



GOVERNMENT PROCUREMENT GETS THE MIDAS TOUCH

By Daniel Selikowitz, Andrew Arcuri, and Mark Watters

GOVERNMENTS IN OECD COUNTRIES are under pressure to meet the rising demand from their citizens for increasingly sophisticated and digitized public services. The task of delivering large-scale services and solutions grows ever more daunting as technologies get more complex, markets expand and diversify, and new technologies and suppliers emerge.

Some procurements still warrant the standard approach. But when it comes to complex procurements, where the output is less clearly defined, governments need to engage suppliers earlier in the process. By taking a more open and collaborative approach, the two sides should work together in a way that allows for the codesign of requirements while truly aligning risk and incentives.

BCG calls this innovative approach market-informed design and sourcing (MIDAS). When used in conjunction with conventional methods, MIDAS can help governments deliver more successful procurement outcomes and greater financial and non-

financial value. Much is at stake as public-sector procurement—which already represents roughly 10% to 15% of procurement in OECD countries, or approximately US\$5 trillion—continues to increase in scale and complexity.

The Public Procurement Challenge

As new digital technologies continue to emerge, OECD governments are increasingly focusing their agendas on delivering services and solutions that are far more complex than in the past. Such services and solutions include the automation of business processes such as fraud detection, technology-enabled business change; technology-enabled service delivery such as the digitization of health care systems; major infrastructure programs like the building of an airport; and the creation of defense materiel.

Since most governments lack the capabilities needed to implement such diverse and complex initiatives alone, they rely on third-party capabilities to deliver solutions.

Historically, they sourced these capabilities via conventional procurement processes, which focus on securing value for money from a number of vendors that compete for projects. Heavily choreographed and often adversarial in nature, these procurements have worked well under certain conditions.

Notably, they have been suited to purchasing well-defined products or services, such as basic infrastructure maintenance or commoditized products. They have also worked well and when the basis of competition has been clear and quantifiable, such as lowest fixed price or highest guaranteed revenue.

Yet, conventional procurement methods, which rely on a competitive, paper-centric, “head-to-head” supplier environment, are on their own inadequate. According to the Standish Group’s [Chaos Report](#), more than 70% of all technology projects—which are most often procured through conventional government processes and supported by industry partners—experience budget and time overruns or fail to reach completion. For projects with budgets exceeding \$10 million, that number skyrockets to 90%.

Unfortunately, even as services and solutions became more customized and com-

plex, procurement approaches have not evolved accordingly. Conventional methods continue to favor large, established providers over more nimble competitors. That’s because these methods use templated response forms that make it difficult to submit innovative bids.

Conventional methods also limit the sharing of government information with vendors, promote adversarial interactions with vendors, and tend to adopt a one-size-fits-all approach that fails to adequately account for the nuances of specific projects. In brief, these approaches have left little room for innovation—and have in many cases led to disappointing design, delivery, and commercial outcomes.

Adding the MIDAS Touch

Market-informed design and sourcing (MIDAS), by contrast, provides governments with a more collaborative approach to procurement. It involves identifying and clearly understanding a potential problem, then actively engaging with the market to envision what the design and delivery of the solution may look like. Compared to traditional procurement approaches, MIDAS both adds and accelerates stages to enable a richer, more iterative process of

EXHIBIT 1 | When to Use the MIDAS Approach

CRITERIA	TRADITIONAL APPROACHES	MARKET-INFORMED DESIGN & SOURCING
Design	The design is well known, and the procurement process is focused on understanding pricing	The vision is clear, but solution design, delivery approach, and/or commercial model are not
Solution	Off-the-shelf solutions are adequate	Analogous solutions exist in other sectors but the public sector marketplace does not yet exist
Delivery	A tried and tested delivery approach exists	Novel delivery approaches are emerging
Roles	Delivery and/or ongoing operation of the project involves discrete roles between buyer and seller	Integrated departmental and vendor teams can deliver and/or operate the project at strategic, commercial, technical, and operational levels

Source: BCG analysis.

design, development, evaluation, and vendor selection. (See Exhibit 1.)

