



Public Procurement Policy and Purchasing Strategy

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Abstract

This chapter introduces the concepts of public procurement policy and public purchasing strategy. It explains that a procurement policy contains the resolutions and guidelines of a public organization for guiding and prescribing general procurement choices and utilizing its supply base. The cyclic procurement policy process is presented and described, including an explanation of how conflict and ambiguity affect the implementation of procurement policies. It is explained that the guidelines and framework provided by a procurement policy are used to develop a specific strategy for a tender or group of tenders. Subsequently, the Kraljic portfolio model is introduced in combination with Carter's customer portfolio model for setting a general direction for a purchasing strategy. This can, for instance, be to focus on collaboration (for strategic tenders), competition (for leverage tenders), supply certainty (for bottleneck tenders), or efficiency (for routine tenders). This chapter concludes with a description of several specific strategic decisions that a public buyer makes based on the general direction of a procurement strategy such as single or multiple sourcing, the length of the contract, the type of specifications, and the attractiveness of the tender.

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Keywords

Public procurement policy · Procurement policy process · Policy implementation · Demand and market analyses · (Public) purchasing strategy · Sales strategy · Strategic purchasing decisions

Learning Objectives

After studying this chapter, the reader will be able to:

- Describe what a public procurement policy is.
- Describe what a public purchasing strategy is.
- Understand the difference between procurement policy and purchasing strategy.
- Understand and explain the procurement policy process.
- Describe the resources that are available in the implementation of procurement policies.
- Explain what routine, leverage, bottleneck, and strategic purchasing strategies are.
- Understand how purchasing strategies and sales strategies affect each other.
- Explain in which situations, different purchasing strategies can be used and different strategic choices can be made.

5.1 Introduction

Governments try continuously to govern developments in society. The resolutions, choices, and actions of governments regarding the governance of specific societal developments are laid down in public policies which give meaning to the way governments try to create public value (Bovens et al., 2012). Where public procurement was first only about fulfilling a specific demand and providing what users needed in the right quantity and quality, at the right time, in the right place, and for the right price, it is now often also about making sure that procurement adds value to its environment (see also the seven development stages in Chapter 1). Public organizations nowadays use public procurement for reaching a multitude of societal goals, such as minimizing long-term unemployment, improving working conditions throughout the international supply chain, promoting small- and medium-sized enterprises (SMEs), social entrepreneurs, start-ups, or local businesses, stimulating innovation, and driving the market for sustainable supplies and services. This development means that public procurement is no longer just a means to an end, but also a policy tool that can be used to achieve desired outcomes in society. How public procurement could or should be used as a policy tool to reach the desired outcomes of which public policies are laid down in procurement policies (generally) and purchasing strategies (more specifically).

This chapter therefore discusses the topics of procurement policy and purchasing strategies more in-depth. A procurement policy contains the general resolutions, choices, and actions of a public organization regarding their procurement and utilizing its supply base. A purchasing strategy uses the guidelines provided by a general procurement policy to develop a specific strategy or action plan for a tender or a group of related tenders.

Section 5.2 elaborates on the topic of procurement policy. Sections 5.3 and 5.4 make the link between policy and strategy. In Sections 5.5 and 5.6, the purchasing strategy and related models are described which can be used to develop a purchasing strategy. Finally, Section 5.7 describes some important specific strategic purchasing decisions.

5.2 Procurement Policy

A procurement policy gives guidance to the way an organization procures works, supplies, or services and creates optimal value for the entire organization and in the case of public organizations: society. Public procurement policies, like any other public policy, can take different forms, such as *distributive policies* describing the allocation of responsibilities regarding certain matters, *regulatory policies* describing rights and obligations that should be taken into consideration when procuring, or *stimulating policies* providing information that can, for example, make procuring sustainably easier for public procurers (Bekkers et al., 2017). The policy process of procurement policy is like that of any public policy, which means that it is commonly considered to be a cyclic process (see Figure 5.1) that starts with agenda-setting (driven by a particular societal challenge), followed by policy development, policy decision-making, policy implementation and policy evaluation, before it loops back to agenda-setting (Anderson, 2003).

Agenda-Setting

Before a procurement policy can be developed, the problem that the policy addresses must attract the necessary attention and end up on the agenda of venues that can call for change and initiate policy development, such as parliament, the media, or society. Following Hoogerwerf's (1989) definition, a policy problem is a discrepancy between a benchmark—principle, norm, or goal—and the conception of the existing or expected situation. A policy problem that a public procurement policy could address is, for example, the discrepancy between vegetarian products being widely available in regular restaurants and supermarkets, many civil servants being vegetarian but *not* having any vegetarian food options in the company restaurant of a ministry. The new procurement policy could then indicate that when catering services are procured, vegetarian alternatives must be offered.

It is important to note here that perspectives on a benchmark can vary, and it is therefore often difficult to provide an objective definition of a policy problem

Figure 5.1 Policy process
(Anderson, 2003)



(Hoogerwerf, 1989). For example, while one stakeholder might consider a hybrid car a sustainable mode of transportation, this might not be what another stakeholder, who is thinking of public transport, would consider sustainable. The often-contested definitions of policy problems are one of the reasons why implementation and evaluation of public policies are often complex. Because how can you determine if the goal of the procurement policy has been reached if the problem is not agreed on?

Example 5.1: Example of a procurement policy: Responsible procurement in the City of London

The London City Corporation developed the ‘Responsible Procurement Policy’ that outlines 18 principal commitments they are making to drive positive change through their supply chain activities and make their procurement more responsible.

