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INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI

**NEW ZEALAND
GOVERNMENT PROCUREMENT**



New Zealand Government Procurement Business Survey 2017

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New Zealand Government Procurement

PO Box 1473
Wellington 6140
New Zealand

www.procurement.govt.nz
procurement@mbie.govt.nz

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Introduction

New Zealand government procurement business survey

New Zealand Government Procurement (NZGP) within the Ministry of Business, Innovation and Employment, runs an annual business survey to understand businesses' experiences of government procurement. The survey helps track how the initiatives of NZGP to improve commercial practice within government are affecting businesses.

In March 2017, the fourth edition of this survey was run. A link to the survey was sent to everyone registered on the Government Electronic Tenders Service and also made available on the NZGP website. It was open from the 8th of March to the 5th of April 2017 and feedback was received from 2,095 businesses. This is compared to 1,983 businesses in 2016, 277 in 2015 and 666 in 2014.

Previous surveys have identified areas where government could improve its procurement practice to better partner with businesses and more effectively procure goods and services. Some developments that have taken place over the last few years as a result of the areas identified in the survey include:

- creating a framework to improve the management of government's high risk and/or high value contracts;
- publishing the Guide to Buying and Managing Social Services to improve procurement capability in the social sector;
- publishing construction procurement guidance for government agencies;
- encouraging government agencies to use standardised templates (where appropriate) to reduce duplication, improve consistency and increase clarity in tender documents and contracts;
- continuing work to benchmark procurement capability in government agencies, assess improvement areas and establish capability initiatives; and
- developing resources for suppliers on how to find out about and successfully tender for government contracts.

Structure of the report

The report is structured around the procurement lifecycle and summarizes how businesses reported their experiences. Where possible questions have been compared over all four years. However some questions have been added or altered between surveys to improve the survey and in response to feedback from respondents. Where changes to questions have been made it is not possible to compare over all four years of the survey and comparisons have been made only with 2016. Where new questions have been added only the information from the 2017 survey has been presented.

Key Findings 2017

There has been improvement in a number of areas:

- Contract management continues to improve, with businesses rating their contract manager's performance more positively in every competency when compared to 2016.
- There has been improvement in the majority of measures that can be directly compared with the 2016 survey. While there was significant improvement in some measures, no measures declined from the 2016 survey.
- Since 2014 the percentage of businesses who said that they would not recommend government as a customer is decreasing.

There are some interesting findings:

- Smaller businesses are still generally more negative about government procurement than their larger counterparts.
- However there has been a decrease in the percentage of small businesses that responded that size was a factor that made it more difficult for them to succeed.
- How positively businesses rate the overall quality of government procurement seems to vary by which region of New Zealand they are based in. Businesses in Hawkes Bay, Northland and Wellington rated government more negatively than businesses in the Manawatu-Wanganui and Otago regions.
- There was not an increase in negative responses for any of the questions asked in 2017 compared to 2016 however there were some areas (below) where there has been little improvement.

There are still areas for improvement:

- There is room to improve tender activity and early market engagement.
- When asked to rate broad areas of procurement activity (initial engagement, tender activity and contract management) tender activity has the lowest rating followed by initial engagement.
- With respect to innovation businesses were asked how often the agencies they supplied asked for or accepted their ideas for improvements. Overall this does not occur often with most businesses responding that they have never been asked for ideas or had their ideas adopted.

Definitions and interpretation of results

Business size: To understand how business size might affect the results, businesses were asked to indicate how many Full Time Employees (FTEs) they had. These groups are categorised as:

- Micro (0-5 FTEs)
- Small (6-20 FTEs)
- Medium (21-50 FTEs)
- Large (51+ FTEs)

Score: for some questions businesses were asked to rate aspects of government procurement on a five point scale from very poor – very good or very dissatisfied – very satisfied. Scores of 1 or 2 were considered to be negative, a score of 3 was neutral, and scores of 4 or 5 were positive.

Unspecified / blank responses: In some instances, responses to questions that chose ‘not applicable’ have been removed from the responses. This is due to the fact that in previous years ‘not applicable’ has not been an option and to accurately compare between years this response has been omitted.

Limitations

Questions that asked businesses to rate aspects of procurement from very poor – very good are difficult to compare with similar questions from previous years due to the use of a different scale (poor, fair, average, good, excellent) that was used in previous years.

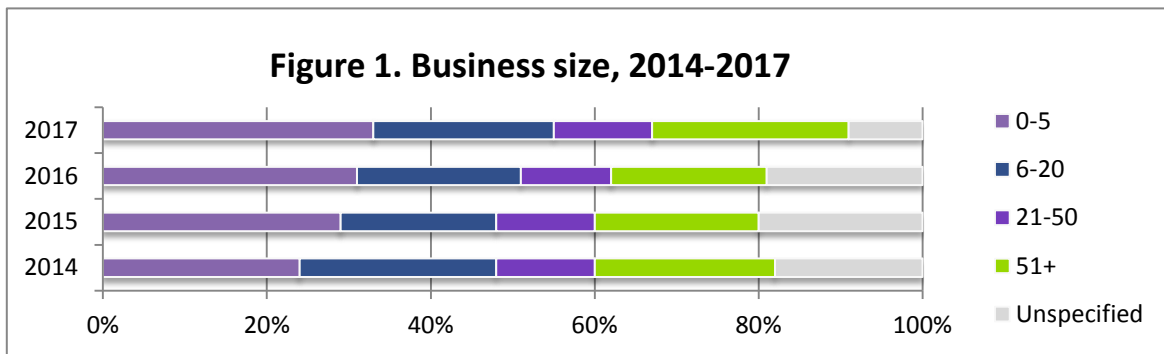
While some tentative comparisons have been made comparing negative scores (1 and 2) and positive scores (4 and 5) it is with the caveat that direct comparisons cannot be made.

The decision to change to a more commonly understood scale was made to give more accurate results that can be more effectively compared in the future.

Business Profile

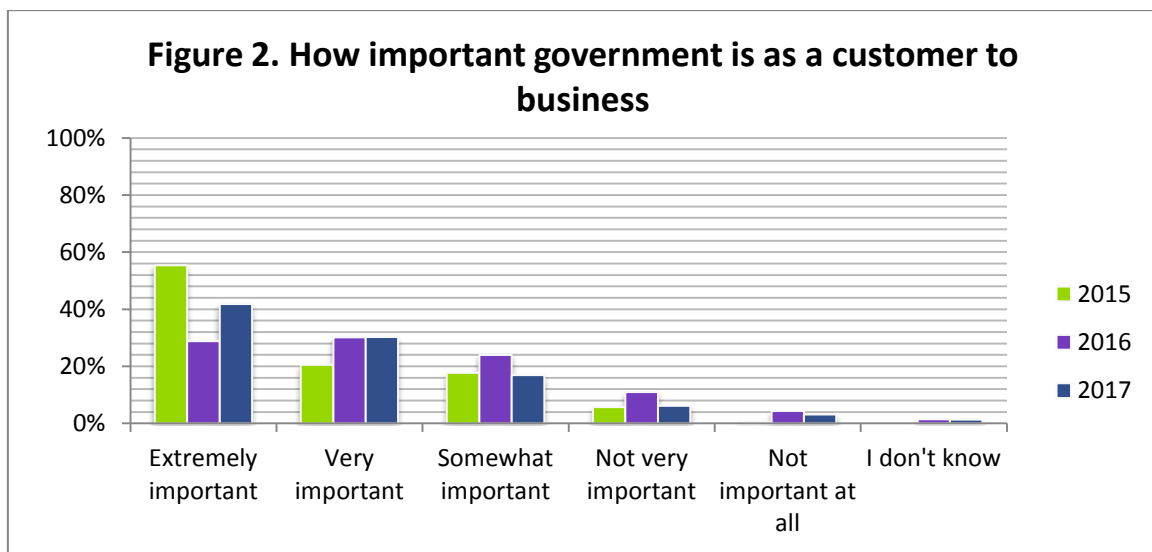
Business size

In general the business demographics from 2017 are very similar to those in 2016. The turnover that businesses reported and the percentage of turnover that came from government were almost identical. The size of businesses who completed the survey was similar to that of the previous years, though there were slightly more businesses with more than 51 employees. The proportion of each business size can be seen in Figure 1, below. Nine percent of businesses chose not to specify how many employees they have.



