

## Report

# **High-Level Event on Pre-Commercial Procurement** Towards a smarter research and innovation procurement strategy for Europe

Novotel Budapest Centrum, 11-12 April 2011

This Event took place back-to-back with the:  
Informal Competitiveness Council Meeting in Gödöllő (Budapest), 11-13 April 2011  
National ICT Directors Forum Meeting in Novotel Budapest Centrum, 12 April 2011

### ***Organisers:***

European Commission Information Society and Media Directorate-General  
Észak-Alföld Regional Development Agency

### ***Patrons of the event:***

**Prof. Dr. Zoltán Cséfalvay**  
Minister of State for National Economy  
Ministry for National Economy  
Hungary

**Dr. Tibor Halasi**  
Minister of State for State Property  
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## Executive Summary

The biggest customer in Europe is the government. Public bodies in the EU spend the equivalent of 19% of gross domestic product on everything from light bulbs to hospital beds. So what would happen if a portion of that buying power was focused on innovations?

That is the policy question underlying a promising new trend in the European public sector: the spread of 'Pre-Commercial Procurement (PCP)'. Three EU member-states have launched pilot projects, three more have established support frameworks for it, and an additional eight are working on their national frameworks for PCP. The sums involved today are relatively small. But greater political support for innovation is pushing PCP forward. With it, governments "can offer better value for money in public services" – while at the same time strengthening Europe's capacity for innovation, according to Zoltán Cséfalvay, Hungarian Minister of State for National Economy.

On April 11-12 2011, 220 experts in procurement and innovation gathered in Budapest to share information on the PCP trend and debate ways to accelerate it. The conference, organised by the European Commission's Directorate-General for Information Society and Media and the Észak-Alföld Regional Development Agency under the Hungarian Presidency of the EU, was held under patronage of the Hungarian ministries for national economy and national development.

The meeting produced many suggestions on how to overcome barriers to widespread implementation of PCP, and thereby spread its use more quickly. The Commission gathers the varied PCP experiences and suggestions here in the interest of promoting wider discussion of this important policy development, and does not mean to imply it has an official view on any of the individual suggestions raised from the floor. They were:

1. **Make more money available.** Cséfalvay said he was "very happy" that the EU has made available a budget of €14 million in 2011 to co-finance Member States undertaking pre-commercial procurements together. "If we would like to in Europe have something similar to the US, the amount should be €1 billion."
2. **Focus on the needs of the 'real' procurer** – the civil servant who will use the product or service to improve the quality, effectiveness and efficiency of public services.
3. **Start small and stage the work in phases**, rather than committing all at once.
4. **Raise awareness of PCP among all potential participants.** "Promotion, marketing and raising awareness are extremely important for the public sector, as well as for SMEs" who might bid on contracts, said Ann-Mari Fineman, an official of Sweden's VINNOVA.
5. **Keep the bureaucracy light** – especially if you want to attract SMEs.
6. **Allow room for competition.** PCP implies competition among rival concepts and bidders in the development stage.
7. **Help suppliers plan beyond the immediate government PCP contract.** To get full economic benefit from PCP, the supplier needs to be able to scale up production for the commercial or international marketplace - and that may require additional government assistance.
8. **Reach out to a broad audience when planning PCP.** Grouping procurers with similar needs into joint projects was recommended by several participants.
9. **Build PCP into a broader innovation plan.** Several member-states that have tried, or plan to try, PCP are incorporating it into a bigger kit of tools to stimulate innovation in their economies.
10. **Provide more-tailored EU help for member-states.** An EU help desk for PCP, and written PCP procedures for each member-specific legal system, would help.

Overall, the emphasis of discussion was on how PCP can serve, not just the cause of innovation, but also the broader economy. PCP, said Antti Peltomäki, Deputy Director General for Information Society and Media, "can have a huge impact on improving the quality and efficiency of our public services."

## Conference report

"The knowledge society is a fantastic idea. The problem is: everyone is doing it" – so how will Europe keep up? That was the question with which Ulf Dahlsten, principal advisor to the Directorate-General for Information Society and Media, opened the Budapest conference.

For Dahlsten and many of the meeting participants, one potential tool for European competitiveness is pre-commercial procurement: turning the power of the government purse to stimulating innovation. That would improve public services – and create companies and jobs. In the past, Dahlsten noted, key European technology companies like Alcatel, Ericsson and Nokia benefited from having the public sector as first customer for a big high-tech product (think of how digital telephone switches, or the GSM mobile-phone system, got started.) "Today, after liberalisation of the telecom sector, we don't see that kind of drive from the public sector towards the creation of new companies anymore in Europe," Dahlsten said. "The Americans learned how to do it with something similar to PCP in the new context of liberalised/competitive markets; we have to learn from experience and develop our own PCP approach for how to do it in Europe."

### I. Why PCP?

The mounting interest in PCP comes from many corners. One is a generalised support for anything that can promote innovation. "There is clearly growing movement around Europe to strengthen public demand for innovation," said Antti Peltomäki, Deputy Director General for Information Society and Media. PCP, he noted, fits into the broader EU policy to promote "smart, sustainable and inclusive growth for Europe all the way to 2020;" to deliver on the European Commission's new 'Innovation Union' strategy; and to encourage effective use of regional-development funds. "Public needs have always been an important driver for innovation – in telecommunications, energy, health, security or defense. The role of the public sector in driving forward innovation needs to be revisited," he said.