Examples of commitments listed in the policy are:

- Work with suppliers who take active steps to embed equality, diversity, and inclusion.
- Ensure that suppliers minimize air and noise pollution associated with our contracts.
- Achieve best value by assessing supplies, services, and works designs based on life cycle costing.
- Procure 100% renewable electricity and continuously reduce carbon intensity of gas and fuel.
- Eliminate single use plastics and minimize all waste internally and in supply chain operations.

In addition, the policy prescribes the societal priorities for different procurement categories, such as catering or building projects. For example, for catering, the policy is to focus on job creation, and for buildings the policy is to reduce CO₂-emissions. In line with the overall procurement policy, more specific policy action plans are drafted that explain how the policy will be implemented.

Procurement Policy Development and Decision-Making

If the need for change and the policy problem have been put on the agenda, a policy needs to be developed. The development of policies is often considered the result of a rational process, where policy makers use evidence-based information to determine what the best instrument is to reach the desired policy goal (Bekkers et al., 2017). Policy development however does not happen in a vacuum, but rather in an arena (or multiple arenas) where several stakeholders try to influence policy development. As such, policy development is also a political challenge where strategic behavior is displayed (Hoogerwerf, 1989). Think, for example, of a farming alliance lobbying for the redesign of buying standards for food to emphasize the importance of quality over cost. Moreover, procurement policies are developed within a specific institutional context that affects the possibilities that can be realized. Moreover, procurement policies are developed within a specific institutional context that affect the possibilities that can be realized. For example, green public procurement criteria that the European Commission drafted for their member states to use (mostly voluntary) can influence the national development of green procurement policies and the focus areas for sustainability therein.

In drafting a public (procurement) policy, a policy maker needs to answer several questions. Important questions are: ‘*Can it work?*’, ‘*Is it allowed?*’, ‘*Is it applicable?*’, and ‘*Is it appropriate?*’ (Bekkers et al., 2017). The first question, ‘*Can it work?*’ refers to the expected effectiveness and efficiency of the proposed policy in solving the policy problem (and thus reaching its goal). For example, a procurement policy proposing to award at least 60% of all European tenders to small- and medium-sized enterprises (SMEs), while in practice this is already 70% will not be effective in reaching the policy goal of awarding *more* contracts to SMEs.

The second question, ‘*Is it allowed?*’, refers to the legal frameworks that are in place. For example, public authorities in the European Union must comply with the rules of EU public procurement directives when purchasing works, supplies, or services on the market and as such affect the possibilities for procurement policies. For example, the national government might want to develop a procurement policy that prescribes that works, supplies, and services must be procured from local businesses to stimulate the local economy, however excluding foreign bidders from participating in a procurement procedure is generally not allowed.

The third question, ‘*Is it applicable?*’ refers to the applicability of the proposed policy. Can the procurement policy be implemented in practice, or will it cause problems or resistance from stakeholders? A public organization, for example, implemented a 100% organic food procurement policy years ago. The application

of the policy caused problems in practice as not all products had an organic alternative (yet). This created dissatisfaction among the staff that missed some of their favorite foods. While the procurement policy might be allowed and effective, it was too ambitious (at that time) to apply.

The fourth question, '*Is it appropriate*', relates to the legitimacy of government and trust of citizens in governments to deal with policy problems (Bekkers et al., 2017). This question requires policy makers to investigate the appropriateness of the proposed policy for a public organization spending taxpayers' money. A food procurement policy for an academic hospital that specifies that lunches served in the company restaurant must always have the quality of three Michelin stars might be allowed but not considered appropriate by society and other stakeholders.

Therefore, throughout the policy cycle there are numerous decisions that must be made, ranging from deciding what to do with the answers to the aforementioned questions (redesign, cancel, or continue) to approving the policy and moving toward formal implementation. These decision-making processes are often perceived as highly political processes that contain bargaining and negotiating by various stakeholders to ensure that the policy that best suits their interests is formally approved. Research, for example, showed that the more committed procurers are to sustainable public procurement, the more sustainable their tenders become (Grandia, 2015). However, research also shows that if social public procurement policies are excessive and imposed top-down, not considering the sector's compliance capacity, it is unlikely that the intended policy outcomes are realized (Loosemore et al., 2020). It is thus important to include relevant stakeholders in the design and decision-making process, making stakeholder identification and management a crucial element in the development of procurement policies (Bekkers et al., 2017).

Procurement Policy Implementation

Traditionally, policy implementation was considered a rational and linear process that followed from a formal decision to implement the designed policy and could be centrally steered. However, current insights show that policy implementation is seldomly that simple and straightforward, but complex and typically involves the collaboration and cooperation of numerous stakeholders (Hoogerwerf, 1989). Because factors that affect the implementation of procurement policies have been found to vary per context and procurement policy, a matrix is presented based on the work of Matland (1995). The matrix helps assess how difficult or complex implementing a particular procurement policy will be by looking at the expected level of (1) policy conflict and (2) policy ambiguity (see Figure 5.2).

Policy conflict occurs when multiple stakeholders view the policy as directly relevant to their interests but have incongruent views on it. The more incompatible the concerns and the higher the stakes for stakeholders are, the more intense the conflict will become. *Policy ambiguity* falls apart into two categories: ambiguity of goals and ambiguity of means. If there is a high level of goal ambiguity, this can cause misunderstanding and uncertainty among stakeholders, which can directly

		CONFLICT	
		Low	High
AMBIGUITY	Low	Administrative implementation <i>Resources</i>	Political implementation <i>Power</i>
	High	Experimental implementation <i>Contextual conditions</i>	Symbolic implementation <i>Coalition strength</i>

Figure 5.2 Ambiguity-conflict policy implementation matrix (adapted from Matland, 1995)

cause policy implementation failure. Ambiguity of means can occur when, for example, a technology or a product is required for implementation of the procurement policy that does not exist yet or when there is uncertainty about which stakeholders should be involved and what their role should be.

