

# Co-creative Methods of Initial Consultation of the Market in Public Procurement

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## **Abstract**

*Collaboration and co-creative dialogue between the procurer and suppliers is challenging during the official tendering phase of municipal procurement processes. We address the question how may co-creation be applied in public procurement, by implementing co-creation into methods of initial consultation of the market. This paper describes our first attempt to apply the transformational co-creation framework and co-creation, as presented by Ramaswamy and Gouillart, into public procurement context. Our empirical data, based on a case study, is analyzed through the four components of core principle of co-creation. We review co-creation from the procurer or buyer perspective, and methods of initial consultation of the market are perceived as engagement platforms for co-creation in procurement networks.*

## **Keywords**

*Co-creation, initial consultation of the market, contracting, public procurement.*

## **Introduction**

This paper discusses co-creation and co-creation methods in municipal procurement networks. We focus on the early planning phase of procurement and on methods for initial consultation of the market in the context of Finnish municipalities.

A public procurer may use initial consultation of the market in order to gain good knowledge on what to procure. Initial consultation of the market may be regarded as any form of dialogue and interaction with the market prior to the official procurement procedure.

The procuring municipality and its multiprofessional procurement working groups have to identify its procurement needs and should understand what the market can deliver before defining its requirements of procurement. Active dialogue with the market is a proactive way to learn what is available and whether alternative solutions exist. The procurement process should emphasize early supplier involvement and enable municipalities and suppliers to look for new high-quality products and services that truly meet municipal needs.

Different methods of executing initial consultation of the market exist. As each method emphasizes different aspects, method selection should be done based on a case-specific evaluation. The methods can be analyzed as engagement platforms for co-creation in procurement networks.

The value of municipal public procurement in Finland was 14.5 billion € in 2008 with an average of 7 % annual growth. The nature of public procurement varies from buying needles and pins to large construction contracts. The planning phase of procurement, which includes initial consultation of the market, is followed by competitive tendering phase which leads to contracting and contract execution phase.

### **Legal environment and public procurement contracting**

The Finnish legislation on public procurement has its basis in EU directives on public procurement. EU directives on public procurement and competition are one of the most fundamental representations of free trade within the EU. (Eskola and Ruohoniemi 2011, p.21) Act on Public Contracts is the main law that regulates public procurement in Finland. It is a procedural law, and regulates the tendering processes of procurement, not the planning or contract phase or the content of procurement. The results of our study are primarily applicable to other EU countries as well since the EU directives are implemented into national laws in all EU countries.

According to the current Finnish procurement legislation, a procurement process begins when a public procurer publishes a contract notice and an invitation to tender. The principles of equality and nondiscriminatory treatment of all interested parties, and the obligation to act in a transparent way while meeting the requirement of proportionality guide the actions of the public procurer. The public procurer is obligated to provide all interested parties equal information and opportunities to present solutions, but is not compelled to refrain from active communication. The Act on Public Contracts does not regulate the actions taken before publishing the contract notice. However, the general principles of equality, non-discrimination, transparency and proportionality do apply throughout the planning phase of procurement to ensure equal possibilities for suppliers to participate in the forthcoming competitive tendering. Initial consultation of the market is thus not as limited as is commonly believed.

The publication of contracts and invitation to tender, including e.g. specifications and tender comparison criteria, binds the buyer throughout the procurement process down to the contract. They act as the final basis of the contract where after major contractual alterations are not possible. Due to this strict procedural procurement regulation, the use of contract negotiation possibilities with potential suppliers or service providers is challenging. Part of these challenges is attributable to legislation, part to misinterpretations and common misunderstandings in the public sector. We believe that resulting from the above mentioned reasons, initial consultation of the market is an underexploited possibility of collaboration and co-creation for municipalities.

The “negotiation phase” and the mapping of possible solutions should actually be executed before the official procurement process. Initial consultation of the market provides a platform for “contract negotiations” with the market and within which to co-create. This increases the need for a proactive approach to contracting.