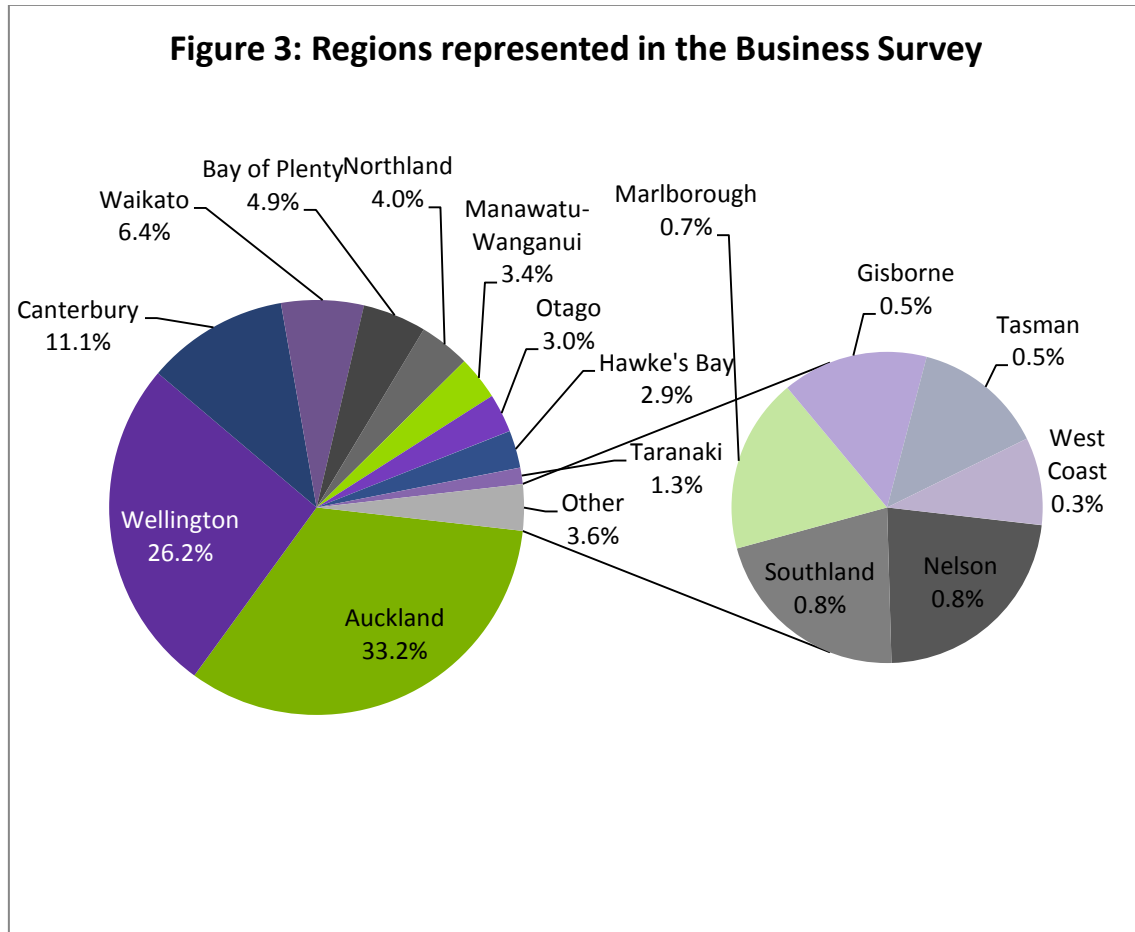
How important government is as a customer to businesses

In 2017, government was a more important customer to businesses than in 2016. As shown in Figure 2, 42% of businesses rated government as an ‘extremely important’ customer in 2017 compared to 28% of businesses in 2016. However government was still less important of a customer to businesses in 2017 than 2015 when 55% of business rated government as an ‘extremely important’ customer. The increase in the importance of government to businesses from 2016 to 2017 is despite the fact that the percentage of turnover coming from government was very similar to in 2016. This suggests that how important businesses rate government as a customer does not depend solely on the amount of turnover businesses receive from government.



Where businesses are based

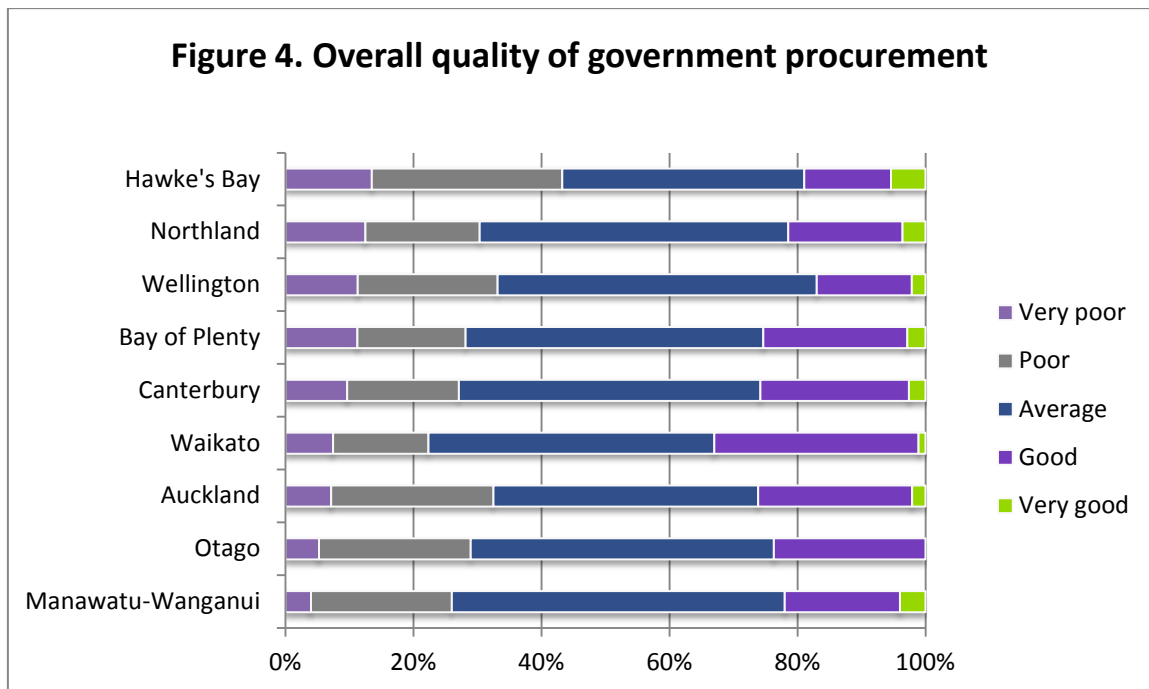
Most of the businesses that responded in 2017 were New Zealand based businesses (88%). Overseas based businesses were mainly based in Australia (7%) and North America (3%). In 2017 a new question was introduced to identify in which region of New Zealand businesses completing the survey were based (Figure 3).



When compared with data from Statistics New Zealand, the proportion of businesses responding from each region is similar to the proportion of businesses located in those regions.¹ However a higher percentage of businesses in the Wellington region responded to the survey than is proportional to the number of businesses based in Wellington as recorded by Statistics New Zealand. This is likely due to many central government agencies being based in Wellington.

¹ Statistics New Zealand data details how many geographic units are present in each region. This differs slightly from how many businesses are present in each region, as a single business could have multiple geographic units operating in the region. However typically a business will only have one geographic unit, allowing for the above comparison that assesses how the locations of businesses who responded to the survey compared to the number of businesses operating in that region. Information on geographic units is from the Statistics New Zealand Business Demography 2016 report.

The region a business is based in seems to have an impact on how positively that business views government procurement. Businesses in Hawke’s Bay, Northland and Wellington rated government procurement more negatively than businesses based in Manawatu-Wanganui and Otago regions. Figure 4 shows the regions and how businesses in those regions rated the overall quality of government procurement. Regions with fewer than 30 responses have been omitted for statistical purposes.