This results in four types of policy implementation: (1) administrative implementation, (2) political implementation, (3) experimental implementation, and (4) symbolic implementation.

Administrative implementation has the ideal conditions for implementation. There is no discussion about the goals of the policy or uncertainty about its key concepts, it is clear which stakeholders need to be involved, allowing them to work together smoothly and develop standard operating procedures. Implementation will almost certainly be a success and reach the desired policy goal, as long as there are sufficient resources. However, in practice those resources are frequently insufficient, making implementation still difficult. Research into public procurement, for example, shows that insufficient budgets, a lack of knowledge about sustainable procurement, lack of skills, but also pillarization in the organization can negatively affect procurement policy implementation (Grandia, 2015). Having a clearly written and procurement policy is another vital resource and thus key to successful implementation.

In the case of *political implementation*, stakeholders have a clear idea of what the policy is about (low level of ambiguity), but conflict arises between them, for example, regarding the costs for executing the policy or who should be tasked with implementing it. Stakeholders will have to resort to bargaining and negotiating to reach an agreement and implement the policy. Political implementation can as such be a procurement version of a ‘not in my backyard’ (NIMBY) problem. Everybody might, for example, agree that having a meatless procurement policy is a good idea, but when it becomes clear that implementing this policy means that a newly contracted supplier is forbidden to serve chicken burgers in the company restaurant, this might change. It then depends on which stakeholder is more powerful, whether the procurement policy will indeed be implemented, or if stakeholders will be able to negotiate some exceptions to the policy and how strong those exceptions will be.

In the case of *experimental implementation* of procurement policies there is high ambiguity—what are we trying to implement or how?—but little conflict between stakeholders. This is often the case when the goal is clear, but it is unclear how it can be achieved, for example, because the requested technology or instruments are missing. Think, for example, of the aforementioned 100% organic catering policy that was difficult to implement because not for every contracted product an organic version could be supplied. It then depends on the commitment of key stakeholders to the goal of the policy, the number of other demands on their time and attention, the perceptions regarding the policy, available resources, and possible economies of scale that can be achieved how successful implementation will be. As all these factors vary per public organization and tender, the implementation results will therefore also vary per public organization and tender.

In the case of *symbolic implementation*, a high level of conflict and ambiguity result in a policy that receives substantial attention in its agenda-setting and development stage but is ultimately implemented with little effect. The high degree of ambiguity means that stakeholders find it hard to agree on what the policy should aspire to and how to do that, and this combined with incongruent views, interdependency, and opposing interests between stakeholders results in a procurement policy that will unlikely reach the desired outcomes. Implementation in the end is therefore mostly determined by the strength of the local coalition of key stakeholders, who control the available resources and their willingness to address both conflict and ambiguity. Greenwashing is a clear example of symbolic policy implementation. While it seems that attention is paid to sustainability, in reality very little changes. This can, for example, happen in tender procedures when sustainable award criteria are included that have so little weight, they do not make any difference.

Procurement Policy Evaluation

Evaluation is a mechanism for monitoring, systematizing, and grading ongoing or just finished procurement policies, but also procurement strategies and tenders, so that procurers and other stakeholders in their future-oriented work will be able to act as responsibly, creatively, equitably, and economically as possible. In the case of procurement policy evaluation, this means that the merit, worth, and value of organization, content, administration, output, and/or effects of ongoing or finished procurement policies are carefully assessed (Vedung, 2015). Evaluation is a value-laden and normative process that can take various forms. In addition, to the basic economic evaluation models that assess the effectiveness and efficiency of the procurement policy in mere economics terms, there are other broader evaluation models (Vedung, 2015). As each model has its own particular advantages and disadvantages, the combination of different evaluation models is recommended. With the evaluation of the procurement policy, the loop of the policy cycle is closed and can start a new cycle by raising a need for change and a new policy problem to be put on the agenda.

5.3 From Procurement Policy to Purchasing Strategy

The effects of a well-implemented procurement policy can be substantial and lead to a substantial increase in tenders that stimulate the public policy-related values such as sustainability of social return. The fact that significant results are quickly visible could also indicate ‘supplier readiness’ of such values, as suppliers might be increasingly preparing themselves for governments to use sustainable and social procurement (Armann et al., 2014). Hence, developing a procurement policy which aligns organizational policies and market possibilities is essential to ensure that procurement practices support organizational aims.

These procurement practices consist, among others, of all sorts of tenders that are organized a public organization. For each tender, or group of related tenders, a purchasing strategy or action plan is required that translates, among other things, the broad direction of a procurement policy to specific strategic choices. Strategy is a nebulous concept with multiple definitions and little consensus regarding its makeup. One reason for this difficulty is that the term ‘strategy’ often refers to different levels, such as the organization as a whole, a department, a category, and the tender (Hansen et al., 2002).

There are many possibilities for practically organizing the translation of procurement policy to purchasing strategies. For instance, a public organization could have separate sustainable procurement policies for works (like roads and viaducts) and for supplies and services (such as copiers, engineering services, or software), but they might also have opted to create sustainable procurement policies for specific categories, or even subcategories, such as ICT, facilities, construction, and maintenance. For each sub-category or category, a grand purchasing strategy could be developed, based on one or more procurement policies. Tenders that fall within the category ‘facilities’, for example, are possible tenders for cleaning, catering, office supplies. Categories can differ per organization depending on the tenders they usually conduct. It is also important to note here that there can be multiple procurement policies that might need to be combined in a single procurement strategy (e.g., a policy on sustainability and a policy on involving SMEs).