#### **Innovation requirements**

The European Union innovation policy, which is implemented also in Finland has set objectives for public procurement to act as instruments for innovation. In this context the concept of “intelligent” customer has been presented. (DETE 2009, PRO INNO 2007). Public buyers are required to plan what they need to buy and how to buy in order to act as “intelligent” customers. This requires a multitude of skills and knowledge of the procurer e.g. good procurement, project management, and contract management skills as well as access to technical knowledge concerning

products and services. A municipality can act as an “intelligent” customer by implementing co-creation into the initial consultation phase of the market and applying co-creative methods during that phase.

Uyarra & Flanagan (2010) caution about “dividing procurement into two mutually exclusive categories of normal vs. innovative procurement”. They argue for “*a broader interpretation that recognizes that public procurement serves specific public needs and that innovation should be encouraged, where possible, as a “by-product” of the procurement process*”. (Uyarra and Flanagan 2010, p.129) The challenge is to acquire procurement practices that would promote the creation of innovative solutions.

We present different implementation types of initial consultation of the market as engagement platforms for co-creation. We believe that the public procurer and potential suppliers or service providers are able to share a future view of what the procurer needs and how these needs could be most appropriately fulfilled. The final objective of the procurer is to find a procurable product or service most suitable for the purpose and put it out for tendering.

### **Research questions**

Based on the transformational co-creation framework and the core principle of co-creation presented by Ramaswamy and Gouillart (2010b), we review public procurement planning phase through methods of initial consultation of the market in municipal procurements. The research questions we address are:

How may co-creation be applied to public procurement?

What engagement platforms of co-creation exist in initial consultation of the market? And, how can the existing and new engagement platforms be developed?

### **Co-creation**

Prahalad & Ramaswamy (2004) discuss co-creation as a conversation and interaction forum between consumers and firms. According to Prahalad & Ramaswamy (2004) the building blocks of interactions are dialogue, access, risk-benefits and transparency (DART). DART provides a framework to help organizations manage the co-creation process.

Co-creation has thereafter been defined by Ramaswamy and Gouillart (2010 a) as” the practice of developing systems, products, or services through collaboration with customers, managers, employees, and other stakeholders”. They develop DART further into a transformational framework for co-creation. Ramaswamy and Gouillart consider co-creation from the firm or seller view and especially in the context of consumer business and marketing. A process-based conceptual framework for understanding and managing value co-creation in the context of service-dominant logic is presented by Payne et al. (2008). Value co-creation has also been studied in the context of service dominant logic and service systems (Vargo et al. 2008, Vargo and Lusch 2008).

The core principle of co-creation is “*engaging people to create valuable experiences together while enhancing network economics*”. (Ramaswamy and Gouillart 2010, p.35) It consists of four components: experience mind-set, context of interactions, engagement platforms and network relationships. (see Figure 1) Together these components liberate the four powers of co-creation. The powers of co-creation are: increased strategic capital and returns to enterprises; new experiences of value to individuals; lower risks and cost for enterprises and lower risks and costs for individuals. In Figure 1 the powers of co-creation are presented in the corners. Powers of co-creation embody the gains of co-creation.

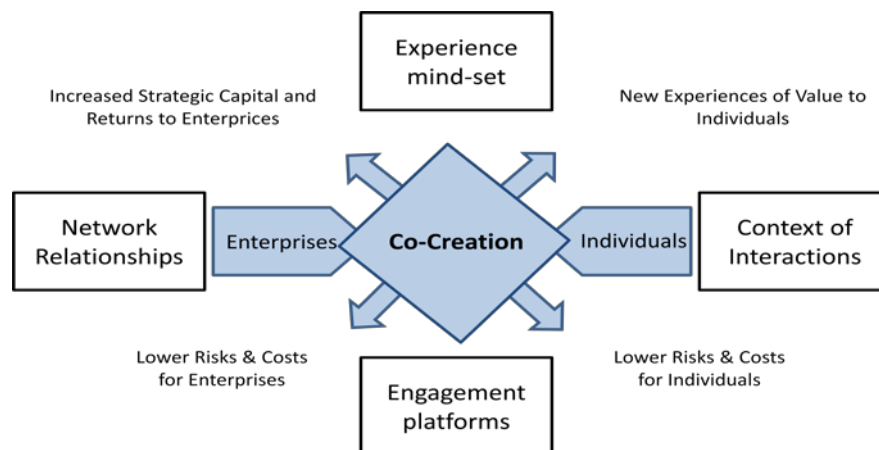


Figure 1: The Core Principle of Co-Creation (Ramaswamy & Gouillart 2010b, p. 36)