Experience across the procurement lifecycle

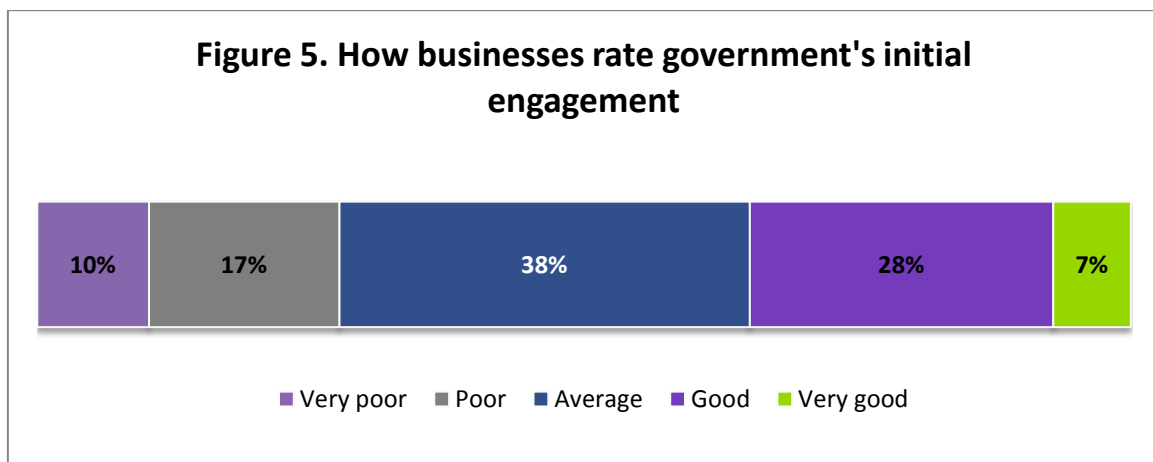
The survey asked businesses about the different experiences they have had with government procurement across the procurement lifecycle. The procurement lifecycle has three main stages (plan, source and manage) and a well implemented procurement project will work closely with business through all stages. Many comments in the survey from businesses suggest that, while they may have had positive experiences with government procurement at times, overall procurement practices are not consistent across government.

Across the planning stage of the procurement lifecycle, there has not been a change in how businesses rate the way government engages with the market before going out to tender. Furthermore the way in which agencies source goods and services has also remained steady with little noticeable improvement. However in 2017 businesses were more positive about their experiences in the third (manage) stage of the procurement lifecycle. Businesses rated their experiences with government’s contract management and the experience of government as a customer more positively than in previous years.

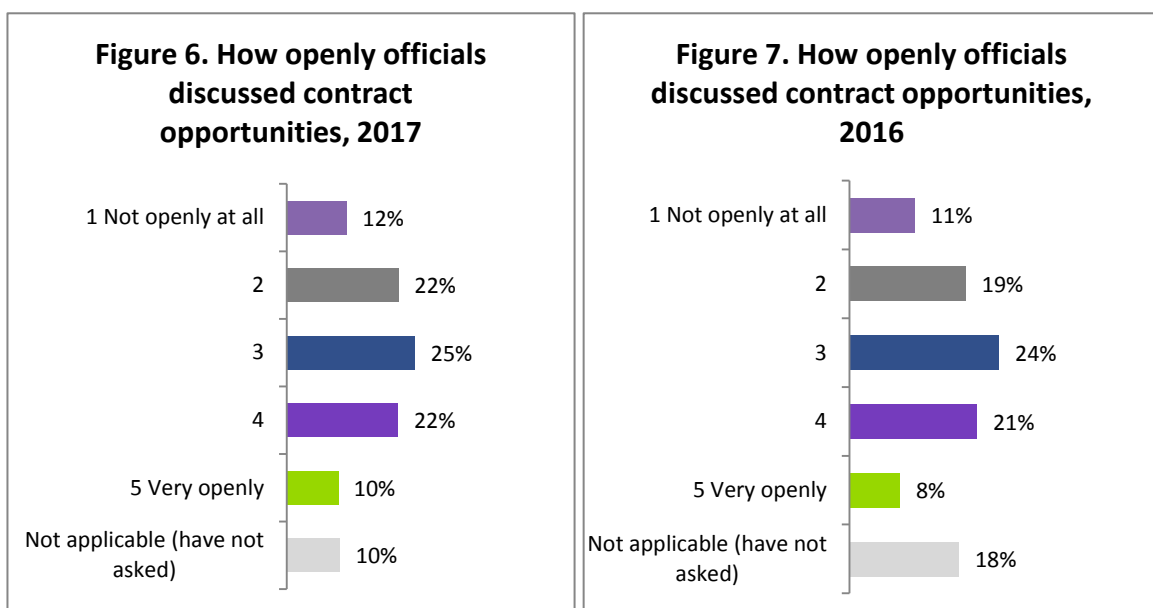
When and how businesses hear about opportunities to participate in government

Businesses were asked to rate governments' initial engagement from very poor to very good. The 2017 survey results show that a large proportion of businesses do not rate agencies well on their ability to engage with the market early in the procurement process. Early engagement is important to work effectively with businesses to drive innovation, achieve agency outcomes and realise value for money.

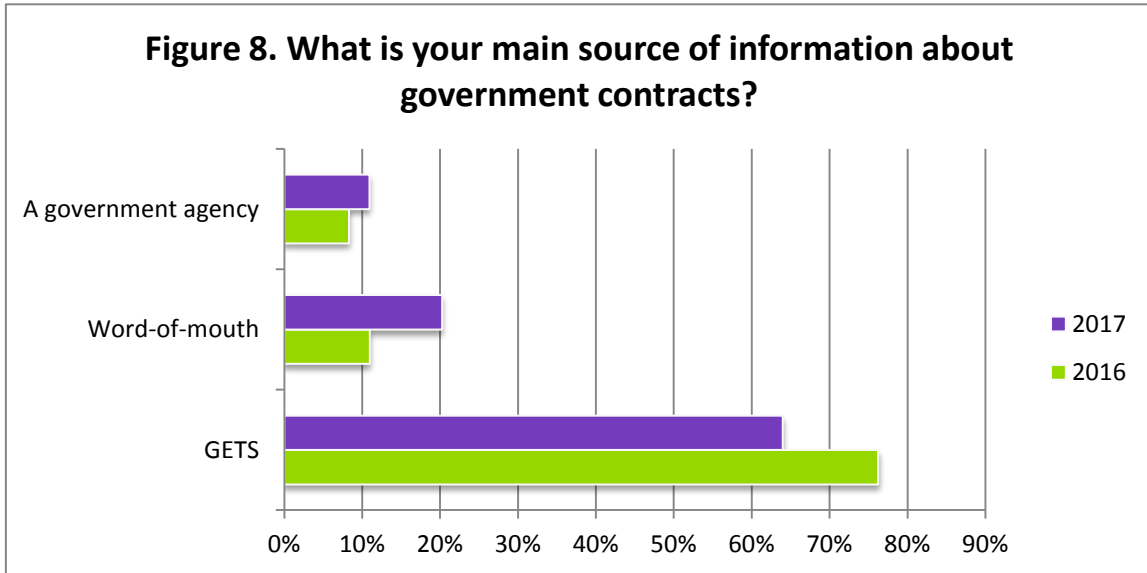
Figure 5 demonstrates how businesses rated government's initial engagement. The most common response was that government was 'average' at performing initial engagement (38%) and 27% of businesses rated government negatively in this area compared to 35% who rated it as 'good' or 'very good'.



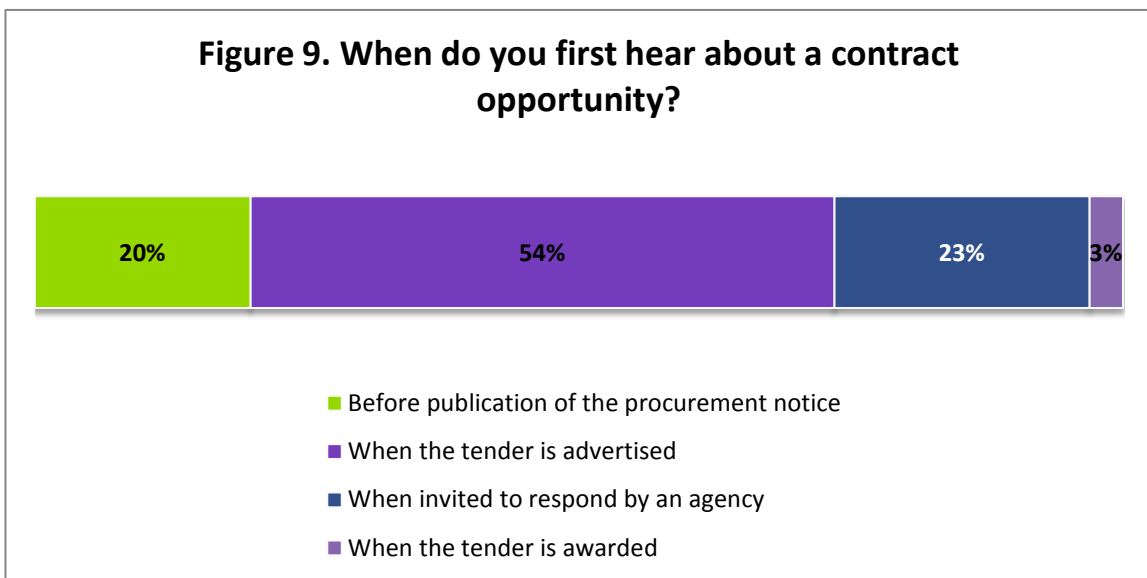
Results show that only 32% of businesses answered positively when asked how openly officials have discussed their requirements (Figure 6). This is similar to the results from 2016 when 29% of businesses responded positively to the same question (Figure 7). There was a decrease in the number of businesses answering that they had not asked further questions about contract opportunities. This could indicate the willingness of businesses to engage proactively with government.