A traditional procurement process usually begins with the release of a request for tender (RfT). Then it proceeds to evaluation, negotiations, vendor selection, and contracting with the preferred tenderer. Designing and building a solution, such as a prototype and minimum viable product, or MPV, may then follow.

With MIDAS, by contrast, much of the business, technical, and commercial design—as well as the mobilization of vendor and departmental teams—takes place before the RfT is issued. These activities occur in up to five different phases. Generally speaking, the more undefined the project, the more phases that need to be deployed.

The MIDAS process begins with the government agency conducting an initial market consultation and, in most cases, selecting a market research provider for the initial phase of research. The goal of this phase is to build a clear understanding of the needs, frustrations, and pain points of expected users. The government agency then identifies and invites a pool of prospective vendors to participate in the procurement process. In the steps that follow, the agency uses written responses, workshops, and collaborative design to develop, test and evaluate potential solutions.

During the MIDAS process, joint government-vendor teams will codesign a prototype or MVP to make the solution tangible and allow for refinements well before a contract is signed. They will also work together to develop the right business and operating models for the solution that the vendor will deliver. Along the way, the government representatives will clarify the features that are essential. Finally, the agency will select the vendors it wants to work with, and the relevant parties will sign a contract.

Collaborative interactions are the “secret sauce” of the MIDAS process. The interactions may take the form of a document to solicit feedback. Alternatively, there may

be a number of government-vendor teams codesigning potential solutions. In either case, it’s key for the government to engage with a broad range of providers across multiple markets. This is critical for developing a deep understanding of emerging technologies and approaches. MIDAS focuses not on template-based RfTs, zero-sum negotiations, and standardized evaluation criteria but on dialogue, the cocreation of solutions, and the transfer of capabilities from vendors to government.

Various governments have started to adopt the MIDAS approach. Australia’s New South Wales government, for example, is seeking to actively partner with industry and to jointly design major infrastructure projects. The government of New Zealand has plans to launch “Marketplace,” a new digital procurement channel, to make it easier for a broader range of suppliers to engage dynamically with government agencies.

Similarly, the U.K. Government has announced plans to create “Tender,” a digital forum where government buyers and prospective suppliers can discuss projects the government is undertaking. This program is expected to help government buyers produce better-informed and more specific briefs for jobs, in turn driving better procurement outcomes.

Advantages of the MIDAS Approach

MIDAS helps resolve many of the challenges inherent in conventional procurement methods. It makes the government a more informed buyer, and potential providers more informed sellers. Moreover, it exposes government teams to innovative approaches and tools. No less important, it removes much of the risk inherent in delivery through iterative development and testing of the solution and delivery model.

A market-informed approach has the potential to significantly lower the overall costs of procurement—mainly because contract is signed in the later stages of project development.

In conventional procurement, the government enters into a contract with a vendor before undertaking detailed design and prototyping. In such situations, there is a high risk of cost and timing overruns once things get underway. Such issues can arise, for example, if the vendor and government have a different understandings of the specifications, or if the vendor has committed without fully understanding project requirements.

With MIDAS, the government and vendor sign the contract after collaborating on design and prototyping. This reduces delivery costs and risk down the road. Such cost savings can be considerable in technology-related projects.

In addition, MIDAS provides a useful way for dealing with probity, or process integrity, issues. Traditionally, governments have sought to minimize the amount of information they shared with vendors, in the belief that this was necessary to preserve probity. But MIDAS strikes a balance between the two. The two sides share their goals and commercial and design information as they might with a partner in a joint venture, following set probity guidelines. This level of transparency is critical to success.