Below the components of co-creation principle are presented following Ramaswamy and Gouillart (2010a, 2010b) and Ramaswamy (2009). *Experience mind-set* is the basis of value creation. It includes individuals’ motive to participate in co-creation and the experience of value added, i.e. they gain something out of participation. *Context of interactions* presents opportunities for value co-creation anywhere in a certain context. It opens up new possibilities of interaction between firm and individuals.

*Engagement platforms* indicate the means of value co-creation or how co-creation is implemented. All stakeholders should be able to interact directly with one another. Engagement platforms are designed to make interactions and processes effective and affordable. Live meetings, multitude of web-based online conversations and selling or service consumption encounters are examples of engagement platforms. *Network relationships* refers to the competence base of value co-creation, i.e. who should participate in co-creation activities and what competences are necessary.

The four components of co-creation intertwine and support one another. Engagement platforms stand as the foundation of co-creation. Therefore designing engagement platforms is the way to start co-creation in an organization. An organization initiating co-creation should start with simple engagement platforms after which the design of engagement platforms itself evolves through co-creation as the scope and scale of interactions increase between participants and the co-creation capabilities grow.

Engagement platforms provide the grounds for the other three components of co-creation. Engagement platforms enable broadening of the scope of co-creators; development of co-creative capabilities; improvement of quality and nature of interactions over time; and making interactions easier and generate valuable experiences.

Co-creation uses experiences of participants to promote collaboration and communication through diversity of engagement platforms which enable contextualized interactions across business networks. (Ramaswamy and Guillard 2010b) Organizational learning plays a significant role in co-creation. These topics can also be seen as enablers and barriers for co-creation as classified e.g. by Downe (2010) and Dodgson. Downe (2010) argues in his literature review on organizational learning in public service improvement that “the key to understanding the success of organizational learning, and the impact on improvement is to consider the importance of the various enablers and barriers to learning.” Dodgson (1993, p. 387) discusses factors that encourage or constrain learning.

Also the multidisciplinary and multiprofessional proactive contracting approach relies strongly on the detection of contractual enablers and barriers.(see e.g. Haapio 2006) In proactive contracting approach, contracting is perceived as a tool for planning and maintaining collaboration, reaching joint goals and risk management.(Pohjonen 2002)

## **Method**

The research approach in our study is a combination of case study and action research. We conducted a process simulation project, according to the SimLab business process simulation method (Smeds et al. 2006), focusing on developing networked public procurement practices and related contractual processes.

The data consists of three open procedure procurement processes of a medium sized municipality in Finland and an ample amount of more general data focusing on municipal procurement processes in Finland as such. The data collection and analysis methods used in this study are qualitative including semi-structured theme interviews, observation of group discussions and workshop working and the analysis of transcribed interviews and group discussions. We interviewed the total of 22 people which represent procurement professionals, field professionals and one supplier representative of each example procurement. Secondary written documentation, such as contracts, invitations to tender, tenders, internal procurement guidelines etc., provided by the case municipality was also analyzed. In our data analysis we apply the iterative process of considering theory and empirical data following the grounded theory approach presented by Strauss and Corbin (1990).

## **Case descriptions**

We studied the procurement function and corresponding activities of potential suppliers in general. In addition, we studied three specific open procedure procurement processes which were carried out by the procurement center of the case municipality. The first one is a procurement that was executed together by the procurement professional and contact field experts of a service remit. The second one represents a procurement execution as a pilot project where an employee of the service remit works as an “apprentice” besides a procurement professional and learns procurement in action. The procurement professional guides and helps this liaison or contact person of the service remit. The third procurement is procurement center lead and it acts as the contract owner. The role of the working group, as the procurement planning body and fosterer of supplier relationship, is significant. Representatives of procurement ring participate in the working group work. The procurement center acts, based on regional procurement collaboration, on behalf of a procurement ring which comprises of the case municipality and nine regional organizations

including other municipalities, a hospital district and educational municipal federation. The composition of the procurement ring varies depending on the procurement at hand.