There has been a change in how businesses are getting their information about government contracts. In 2017 12% fewer businesses responded that the Government Electronic Tenders Service (GETS) was their main source of information about government contracts (Figure 8). Correspondingly 9% more businesses responded that their main source of information was word-of-mouth and 3% more businesses learned the most about government opportunities from government agencies.



While the number of businesses who cite GETS as their main source of information has decreased, 54% of businesses report that they first hear about contract opportunities when they are advertised (Figure 9). This is compared to 23% who find out when they are invited to bid by an agency and 20% who find out 'before the publication of the procurement notice'. Only 3% of businesses reported that they generally first hear about a contract opportunity after the contract has been awarded.



The sourcing process

Businesses were asked questions on how government conducts its sourcing. These questions covered, the sufficiency of time they were given to respond during the procurement process, the quality of tender documents, the follow-ups they received after bidding and how they rate tender activity overall.

There has been a slight improvement in the way that businesses rated the sufficiency of time they generally have to respond during the procurement process. The percentage of businesses responding positively increased by 5% from 2016 to 2017 (Figure 10). This could suggest that the sufficiency of time tenders are in the market for is improving; however it will be necessary to continue to track this in future to be certain.

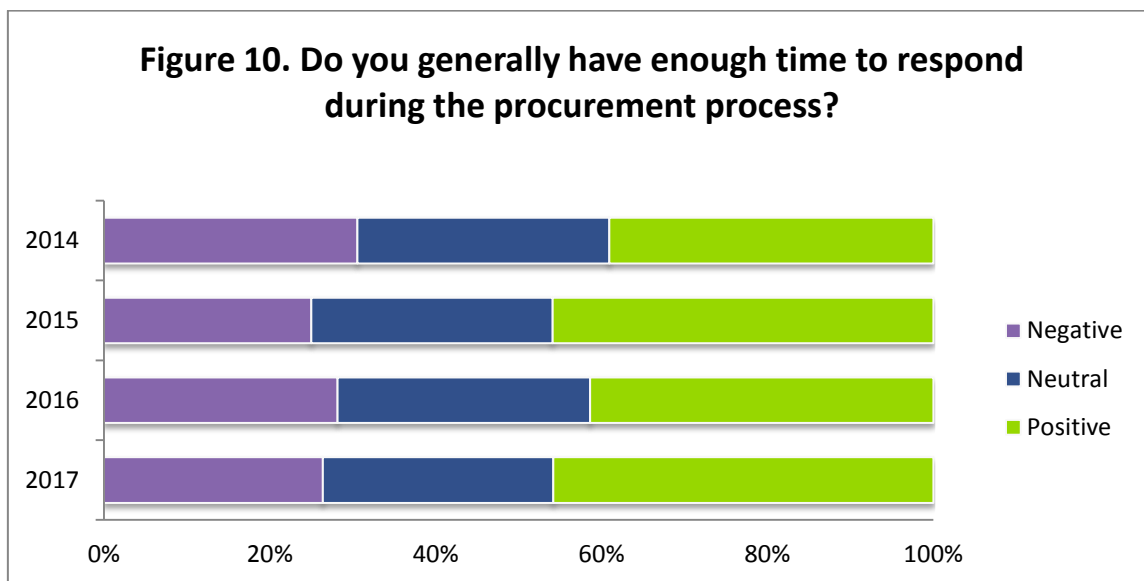
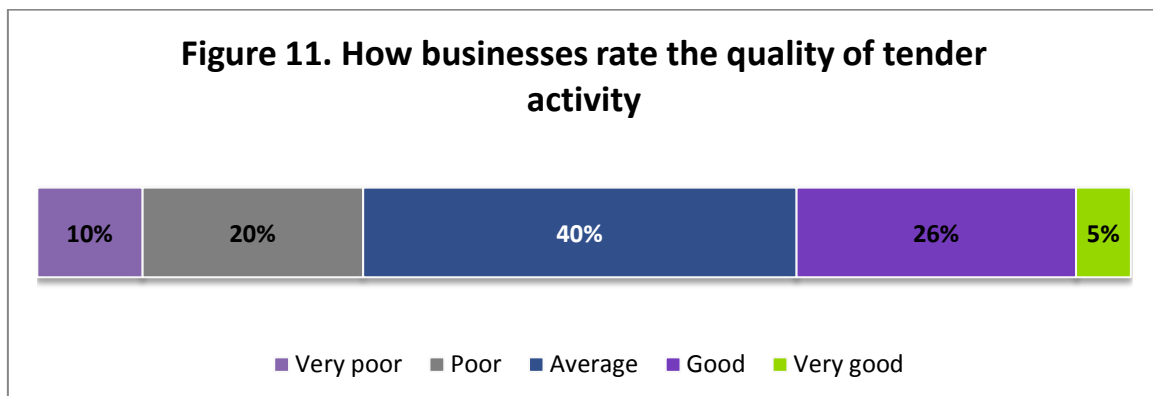


Figure 11 shows the score respondents gave to tender activity overall. When asked to rate the quality of three procurement stages (initial engagement, tender activities and contract management) businesses rated tender activity the most negatively. However, overall more businesses rated tender activity positively than those who rated it negatively, with 31% describing it as 'good' or 'very good' compared to 30% describing it as 'poor' or 'very poor'.



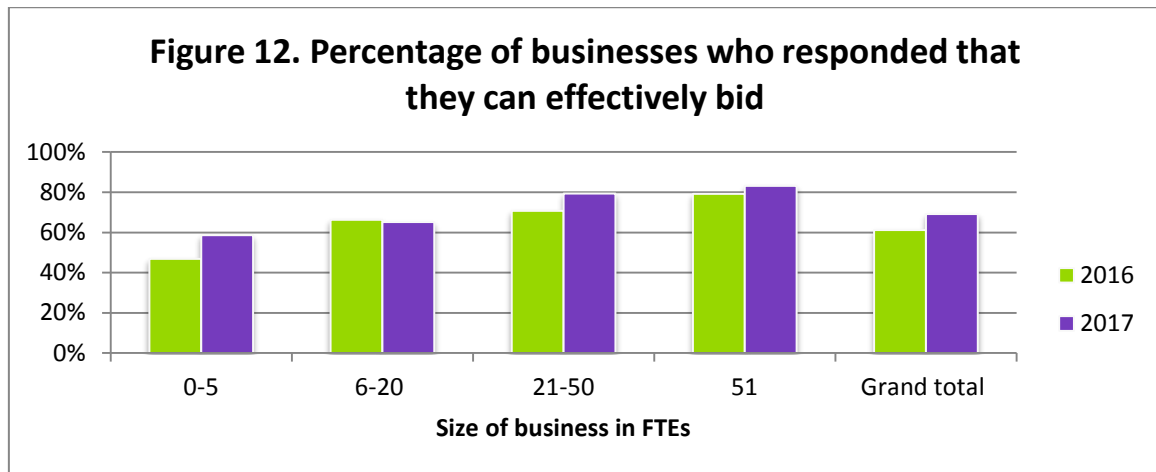
The quality of tender documents was rated very similarly in 2017 as in 2016. Forty eight percent of businesses responded that they 'agree' or 'strongly agree' with the statement that tender documents 'give all the information I need' and 39% with the statement 'the information is easy to understand'. There has been a slight improvement in the frequency and

quality of tender debriefs; however, 31% of businesses still report that generally no debrief is provided following a tender and a further 31% state that even when a debrief is provided it is unhelpful. Only 5% of businesses reported that after they bid for a tender they will generally receive 'a full and helpful follow up'.