In addition to the procurement policies that are translated into a purchasing strategy, the long-term goals of an organization are also described in the purchasing strategy and how they generally affect (individual) tenders. For example, if the organization aims for integrated facility management, then one large, clustered tender could be a suitable strategy. Furthermore, a purchasing strategy should be based on a spend and demand analysis of a specific purchasing category and a thorough analysis of the market of this category. These analyses describe what suppliers are operating on the market, what important developments are, and how demand is developing.

Spend and Market Analyses

Spend analyses have many purposes, including financial control and finding opportunities for new tenders. When using a spend analysis to develop a purchasing strategy, the spend analysis should analyze, among other things, the possible contract

value and potential suppliers. In most situations, public organizations already have contracts with one or more suppliers. For the strategy, it is relevant to know what the current contract value of these contracts is, how it developed over the years, what the contract compliance is, how many current suppliers there are, and how the contract value is divided over the suppliers. When more than one department is involved in a tender, it can also be useful to analyze contract values per department. For all quantitative data, further examination is required before a judgment can be passed (Telgen, 2004).

The spend analysis shows nothing of the contents of the current contracts or the purchases: it shows the volume of the purchases. It is not useful to judge or act based on a spend analysis alone (Stamm et al., 2019). One can, for instance, collect additional qualitative and quantitative data based on input from contract managers, input from end-users, input from other buyers and experts, and supplier ratings. Market analyses can be done using, among other things, market consultations, buyer consultations, and market reports. Many countries also have public websites that can be easily used for market analysis. Such websites show general developments in a market, such as common procurement procedures or the number of suppliers that participate in similar tenders. In Example 5.2 below, a few examples of market analyses are shown.

Example 5.2: Market analyses

Examples of a market analysis are included in Figures 5.3 and 5.4. These figures are instantly made by www.opentender.eu. The first figure shows how often certain procurement procedures are used for a particular EU Member State for clothing over the past years. The second figure shows what the contract values are for specific types of clothing. Such tools also allow the buyer to easily find similar tenders that can be used while preparing the tender at hand. Other types of analyses are analyzing ‘supply procurement scores’, tax haven risks, or commonly used award criteria used for the tender at hand, using www.opentender.eu, Tender Electronics Daily, or a national procurement platform.

5.4 Choosing a Purchasing Strategy

When a buyer has gathered sufficient information about demand and supply, the main strategic decisions for a tender can be made. Specific strategic choices for a tender are, for instance, how many suppliers to contract or what the contract length should be. The Kraljic portfolio model (Kraljic, 1983) plots tenders in a two-by-two matrix based on two dimensions and enables organizations to determine the most appropriate purchasing strategy as depicted in Figure 5.5. Although it is a general purchasing model, these quadrants can also be applied to public tenders and strategies. The horizontal axis in the Kraljic model relates to the supply risk related to the tender. The supply risk is high if there are a limited number of suppliers or buyers

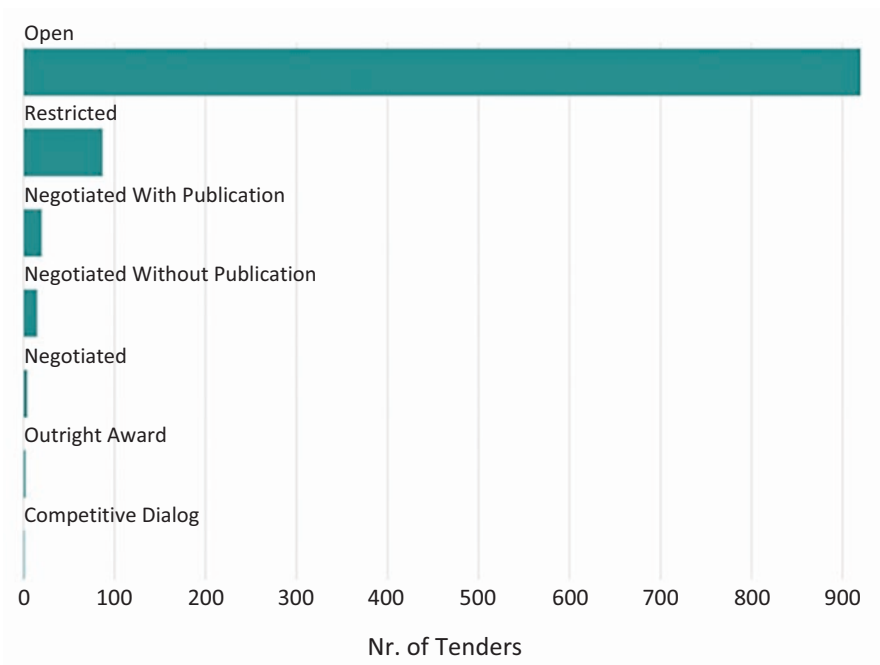


Figure 5.3 Example of market analyses (1/2)



Figure 5.4 Example of market analyses (2/2)

in the market, if the demanded work, supplies, or service is complex, or when there are many technological developments. Aspects such as entry barriers, possible supply chain interruptions, or shortages also influence supply risk (Montgomery et al., 2018). The vertical axis in the Kraljic model relates to public value and is often measured by the expected contract value or expected societal impact of a tender. Political sensitivity, (cyber) security, and criticality of supply can also affect the level of public value on the vertical axis. The matrix consists of four quadrants of