We intentionally sought representation of three different types of procurement. Each procurement process was conducted according to the open procedure, but in addition to the different distributions of work in each process, the nature of the products procured varied. The studied procurements were procurement of healthcare products, occasional procurement of education sector and joint procurement of food supplies.

## Results

We analyzed our empirical data through the elements of the core principle of co-creation presented by Ramaswamy (2009) and Ramaswamy and Gouillart (2010a and 2010b). In our study we consider co-creation from the procurer's view point and in the context of public procurement. We also suggest that the initiator and coordination role of co-creation to be switched to the public procurer, i.e. customer or buyer side, from original seller perspective of co-creation as presented by Ramaswamy and Gouillart.

By adding a co-creative strategy to initial consultation of the market, both the procurer and the potential suppliers are able to improve the quality of procurement and following contract period. Eventually, the municipality most likely receives improved products and/or services which better fulfill identified public needs. On the other hand, suppliers gain the possibility to learn what the municipality desires for and offer their own solutions, as well as to improve the quality of their tenders. The quality of the procurement process which, according to our study and also in general, is today perceived by all parties as highly bureaucratic, as a whole, could be developed and improved. These represent possible powers of co-creation in the context of public procurement.

Below we present the results of our empirical study. We describe how the case organization has actually conducted initial consultation of the market and, on the other hand, the development ideas brought forth by interviewees and introduced in a workshop carried out in spring 2011.

*Engagement platforms* or contact points to the market or enablers of interaction actually used by the case organization were market review; market analysis; supplier interviews; HILMA (the official electronic web-based notification channel administered by Ministry of Employment and



Economy in Finland); case organizations own web-pages; participation at different procurement related events organized by e.g. trade associations; fairs and Internet. Supplier interviews were either face to face or by phone. HILMA was primarily seen as an official communication channel but could be used as an enabler and opportunity for inviting suppliers to participate in new interactions. Procurement or field experts participate in different kinds of events to discuss public procurement and interact with the market and potential suppliers.

Ideas on how the case organization could develop open and non-discriminatory dialogue and interactions with potential suppliers included organizing general info events focusing e.g. on general procurement issues of the procurer or share knowledge on forthcoming procurements, info events focusing on specific field of procurements or individual procurement and new electronic platforms for co-creation in the future. The need to utilize and the potential of electronic or technical platforms of interaction and communication in future were clearly recognized. The idea of video or online interviews to tackle the challenge of motivating suppliers from distances to participate in the dialogue was also presented.

*Context of interactions* may be perceived as the entire public procurement process from planning and tendering phases to contracting and execution of the contract. Co-creative interactions may be implemented in all three phases as was done by the case organization. Interactions were present in the planning phase within and outside the case organization. Co-creative interactions were first present in intra-organizational relationships like recommended by Ramaswamy and Gouillart (2010b). Examples of these actual intra-organizational interactions are weekly procurement expert meetings, work group meetings, joint planning meetings in the consultancy case and, maybe as the most innovative one, interaction and ongoing co-working of a field liaison person and a procurement professional. Inter-organizational interaction was conducted through initial consultation of the market.

Some interaction was present also during competitive tendering phase. It is restricted to an open, online question/answer procedure introduced by procurement regulation. Internal collaboration was also developed in different types of working groups during the examined example procurement processes. After the contract award the case municipality innovatively offered suppliers that were rejected or lost the competition or that were presumed to tender, but did not, the possibility to come and discuss the procurement. This was appreciated by the suppliers and many

took advantage of the opportunity. By doing so they proved actual willingness to participate in co-creative post-procurement interaction.