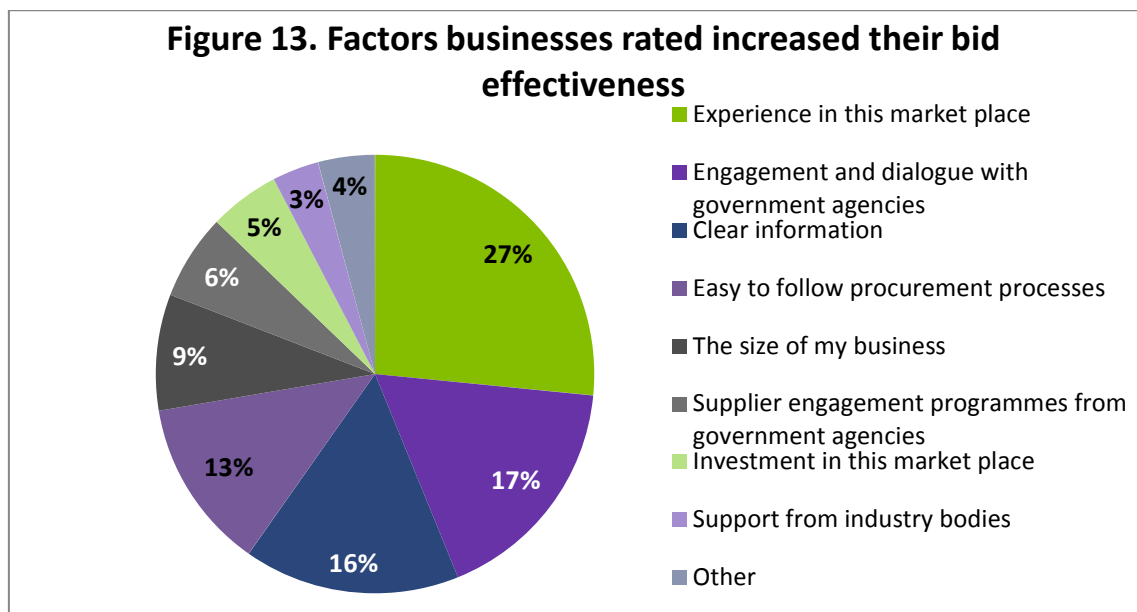
Factors relevant to success in tendering

Businesses that responded to the 2017 survey reported more success than those who responded in 2016. Eight percent more businesses responded in 2017 saying that they had been successful in at least one of their previous bids for government contracts in the last five years.

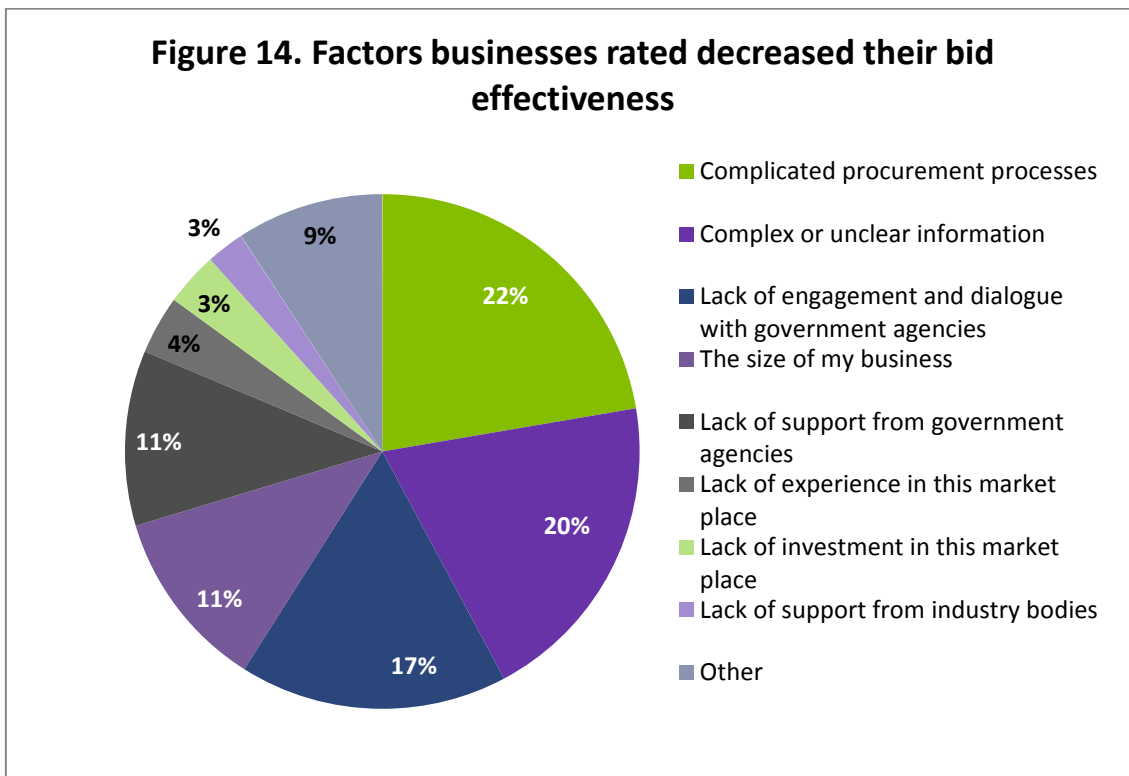
There was also an increase in businesses who felt they could effectively bid for government contracts, rising from 61% in 2016 to 69% of businesses in 2017 (Figure 12). This increase was most noticeable in businesses with 0-5 FTEs.



Businesses were asked what factors helped them to successfully bid. The factors respondents specified helped them to bid effectively were similar in 2017 as in 2016. 'Experience in this market place' and 'engagement and dialogue with government agencies' were the two factors most often chosen by businesses as factors that helped them to succeed (Figure 13).



We also asked respondents what factors made it difficult for them to effectively bid for government tenders. The options most often chosen by respondents were ‘complicated procurement process’ and ‘complex or unclear information’ (Figure 14).



However there was a decrease in businesses who answered that ‘the size of my business’ was a factor that made it more difficult for them to tender. This was further noticeable when responses were analysed by size. In 2016 over half (63%) of micro businesses, those with five or fewer FTEs, selected the size of their business when asked what factors make it difficult for them to effectively bid for government business. In 2017 this dropped to 46% which could indicate that procurement in general is becoming more accessible for micro businesses.

Businesses could specify any other factors that helped them to succeed in tenders. The most frequent comments were that their industry knowledge and specialist skills were the most important contributor to their success in tenders.

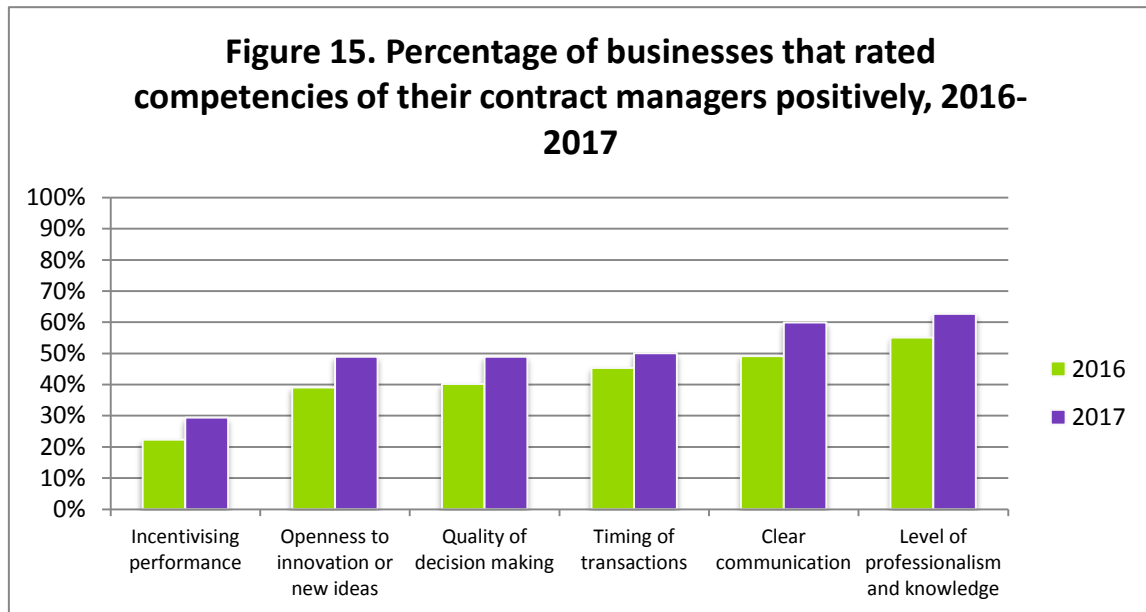
Factors that businesses commented were making it more difficult to tender included, feeling as though there was already a preferred supplier, poor communication from agencies and the time and cost to complete tender documents.