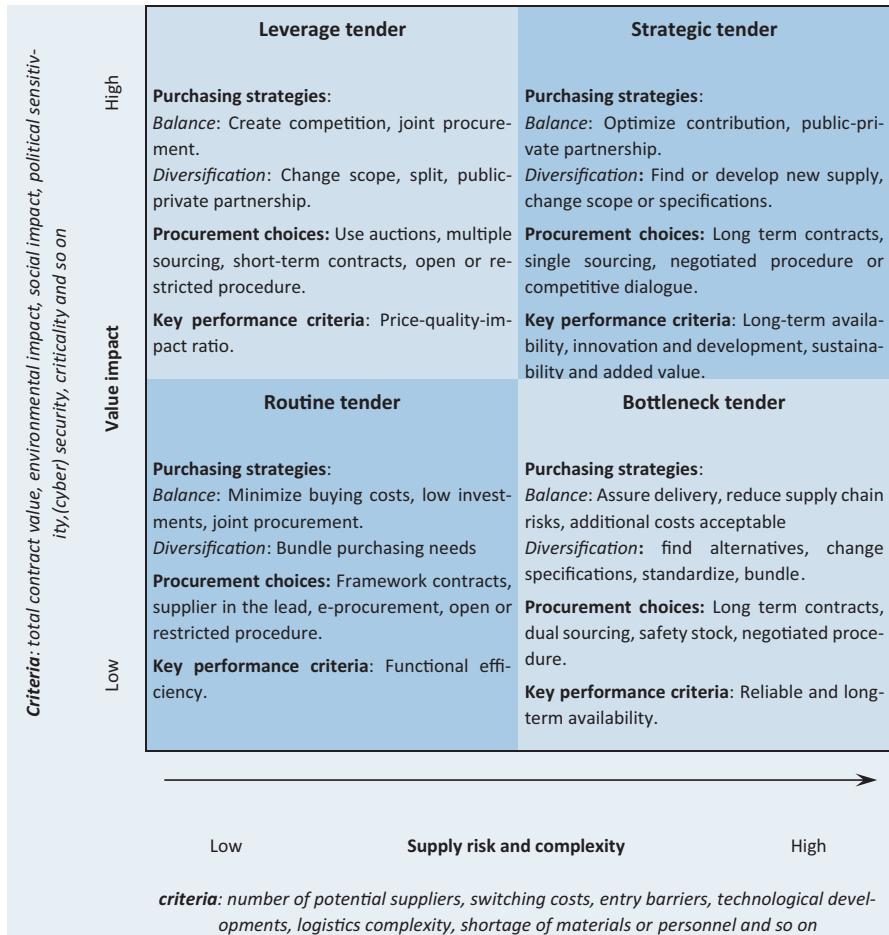


Figure 5.5 Kraljic purchasing portfolio model adapted to public procurement, including examples of purchasing strategies and procurement choices (Kraljic, 1983)

strategies: Bottleneck, Routine, Leverage, and Strategic. After a tender has been plotted into a quadrant, a purchasing strategy can be determined. The choice for a purchasing strategy also depends on whether the purchasing organization considers it desirable that the tender is in the relevant quadrant or whether it wants to move it to another quadrant.

Bottleneck Strategies

The bottleneck quadrant is characterized by low public value and a high vulnerability for the buyer. For this quadrant, securing supply, if necessary, at an additional cost, is often the highest priority. Long-term contracts can be used or contracts

could be closed with two or more suppliers (e.g., locally and globally) in order to secure supply. If this strategy is not possible or desired, the tender could be ‘moved’ to the routine quadrant if it is possible to standardize specifications.

Another option could be to split the tender in two or more separate lots. This can be a fruitful strategy when only part of the tender increases supply risk. By separating this part, the total contracted value in the bottleneck quadrant decreases. For example, a tender for standard and customized software could be positioned in the bottleneck quadrant in case the customized software creates high supply risk. If the tender is split in two lots, the standard software lot would move to the routine quadrant.

Another, more far-reaching, strategy is to find new suppliers (e.g., suppliers who currently do not do business with public organizations) or to invest in the interest of emerging (social) suppliers which reduces supply risks in the long term.

Routine Strategies

A routine tender does not have much value for a buyer. It involves relatively little money and risk. If the tender is plotted in the routine quadrant, it is appropriate to invest little time in this tender. The time that is invested can mainly be used to reduce administrative burdens. For instance, for office supplies, a buyer can decide to pay the supplier a fixed amount per month for a certain service level. This is an easier financial model than when the buyer decides to use fixed prices for each item that can be bought.

To move the tender to the leverage quadrant, an organization can, for example, bundle purchasing volumes by joining a purchasing group. An alternative strategy is to combine a few possible smaller tenders (e.g., tenders for catering, cleaning, and security) into one large tender (e.g., one facilitatory tender).

Leverage Strategies

Frequently used strategies for the leverage quadrant are the application of broad competition, (e-)auctions, short-term contracts, and joint procurement. The focus in these leverage categories is mainly on getting the best price-quality-impact ratio as possible.

To move the tender to the routine quadrant, an organization can split the tender in several smaller tenders. It is also possible to increase the strategic importance of the tender, for instance, by increasing social or sustainable innovation and investment possibilities for the supplier.

Strategic Strategies

In the strategic quadrant there are usually few tenders to be found, but these do have substantial public value. Appropriate strategies in this quadrant are, among other things, carefully selecting a supplier and building a supply relationship. Strategic

tenders often use more functional specifications than technical specifications, variants could be allowed, and quality is an important part of the supplier selection model.

For this quadrant, supply risks can be reduced, if desired, by looking for or developing new suppliers. The value (and risk) of the contract can be reduced by splitting the tender in multiple parts or by using new procurement models. For instance, instead of conducting a large ICT tender for specific customized software, a public organization could tender for open-source solutions using multiple lots.