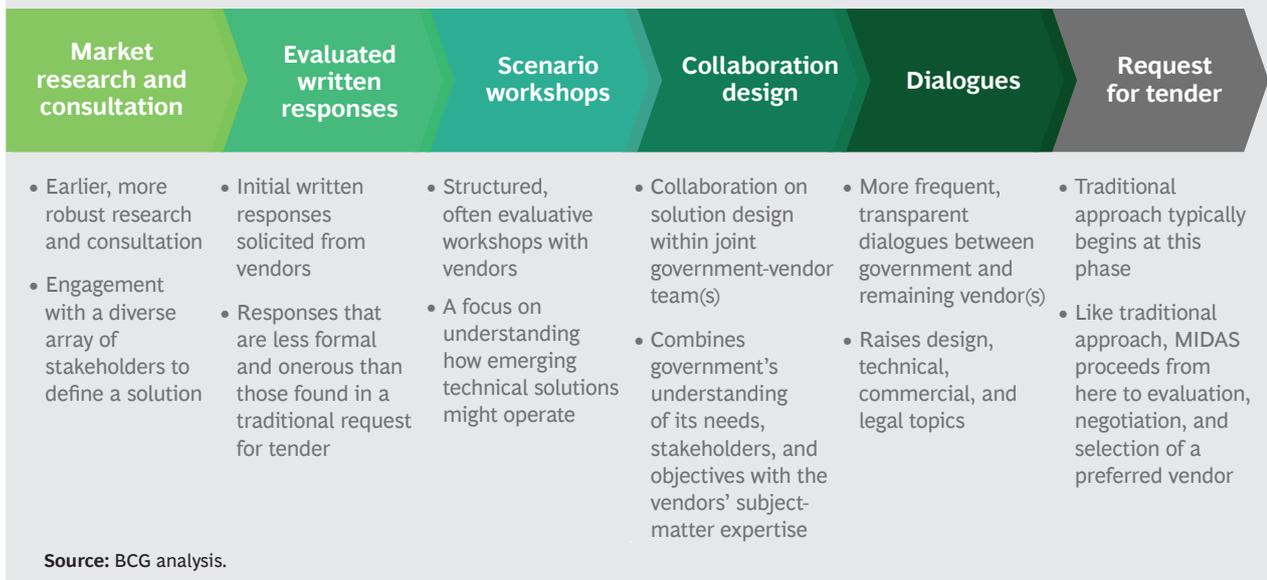
Yet a MIDAS approach may not be not op-

timal for all government procurement initiatives. In particular, undertaking design and prototyping activities before contract negotiations causes a government to incur a portion of the procurement cost earlier and before a preferred vendor has been selected. This resequencing is likely to result in a better-defined solution and stronger government-vendor relationships.

But it also increases sunk costs and so may not be optimal for procurements with very tight resourcing constraints in the initial phases. Similarly, the MIDAS approach is less likely to unlock value in the procurement of well-understood services and solutions such as commodity hardware, basic network services, or off-the-shelf applications.

MIDAS, therefore, should be used for projects where the objectives are largely clear but the design and delivery model of the solution are not. Such projects would include the development of complex technological infrastructure such as a sophisticated data registry; the automation of complex services like welfare approvals; and the launch of a public-private partnership for novel health care modalities. In such instances, a MIDAS approach can achieve a better outcome than a conventional one. (See Exhibit 2.)

EXHIBIT 2 | How MIDAS Differs from Traditional Procurement Approaches



Secrets Of Success

A number of governments around the world have piloted collaborative procurement efforts in the MIDAS mold, engaging more dynamically with a diverse array of market providers. For example, in Canada, the MaRS Procurement by Co-Design Program has enabled entrepreneurs and health care providers to solve technological challenges in partnership with government, as providers and public sector staff coach each other throughout a collaborative, codesign procurement approach.

Similarly, Ireland's Smart Dublin project is using a combination of pitch-based and collaborative design approaches to leverage city data and deliver smarter government services to citizens. And some leading agencies within Australia's Federal Government have begun using market-informed design and sourcing approaches in major technology procurements, with promising early results.

What does it take to make market-informed procurements successful? In our view, three practices are key:

STRIKE THE RIGHT BALANCE BETWEEN COLLABORATION AND COMPETITION

As important as collaboration with vendors is to complex procurement projects, competitive stages are still necessary to extract maximum value for those efforts. Collaborative procurement is most appropriate for the design phase, when ambiguity and complexity are at their peak. Once there is a clear understanding of the potential risks and challenges for both parties, a competitive approach is useful for finalizing costs and team requirements.

It may be advantageous to use a multistage tender, in which rounds of competitive procurement bookend longer periods of collaborative design. In this case, instead of deploying the usual innovation process of ideate, define, design, and develop, we recommend the design thinking process (DTP): empathize, define, ideate, prototype, and test. DTP's empathize stage provides a deeper understanding of the needs and pain points of the user, while the prototype

stage allows for more robust testing and refinement of the outputs.