Working with government

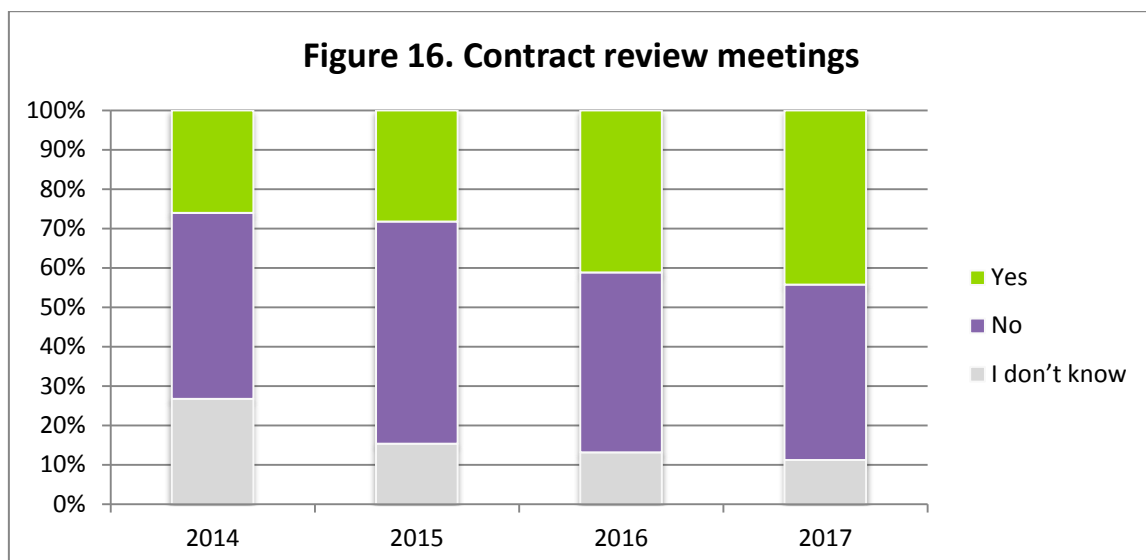
Businesses were asked about their experiences of working with government as a supplier. Most businesses (41%) responded that they would rate government’s supplier relationship management as average with 30% of businesses rating it as good or very good.

Contract Management

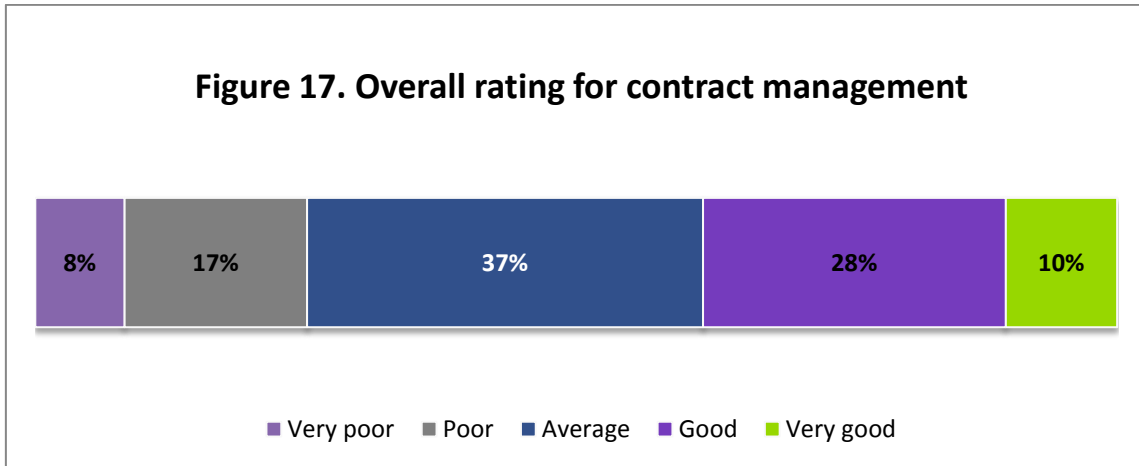
The results of the survey suggest that contract management continues to improve across government. Respondents were asked to rate their contract managers performance along a series of competencies. Figure 15 shows that businesses rated their contract managers more positively (gave a ‘satisfied’ or ‘very satisfied’ answer) across all six competencies compared with 2016.



There continues to be an improvement in the number of businesses who report that the agencies they are supplying hold regular contract review meetings with the number of suppliers answering ‘no’ or ‘they don’t know’ decreasing over time (Figure 16). When asked how often businesses found these contract review meetings useful, over half of businesses (55%) responded that these meetings were ‘always’ or ‘often’ useful.



Contract management was rated well by businesses, with 38% of businesses rating contract management as 'good' or 'very good' compared to 25% rating it 'poor' or 'very poor' (Figure 17).

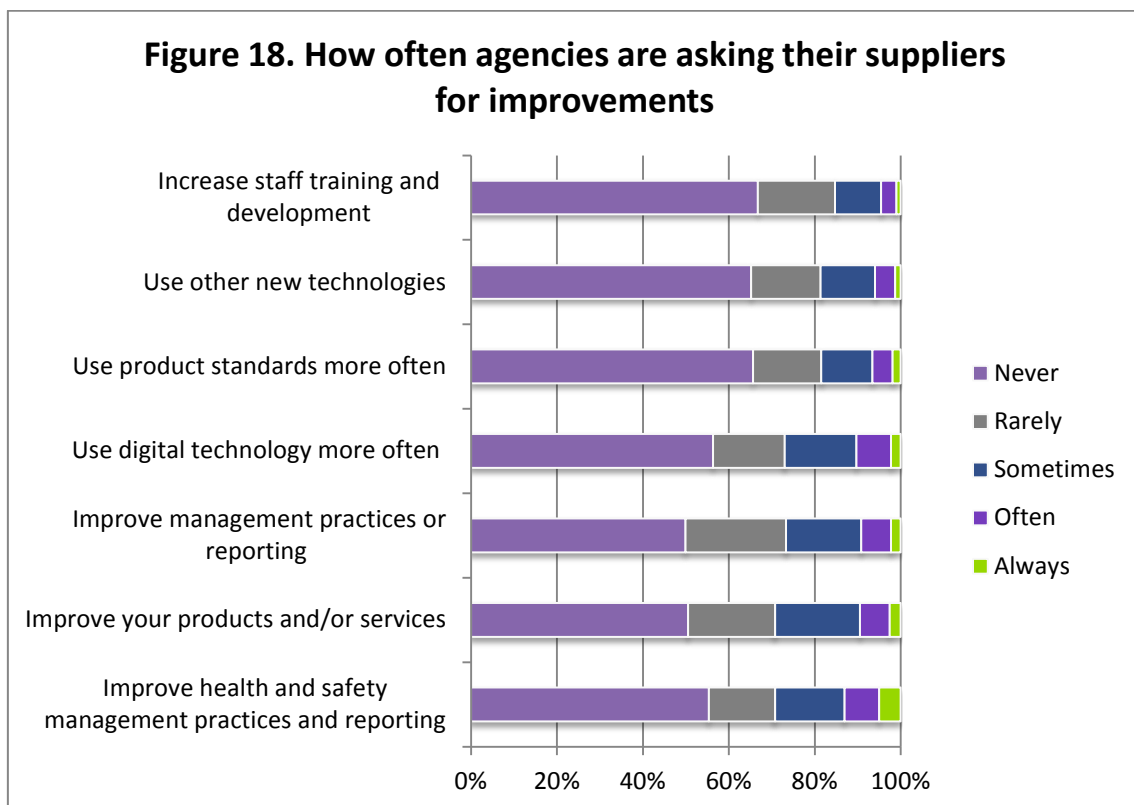


Innovation

A new question was introduced in the 2017 survey to get more information about the types of innovation being asked for and being offered in government procurement. To understand where and how businesses and agencies are innovating, we asked businesses to indicate how often in the last financial year their government customers asked them to do the following things:

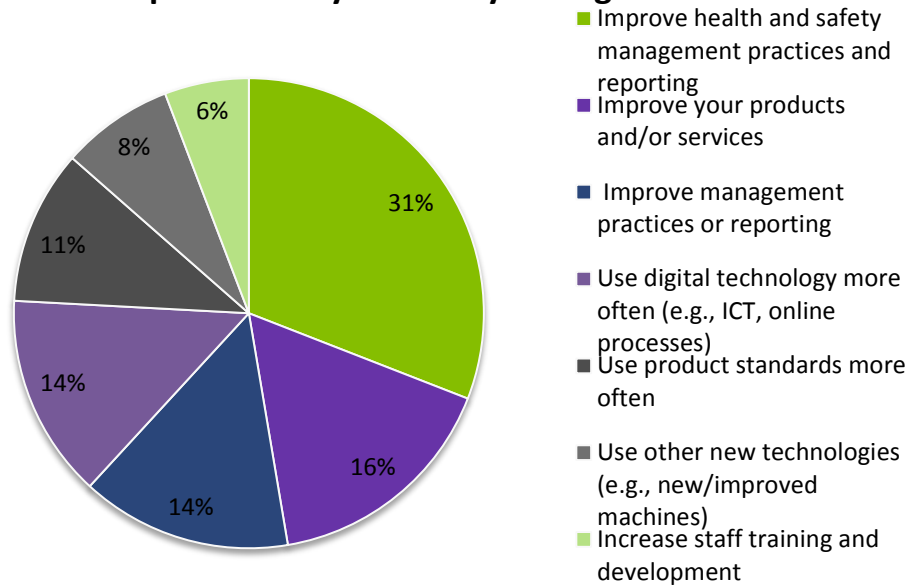
- Improve your products and services
- Improve management practices or reporting
- Increase staff training and development
- Use digital technology more often (e.g., ICT, online processes)
- Use other new technologies (e.g., new/improved machines)
- Improve health and safety management practices and reporting
- Use product standards more often

It does not seem that agencies are asking businesses for improvements in products, services and/or processes very often, as more than half of businesses reported that they had never or were rarely asked for improvements in any of the above areas (Figure 18).



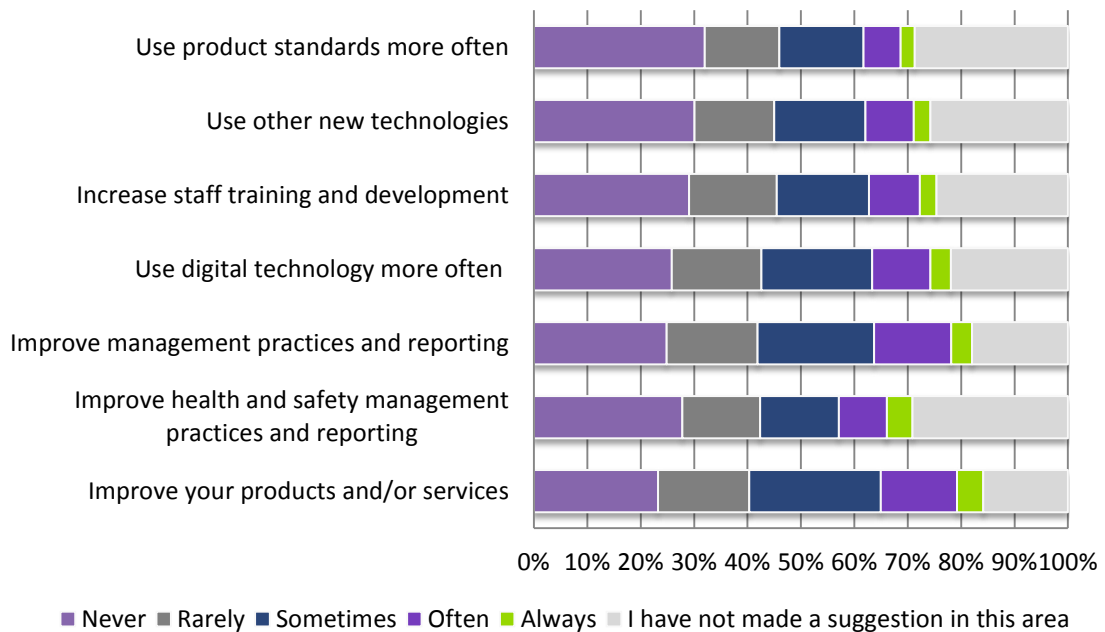
When agencies are asking for improvements, this is occurring most often in the areas of health and safety, which could reflect the current priority in this area (Figure 19).

Figure 19. Types of improvements that businesses responded they are always being asked for



A second question asked businesses how often government agencies adopted their ideas to improve the same set of areas. Similarly to the first question the responses suggest that agencies do not often accept innovative proposals from their suppliers (Figure 20).

Figure 20. How often agencies accept business proposals to improve

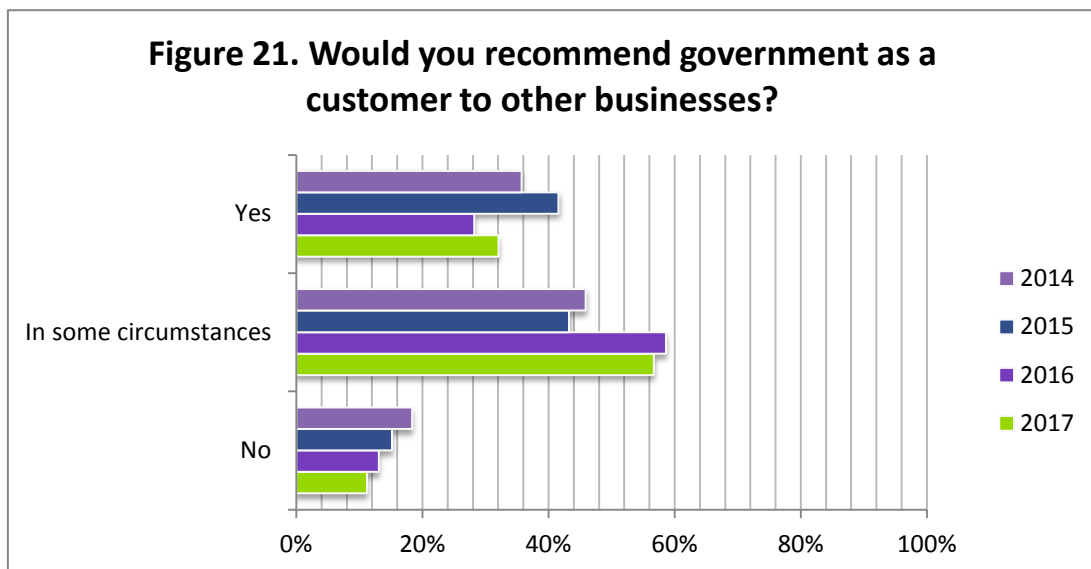


The top areas that businesses reported their ideas to improve were accepted in were 'improve your products and/or services (21%) and health and safety management practices and reporting (17%).