5.5 The Effects of Sales Strategy on Purchasing Strategy

Although Kraljic's model is popular in procurement, it does not consider the possible strategies and reactions of suppliers to the buyer's strategies (Gelderman, 2003). Mismatches between buyer and supplier are likely to occur if one does not consider how a supplier would assess the situation. For example, when a public organization aims for a public-private partnership with a strategic tender, potential suppliers must be willing to work closely together as well. If there are no suppliers willing to do this, the buyer has to change its strategy.

Carter's customer portfolio model (Carter, 1995) allows suppliers to determine which *sales* strategy best suits their customers, or in this context the strategy of how public buying organizations 'sell' their tender potential, as visualized in Figure 5.6. The horizontal axis in the figure below shows the interest that the supplier has in having the public organization as a customer. This can be measured by the supplier based on profit margin, turnover, or impact that can be created by having the public organization as a customer. The vertical axis shows how attractive the public organization is for the supplier. The buying organization can increase its attractiveness by, for example, involving the supplier early in the development of new products, by making tenders easier accessible, or by helping the supplier to improve its quality or impact. Customer attractiveness is especially important in oligopolistic markets where suppliers have the luxury to be selective regarding which customers should be supplied (Schiele et al., 2010).

Combining these two axes of Carter's customer portfolio model leads to the following four customer quadrants of sales strategies:

- *Core customer*: the supplier will try its absolute best to retain this customer (Van Weele & Rozemeijer, 2022). Joint product development, exceptional service, and high price-quality ratios are key concepts.
- *Development customer*: the supplier will be inclined to offer extra services, to gain favor, or to withdraw if it no longer sees potential in this customer. Presenting alternative ideas, delivering added value, and jointly developing new services or products are key concepts here in order to expand a supplier's business (Rozemeijer, 2009).

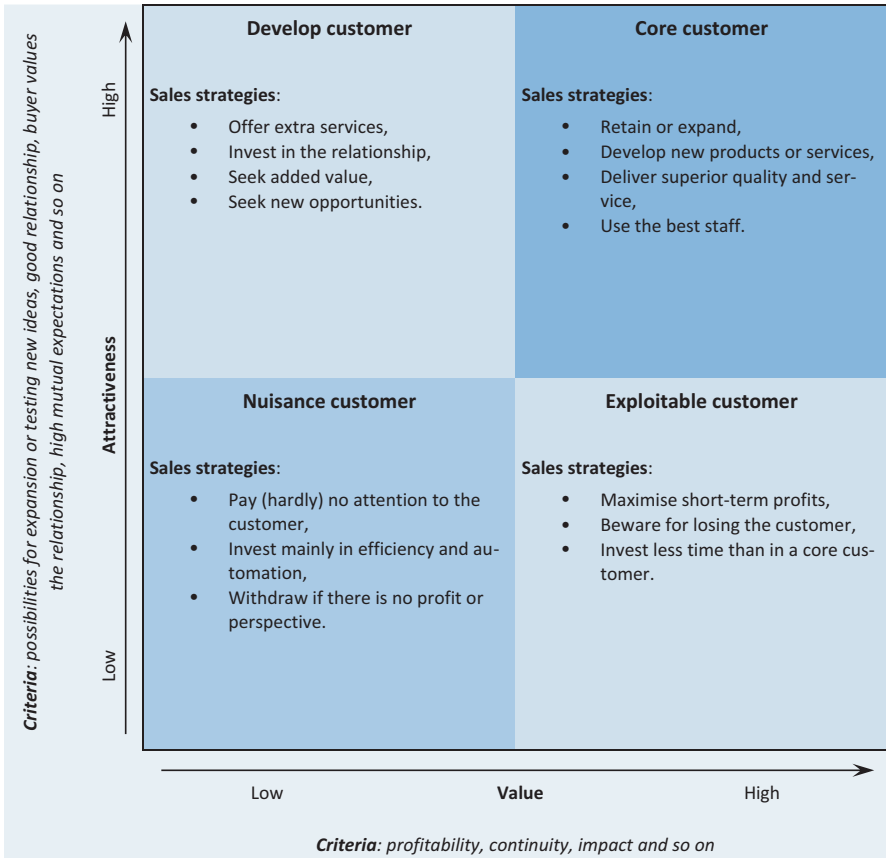


Figure 5.6 Carter’s customer portfolio model adapted to selling to public organizations, including examples of sales strategies (Carter, 1995)

- *Exploitable customer:* the supplier will give this customer less attention compared to core customers, although retaining the customer is important. Expanding the commercial position, calculating customer-specific prices, and being aware of the loss of the profitable customer are key concepts for the supplier (Montgomery et al., 2018).
- *Nuisance customer:* the supplier is inclined to give this customer little to no attention (Hansen et al., 2002). The key concepts here are expanding profit margins, realizing efficiency of the sales process, and withdrawing if the relationship is not profitable.

Kraljic’s purchasing portfolio model and Carter’s customer portfolio model can also be combined, creating more specific options for purchasing strategies. The combined model is especially useful when conflicting purchasing and sales strategies are expected. The model shown in Figure 5.7 shows a customized combination of the purchasing portfolio model of Kraljic with the customer portfolio model of Carter.