*Experience mind-set* proved to be the most challenging component of the co-creation principle. We interpret the experience mind-set to reflect the motivation of participants i.e. why they are willing to put their time and effort into interactions with the procurer. Formerly interactions between the public procurer and potential suppliers were deemed prohibited. Earlier actions of the procurer based on this assumption still reflect in the attitudes of potential suppliers. The change of attitudes and mind-set into a more open, unselfish and trustworthy communication experience, was seen as the most fundamental construction material of collaboration and co-creation. The case municipality has done active work in repairing these relationships with suppliers. The idea of implementing a new mind-set of perceiving consultation of the market as a continuous state, which is only interrupted by competitive tendering phase, was presented.

*Network of relationships.* In our case municipality we detected three types of internal working methods in executing procurement which have effect on the used co-creation methods. These types are described in Case descriptions chapter. Competences are combined to achieve sufficient understanding of what to procure, usually special emphasis is set on preparation of product or service specifications and other central terms of contract. Internal relationships and the combination of expertise have developed radically within the last year in the case municipality. This is probably due to changed management style of the new procurement director. Training of all procurement professionals has been increased. Utilizing of inter-organizational relationships and combining of competences are well on their way, but further development is required. A development idea suggested that joint training could be provided in future for procurement professionals, field experts and willing potential suppliers. Another development idea proposed that a standing expert working group could be built at national level, to collaboratively represent municipal procurers' and the market. Consultation of the market, conducted by the group, could act as an ongoing engagement platform of co-creation.

## **Discussion**

This paper is the first step in the attempt to implement Ramaswamy's and Gouillart's (2010b) transformational framework for co-creation and the core principle of co-creation into methods of initial consultation of the

market in the context of public procurement. The effective use of co-creative, open dialogue and interactions with potential suppliers provide a new potential for improving the quality of public procurements.

We sought to apply co-creation, based on the elements of the core principle of co-creation presented by Ramaswamy and Gouillart (2010b), into the environment of public procurements. To our knowledge of earlier research, initial consultation methods of market have not earlier been presented into a similar theoretical framework and the used methods have not been classified into similar categories.

We argued that co-creation presents a possible approach to public procurement for municipalities to act as an “intelligent” customer. While developing new co-creative engagement platforms, the legal requirements of non-discriminatory and equal treatment of suppliers and openness of interactions must be considered thoroughly to avoid unnecessary court proceedings. If the procurer provides equal possibilities for suppliers to participate in co-creative dialogue through different engagement platforms and considers impartially the results of co-creation, we see no barriers for utilizing co-creation in the planning phase of public procurement.

Co-creation draws innovative ideas from potential suppliers, municipalities' own employees and different field experts. The procurer may take advantage of procurement opportunities it might not have identified itself. As the procurer learns to appropriately time the consultation of the market and how to communicate with potential suppliers, it is able to improve the quality of its procurements through better invitations to tender and corresponding contract terms.

From the supplier perspective the procurer lead co-creation opens up the possibilities to learn deeply and continuously about what is valuable for the municipality, develop new products and/or services that meet the customer needs and improve suppliers' tendering competence. Suppliers may utilize the experiences of co-creation and potential new or further-developed products or services stemming from co-creation interactions with public procurer also in private sector and consumer market.

#### **Limitations and future research directions**

There are a few clear limitations of the study so far. By now, the empirical data is restricted to one case study and a first, although rather extensive, amount of more general data of the research theme. Further testing of the methods of initial consultation of the market as engagement platforms of co-creation is also required.

Our data also revealed possibilities, although limited ones, for consultation of the market also during the competitive tendering phase and after the award of the contract. These issues are not discussed in this paper, but provide means to further co-creation into other phases of the procurement process at large.

We plan to go on by doing further case studies to find results that are more generalizable. At least the following topics could be added to the next set of case studies: How to motivate and engage potential suppliers into the co-creation of value? How are public organizations able to share the co-creation experience? What does personalized co-creation experience mean in the public organizational setting and is it a compulsory element of co-creation? And finally, how may initial consultation of the market be conducted as a permanent and on-going dialogue with the market and what methods suit at what time period.

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