Using DTP thus would make it possible to further refine the vendor pool at the end of the ideation and prototyping stages—and before making the final selection at the end of the test stage. Because relationships will be established between government and vendors early on under this approach, the contracted vendors will be able transition more easily to the delivery phase.

CREATE INCENTIVES THAT MOTIVATE PROVIDERS TO MAINTAIN TRANSPARENCY

MIDAS works only if the provider and the government maintain open collaboration during the design phases. This requires the provider to be fully transparent on a number of matters, such as operational costs and competitive advantages. As a result, the government can build a robust solution and achieve the best outcomes.

But it's important to keep in mind that open collaboration exposes any competitive edge the provider might have. Consequently, government departments need to structure incentives so that providers are not tempted to withhold information key to the design process.

There are a number of ways to do this. For example, parts of the market-informed process could be designed to evaluate the provider on its collaborative effort in addition to its credentials and references. Another option is to institute reciprocal information-sharing practices to promote open engagement during the collaborative process.

The balance between collaboration and competition is a delicate one. The combination of competitive and collaborative phases may lead to unwanted bidder behavior at various points. For example, during the collaborative periods vendors may try to be less transparent than the government would like if they feel that what they share could be used to their detriment during the subsequent, competitive phases.

Alternatively, vendors may try to submit less financially competitive bids during the competitive phases in hope that their contributions during the collaborative phases will more than compensate for any relatively higher pricing.

The government should use of incentives and disincentives to mitigate such behaviors. That will make it possible to reap the benefits of collaboration without compromising on the value provided by competition.

START WORKING WITH THE PROVIDER ON AN INTEGRATED TEAM

Shifting from a confrontational procurement process into integrated government-vendor teams can be jarring. This makes it crucial for diverse, integrated teams to be in place early in the design and sourcing process.

Collaborative approaches can help build the right relationships and working dynamic with prospective vendors well before a contract is signed. For example, if a project ultimately requires agile, multidisciplinary teams for delivery—as is increasingly the case for technology-enabled outsourcing and public-private partnerships—a design phase that features agile, multidisciplinary teams can help set the right norms. As is generally recognized, diverse, integrated teams improve decision-making because they avoid different types of cognitive bias.

Creating diverse, integrated teams as early as possible also enables all the stakeholders can get to know the various work styles and strengths. It also ensures that public-private resources are shared optimally and that delivery timelines and interdependencies are transparent to both parties. The effort expended in the design phase will lead to a well-functioning team during the delivery phase.

NEW APPROACHES WILL INEVITABLY BRING NEW CHALLENGES, SO ADDRESS THEM PROACTIVELY.

The degree of collaboration needed for MIDAS demands that governments and pro-

viders embrace completely new ways of working. Proactively addressing the challenges and resistance that will inevitably arise will position the program for a successful outcome.

MIDAS brings with it a number of complications not often seen with conventional methods of procurement. For example, the open-book transparency that MIDAS requires could appear to put probity at risk because numerous stakeholders are handling sensitive information in a fast-paced environment.

And while one of the aims of collaboration is to transfer capabilities from provider to government, sometimes the problem demands a customized solution—and capabilities—that the provider doesn't have. Perhaps most consequential, using the MIDAS approach requires adjusting to new ways of working, one of the most difficult aspects of effecting change.

Governments must proactively mitigate these challenges, especially those around probity. Developing targeted strategies for governing the sharing of information—such as deploying controlled data rooms—is important. So is having different individuals from the government team play a role in the collaborative and evaluative phases— and making sure these individuals cannot interact. Involving probity advisors in all aspects of the process is also a good idea.

Engaging change management early, instituting processes that encourage open communication, and maintaining heightened vigilance on probity will also be crucial for minimizing risks later on. No less important, it will be key to garnering the support of higher-ranking government officials, labour unions, and other stakeholders.

A Balancing Act

Governments seeking to use procurement to maximize the value unleashed through public spending must carefully balance conventional competitive methods and collaborative, market-informed processes.

The MIDAS touch of market-informed design can position governments for highly successful procurements, particularly as the nature of public needs evolve, products and services become more complex, and customized solutions become increasingly necessary.

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