Suppose a buyer wants to determine an appropriate purchasing strategy for a tender that falls into the *leverage quadrant*. A buyer must first examine what the possible sales strategy of suppliers is for this tender. If the suppliers’ sales strategy is a *core customer strategy*, then a possible purchasing strategy for the buyer is to consolidate or intensify *cooperation*. For the tendering process, this may mean that the buyer pays attention to aspects such as cooperation potential and measures aimed to increase impact. A tender procedure that fits this situation could be a negotiated procedure or a competitive dialogue in case the context is complex. One of the

Nuisance	Secure Purchasing strategies: Increase attractiveness, aggregate, rationalise, conduct market consultation, make procurement documents more accessible, promote the tender, find new suppliers, change source of supply			
	Exploit Tender with a focus on best price-quality-impact ratio focus and realism			
Core	Collaborate Purchasing strategies: Invest in relationship during contract Tender with relationship focused criteria and techniques	Compete Purchasing strategies: Build competition and tender with best price-quality-impact ratio focus	Optimize Purchasing strategies: Maximize efficiency	
	Innovate Purchasing strategies: Develop during the contract in order to realize more public value. Tender with relationship and innovation focused criteria and techniques.	Develop Purchasing strategies: Develop during the contract in order to realize higher price-quality-impact ratio. Tender with future potential focused criteria and techniques.		
Development	Strategic	Bottleneck	Leverage	Routine

Figure 5.7 Carter’s combined model including examples of purchasing strategies adapted to public procurement (Carter, 1995)

challenges of working with the combined model for a buyer is that predicting sales strategies during the tender preparation phase may be difficult and can differ per supplier. A practical solution to this is to consider the most desired sales strategy of potential suppliers and to design a supplier selection model and contract management model that rewards such a sales strategy.

5.6 Specific Strategic Purchasing Decisions

Based on the generic purchasing strategy for a tender (e.g., aim for collaboration or aim for competition), a buyer needs to make several more specific strategic purchasing decisions. An overview with examples of specific strategic procurement decisions is included in Table 5.1.

Table 5.1 Overview with examples of specific purchasing decisions

Organization	Demand	Supply	Procedure	Contract
1. Who is responsible for the tender?	1. What is the scope and value of the contract?	1. What solutions are available?	1. How to consult suppliers before the tender?	1. What type of buyer-supplier relationship to aim for?
2. Who is in the tender team and assessment team?	2. What are the main price, quality, and impact goals of the tender and the contract?	2. What developments to expect?	2. How to create competition?	2. What type of contract to use?
3. How are stakeholders involved?	3. What developments to expect?	3. How many and what type of suppliers are expected to participate?	3. How to facilitate innovation?	3. When does the contract start, how long does it last (including extensions)?
4. How and when to make decisions?	4. Buy (as a service) new or used, hire or lease?	4. How many suppliers to contract?	4. What procedure to use?	4. What contract incentives to use?
5. What is the planning?	5. Buy individually or with other organizations?	5. In case of multiple sourcing, use the same contract for all suppliers or contract different types of suppliers?	5. How make the tender attractive?	5. How to deal with subcontractors?
6. Who manages the contract?		6. To what extent to aim for specific types of suppliers (e.g., start-ups, SMEs, social entrepreneurs)?	6. How many lots?	6. To what extent use technical and functional specifications?
7. How to manage risks?			7. Allow variants?	7. What funding model to use?
			8. What minimum criteria and exclusion grounds to use?	8. In case of multiple sourcing, how to allocate work?
			9. How to select suppliers using a supplier selection model?	9. What performance indicators to use?

Several of the decisions mentioned in the table are discussed elsewhere in this book. For instance, which tender procedure to use is an important strategic decision and is explained in more detail in Chapter 3 on public procurement. Joint procurement is described in Chapter 4 on the organizational aspects. Supplier selection models are discussed in Chapter 6, and relational characteristics and different contract types are discussed in Chapter 7. In the rest of this section, a few strategic decisions are explained that are not discussed in other parts of the book. These include decisions related to the number of suppliers to be contracted, whether to use lots, contract length, contract attractiveness, and whether to use functional or technical specifications.

Single Versus Multiple Sourcing and Tendering in Lots

The strategic decision in relation to single or multiple sourcing is how many suppliers the public organization wants to contract. Contracting multiple suppliers offers the possibility to create competition between providers during the contract period, which is a typical example of a leverage strategy. In addition, there is more (geographical) capacity when multiple suppliers are contracted, which could be a bottleneck strategy, as it can create a more secure supply. If multiple suppliers are contracted, it is important to decide how the work will be distributed among suppliers during the contract. For each project, a simple mini competition could be organized, but it is also possible to allocate projects randomly without competition (e.g., for small projects or when price, quality, and impact conditions are completely fixed).

Besides the decision regarding the number of suppliers to be contracted, they must also decide if the tender will be divided into different lots. For instance, a buyer could use one lot for technical temporary labor and one lot for facilitatory temporary labor. This can result in contracting one supplier who wins both lots or two separate suppliers for each lot. It is also an option to contract multiple suppliers for each lot. Dividing a tender into lots is, for example, useful for involving SMEs or specialized suppliers. Each lot could be considered as a separate tender, but an important advantage of tendering in lots, as compared to separate tenders, is that a buyer can assign specific conditions to awarding lots. For instance, if there are five lots, it can be stated that at least two suppliers will be contracted to prevent over-reliance on a single supplier or that suppliers are only allowed to submit a bid for a maximum of three lots.

Contracting one supplier or tendering without using multiple lots offers the following advantages:

- Clear, efficient process which reduces administrative burdens.
- Easier to coordinate and control and better suited to intensive collaboration.
- Well suited to low-value contracts or high (mutual) investments for the long term.
- May offer quantity discounts and other economies of scale.

Contracting a relatively large number of suppliers or dividing a tender in lots offers the following advantages:

- Avoiding over-reliance on a single provider.
- More flexible and spreads risks and opportunities for, for example, innovation.
- Reduces supply delivery risks in case of supply chain disruptions.
- Offers SMEs more opportunities to participate in a call for tenders.
- Can lead to better allocations which means that parts of the contract are carried out by the supplier who can do this best.
- When applying multiple sourcing, it offers possibilities for dividing the work through combinations of the following:
 - A buyer or citizen chooses a supplier, for instance, when the contract is healthcare related.
 - Choose a supplier randomly or in turn.
 - Select a supplier using a mini competition, a quick relatively simple sub-tender.