How government compares to other customers

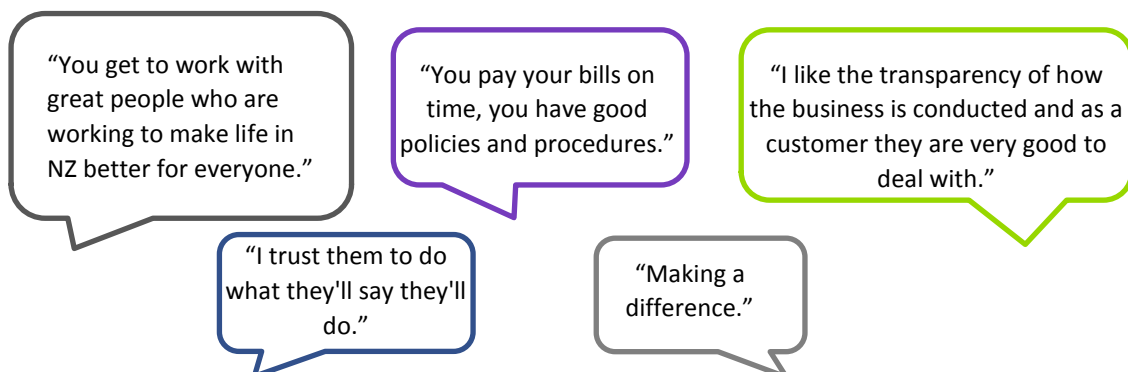
The survey asked businesses how doing business with a New Zealand government agency compared to their other customers and whether or not they would recommend government as a customer to other businesses. The percentage of businesses who responded that the New Zealand government compares 'not favourably' to their other customers decreased from 46% in 2016 to 39% in 2017. In 2017 most businesses (43%) responded that government compared 'about the same' as their other customers while 11% of businesses said they compared 'very favourably.'

In addition when asked if they would recommend government as a customer six percent more businesses reported that they would 'recommend government as a customer' in 2017 compared to 2016. Furthermore a trend that has begun to emerge from 2014 (when the first business survey was conducted) is that the percentage of businesses who answered that they 'would not recommend government as a customer' has decreased every year (Figure 21).



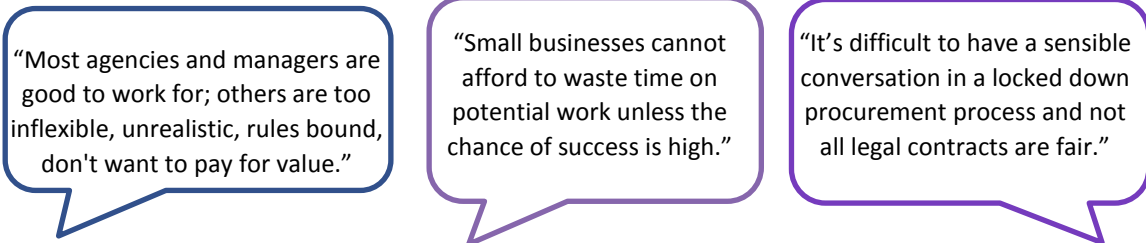
Thirty two percent of businesses said they 'would recommend government as a customer' to other businesses. When asked why they would or would not recommend government as a customer businesses broadly commented that: there was security of getting paid, they had had past positive experiences, that government is the main purchaser of their goods and services or that they believed in the outcomes government is trying to achieve. Some extracts are below.

Reasons businesses would recommend government as a customer:



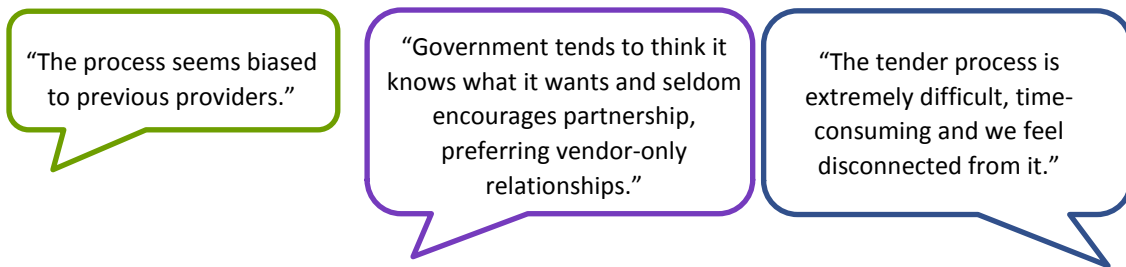
The majority of businesses responded that they would recommend government as a customer in some circumstances. The most common comments were: that it would depend on the size of the business as they would not recommend it to a small business or that it would depend on the government agency/ officials procuring. Some extracts are below.

Reasons businesses would recommend government as a customer ‘in some circumstances’:



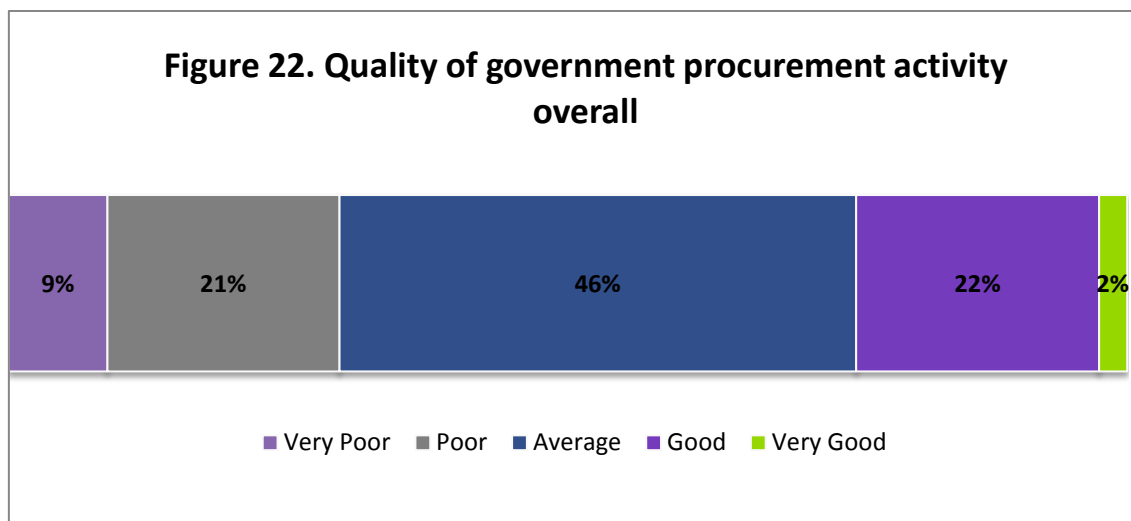
Eleven percent of businesses said that they would not recommend government as a customer to other businesses. The most common reasons they gave were that the tender process is resource demanding and the chance of winning is low and that government can be bureaucratic and difficult to work with. Some extracts are below.

Reasons businesses would not recommend government as a customer:

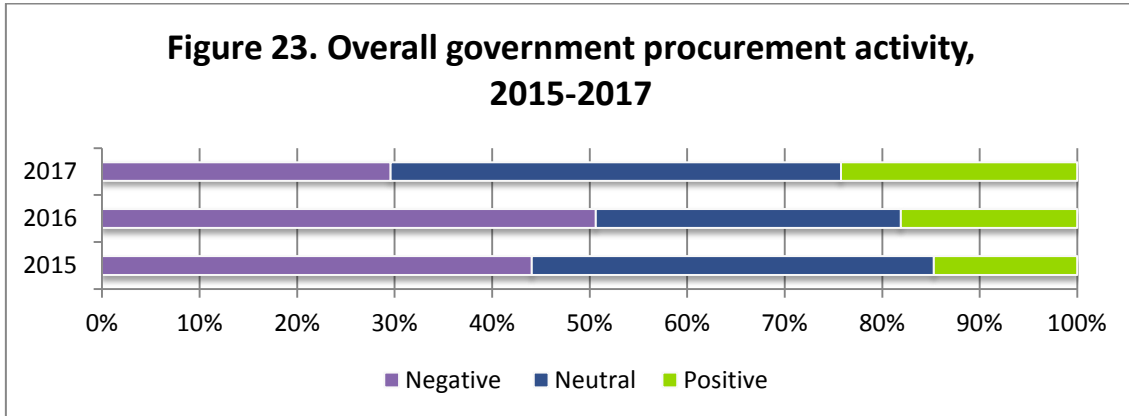


Overall Quality of Procurement

Figure 22, shows the overall rating businesses gave procurement in 2017. Most businesses rated government neutrally with 46% of businesses rating it as average. More businesses rated government negatively than positively. With 30% rating it ‘poor’ or ‘very poor’ compared to 24% rating it ‘good’ or ‘very good’.



It appears as though there has been an improvement in the way businesses perceive government procurement since last year when comparing the percentage of respondents which rated government negatively (1 or 2), neutrally (3) or positively (4 or 5).² This is shown in Figure 23.



² In 2017 the question asking how businesses rate government was altered by replacing the descriptors on the 1-5 scale from poor, fair, average, good, excellent to a balanced scale of very poor, poor, average, good and very good. This change makes it more difficult to compare 2017 with previous years.