovation procurement, it may be more appropriate to use traditional procurement practices such as Request for Quotation, Request for Tender to procure everyday goods and service, where the evaluation criteria are predominantly based largely or solely on price.

## Key Success Factors

- **Championing innovation procurement and leading change:** Systemic barriers such as a risk-averse culture and a lack of knowledge can stifle innovation procurement. Executive leaders need to act as champions to lead, promote and sustain innovation procurement within their own organization.
- **Identifying the needs:** Time should be spent on identifying needs and analyzing the market. A solid understanding of the needs and the clear articulation of the desired outcomes are critical to success.
- **Planning an innovation process:** There are many considerations that need to be thought through during the procurement planning phase, including whether to use a single contract, a phased contract or multiple contracts, the drafting of outcome-based specifications, the use of value-based evaluation criteria, and the ownership of intellectual property rights. To effectively address these considerations, it is essential to involve legal professionals, key stakeholders, and users throughout the process.
- **Managing Risk:** Successful innovation procurement is highly dependent on the ability of the procuring organization to identify and assess the risks involved at each stage of the procurement process and develop strategies to mitigate those risks. A robust change management strategy can help to mitigate the risk that changing circumstances may render the identified need obsolete or require it to be redefined.

## Early Market Engagement Strategies to support Innovation Procurement

Early market engagement strategies are processes that can improve the fit between the end user's requirements and the market capabilities, resulting in more relevant and competitive proposals.

This can help procuring organizations learn whether available products can satisfy their need or if a new solution should be developed. Feedback received from suppliers through early market engagement initiatives can also help to refine the user's requirements and confirm market interest in addressing the need.

1. **Market Sounding** is a defined consultation process to assess the reaction of the market to a need.
2. **Market Creation** is a process intended to generate supplier interest by communicating to suppliers the scale and scope of the future opportunities and the process. The market creation process uses the feedback collected from suppliers to create the market conditions needed to deliver the best solutions.
3. **Reverse Trade Shows** are events driven by BPS organizations to encourage new and existing suppliers to consider doing business with them.
4. **Request for Expression of Interest (RFEI)** is a document that enables BPS organizations to gather information about supplier capabilities, qualifications, and interest in a specific procurement.
5. **Forward Procurement Plan (FPP)** is the process of giving suppliers advance notice about the BPS organization's upcoming procurement opportunities.
6. **Trade Shows** are events that allow suppliers in a specific industry to showcase and demonstrate their latest products, market trends, and opportunities that might be relevant to BPS organization's needs.
7. **Unsolicited Proposals** are proposals submitted by suppliers to address a BPS organization's current or future needs that may or may not have been identified by that organization. BPS organization should establish policies and/or procedures for the receipt, assessment and use of unsolicited proposals.

NB: Early engagement is not intended either to create a shortlist of qualified proponents or result in an award of a contract. Furthermore, the early market engagement process must not influence the chances of the participating suppliers from becoming the successful proponent in any subsequent procurement opportunity. This should be made clear to all potential participants in advance.

## Innovation Procurement Models

There are many ways to structure an innovation procurement. BPS organizations should design a process that best fits their needs. When seeking an innovative solution, the buyer should carefully consider its own circumstances, taking into consideration the complexity of the need, the nature of the marketplace, and whether the solution is to be scaled up for wider application.

1. **R&D Procurement** is the purchasing of research and development of products, up to the prototyping or first test production phases. It does not include the purchase of the end-solutions beyond prototyping.
2. **Innovation Partnership** is a process of entering into a partnership with selected supplier(s) to research/develop and purchase of an innovative solution to meet an identified need.
3. **Design Contest** is a process in which participants submit a design proposal and/or prototypes to compete for an award. As a procurement model, it usually results in a contract with the winner of the design contest for prototyping of the winning design and/or the production and purchase of a product.
4. **Competitive Dialogue** is a process that allows for thorough discussion of each aspect of the procurement with suppliers prior to both specifying the requirements and an invitation to submit full and final proposals to meet the identified need(s).
5. **Competitive Procedure with Negotiation** is a process that may be used to meet complex needs in cases in which innovative solutions already exist in the market and there is some flexibility in requirements that allow for negotiations between the buyer and seller to meet the identified need(s).
6. **Innovation-Friendly Competitive Process** refers broadly to outcome-based models/processes that are carried out in such a way that allows innovative solutions to be considered or are not excluded or treated unfairly by overly rigid product specifications. Accepting alternative proposals is one way of making a competitive process innovation friendly.