Contract Length

Buyers can opt for short or long contracts, but contracts *without* a contract period limit are not allowed in public procurement. As public buyers are spending public money, new or other suppliers should have the opportunity to submit a bid on a somewhat regular basis.

Long contracts have the advantage that the buyer and supplier can collaborate more intensively, therefore this strategy often used for strategic projects. This also reduces transaction costs as tendering is not conducted as frequently. This is a strategy more suitable for routine projects (see Section 5.4). When large investments need to be made for a contract, it is also common to use longer contract terms. Contract length can also be set at a similar length as the technical lifespan of a product. A risk of long-term contracts is that the supplier is not incentivized to keep performing. To reduce this risk, contract incentives need to be implemented, such as contract extensions or mid-term reviews that can also influence the pricing model.

Short-term contracts can be more appropriate for one-off purchases (e.g., a specific consultancy job). In markets with high development rates, it can also be useful to have contracts with shorter contract periods or more frequent contract extension moments. This way, it is easier for buyers to switch to other suppliers in case they start outperforming the current supplier. However, this type of strategy brings more risks for the buyer if the number of suppliers in a market is low.

Functional and Technical Specifications

An important decision for any tender is the extent in which functional and technical specifications are used in the requirements document. Technical specifications are detailed requirements and focus on the properties of a work, supply, or service or on

what it has. Examples are measurements and environmentally friendly material characteristics. In addition, technical requirements can be used for complex interfaces with existing equipment or software. They can also be suitable if the buyer has (hired) extensive knowledge about the project. The buyer could in this case tender using technical specifications and a simple supplier selection model, which could increase the tender attractiveness for small suppliers. An important disadvantage of technical specifications is that this could limit the possibilities suppliers have to differentiate on anything other than price. Also note that if a buyer makes a mistake in a technical requirement, the supplier could ask for compensation to solve this mistake.

Functional specifications are focused on what the work, supply, or service must do or provide rather than what it is (e.g., asking for light in the office, instead of a lamp). For functional specifications, compared to technical specification, it is more important to explain the context and the objective of the buyer. Functional specifications leave room for innovation and suppliers can distinguish themselves toward other suppliers, which is particularly useful for leverage and strategic projects. However, functional specifications can also leave room for interpretation. If the latter is the case, then technical requirements can be used as supplements or replacements. It is recommended to start with functional specifications and to add or replace them with technical specifications when this is necessary.

Finally, note that for services, a distinction is often made between input and throughput requirements versus output and outcome requirements (Axelsson & Wynstra, 2002), which is discussed further in Chapter 7. Input and throughput requirements are comparable to technical requirements. Output and outcome requirements are comparable to functional requirements.

Tender Attractiveness

Tenders are often formal processes and tender documents are complex, long, and use technical language. This does not have to be problematic in markets with competitive suppliers familiar with public tenders. A formal approach can reduce risks for buyers and suppliers, as well as reduce the risk for legal disputes. However, when a buyer wants to capture the interest of social entrepreneurs, SMEs, companies owned by socially or economically disadvantaged persons, or start-up companies, a more informal and accessible approach is often required. This can also be the case when a buyer operates in the bottleneck quadrant and is in need for suppliers. In such circumstances, it is also less likely that there are substantial tender risks that need to be managed or legal disputes that need to be prevented.

If a buyer decides to use a less formal and technical approach, it is recommended to use short tender documents, with a clear problem or challenge statement as shown in Example 5.3. Instead of requiring formal bids, bidders could in this case, for example, also be allowed to submit pitches. Also note that ‘unusual’ bidders are typically not found when using traditional purchasing platforms to announce a tender, therefore advertising the tender by other communication channels is also recommended when you want to attract them.

Example 5.3: A tender challenge

‘Our city has the following challenge. We have a lot of live video footage of our city. These video streams show, among other things, whether the streets are clean or not. However, we currently do not use this information automatically to instruct our city cleaners where to clean the streets.

Please:

- Describe/show your solution as specific as currently possible with a focus on the first development steps.
- Explain to what extent your solution is realistic and solves the challenge.

We will assess how specific your proposal is and how well you show that your solution is realistic and will solve the challenge. If we award you a contract, you will receive a fee as described in the contract’.

5.7 Summary

This chapter introduced the concepts of public procurement policy and public purchasing strategy. Public procurement policies contain the general resolutions and guidelines of a public organization for guiding and prescribing procurement choices and utilizing its supply base. The chapter described the procurement policy process as a cyclic process starting with agenda-setting (driven by a particular societal challenge), followed by policy development, policy decision-making, policy implementation, and policy evaluation, and then loops back to agenda-setting. Each phase of the policy process is described, including a discussion of important questions that have to be answered in developing the policy, such as ‘*Can it work?*’, ‘*Is it allowed?*’, ‘*Is it applicable?*’, and ‘*Is it appropriate?*’ and an explanation of how conflict and ambiguity affect implementation of policies. Subsequently it is explained that a purchasing strategy uses the guidelines and framework provided by a procurement policy to develop a specific strategy or action plan for a specific tender or a group of tenders. For developing a purchasing strategy, the Kraljic portfolio model in combination with Carter’s customer portfolio model can be used. When combined, the models help set a general direction for the strategy, such as a focus on collaboration, competition, or innovation. The chapter concludes with a description of specific strategic decisions, regarding, for example, single or multiple sourcing, the length of the contract, the type of specifications, and the attractiveness of the tender that have significant impact on the supplier selection process and the type of suppliers that are selected.

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