International competition is another factor. Peltomäki said the US public sector buys about \$50 billion a year in research and development services – about 20 times more than EU governments. "That represents approximately half the overall R&D gap between the US and Europe," he said. "Current practice in Europe is still in many cases procurement of off-the-shelf solutions, not always fit for purpose, in projects of a highly innovative nature. That results in work that is expensive, and stalls innovation."

The benefits of PCP, he said, spread far and wide:

- The supplier gets the ownership rights to intellectual property resulting from the work, to develop "other solutions for other markets." That increases economies of scale, opens new markets, and helps stimulate a "critical mass of demand." Suppliers can develop leadership in their markets. After all, a demanding government client can help spread a new product or service to market.
- The government gets a better price for a high-tech solution to its problems, improves its services to citizens, and more easily reaps the benefits of technological advance. It also provides a 'reality check' to the government about what is technologically feasible and what is not. And it helps the government recognise and remove unintended regulatory barriers to the introduction of innovative solutions into the market that it encounters while working on the PCP project.
- The "step-wise" multi-competitor procedure for PCP lets the government procurer steer development from lab to implementation, without running afoul of EU State aid or World Trade Organisation rules.
- The overall climate for technological investment is stimulated, and demand for R&D rises generally. Private investors can climb aboard a PCP supplier, providing the capital to scale up a new process.

Overall, Peltomäki said, PCP "can have a huge effect on improving the quality and efficiency of our public services."

Zoltán Cséfalvay, Hungarian Minister for National Economy, agreed that PCP is an important tool for European competitiveness. "Europe is, step by step, lagging behind in the race for innovation. Every year the US spends 0.8% more of GDP on R&D than the EU. Japan 1.5% more. So we should discover new methods to close these gaps – within the budget constraints we have." PCP can help.

But winning political acceptance for it requires creativity, the minister said. European procurers are risk-averse – steering clear of the complexities of making PCP work. And budgets are tight: "We see austerity measures in every country." His advice to anyone promoting PCP: Highlight the benefits to the economy. "Just to say that it is important because innovation is important is not enough. In practice, you can't persuade a politician like that." Instead, he said, the political appeal should be more practical: "Better value for money in public services." And, the multiple sourcing characteristic of PCP indeed provide concrete cost savings and quality improvements in public services.

## II. What is PCP?

In brief, PCP is a specific approach for a public authority to buy R&D services<sup>1</sup>. Normally, public authorities can spend their money in three ways – on products like government cars or computers, on works like road construction or bridges, or on services like education or healthcare provisioning. PCP is a type of service contract in which the government buys R&D services from companies and shares the risks and benefits of the project with the suppliers. For instance, a health ministry can pay innovative companies to try to find new ways of reducing drug-resistant infections in its hospitals, or to develop better ways to make its buildings energy-efficient. Both services are a type of R&D because the solutions sought are not yet on the market. And both services could in theory happen through any number of conventional government instruments – research grants, debt-financing, project contracts, or even prizes.

But the PCP approach is special in taking account of the fact that the R&D, if successful, could be valuable – to many others beyond the government buyer or individual suppliers. The newly developed process, or product, could be scaled up for industrial use and sold on the market, creating jobs at home and abroad. Its intellectual property could be licensed or sold. The people who did the work could use the IPR to go on with other projects or customers. A PCP framework handles this by ascribing a value to the potential IPR that could result, cutting the contract price to reflect the value, and letting the private supplier keep those rights for other business development rather than having the government retain them. So it's a trade-off: The government gets its desired high-tech solution at a lower price than it normally would, and the private supplier gets the initial government order plus the freedom to develop its work into a new line of business. And the innovation economy gets a boost.

The US, several speakers said, developed the template for this kind of procurement. The \$50 billion a year it spends on buying R&D services – much, but not all, for defence – has nurtured the growth of Silicon Valley, the development of the Internet, and a wide range of new health technologies. It has added a demand-side pull to innovation policy: Not just pumping subsidies into more labs, doctorates and projects, but putting a demanding purchaser into the equation with a real-world need. Going with PCP has also provided a government boost on buying innovation from small companies. That, said Minister Czéfalvay, is a "huge contribution" to innovation in America. It helps a critical group of innovators: early-stage firms that would not be able to get access to venture capital without the public sector customer backing them up.

Of course, Europeans cannot simply copy the US; Silicon Valley is unique. Past European efforts to duplicate the vibrant culture of investors, entrepreneurs and researchers have failed – in part because they focused on the 'supply-side', said Ross Butler, Director of Communications at the European Venture Capital Association. "If this problem could have been solved by pumping money into it, the EU would have solved it long ago," he said. Supply-side funding misses the key point: "Business is about getting customers, not about

<sup>1</sup> For more info about PCP, see PCP website: [http://cordis.europa.eu/fp7/ict/pcp/home\\_en.html](http://cordis.europa.eu/fp7/ict/pcp/home_en.html)

getting money from investors. One euro from a customer is worth two euros from an investor." When the government steps in with its procurement hat on, it stops being an investor of public money and becomes a customer buying services for the public. That starts a virtuous cycle. "PCP makes companies. It has a multiplier effect." A company that wins a cutting-edge government contract automatically gains credibility with private investors, so it can grow faster. "It's a win-win," he said.

But competition is another vital element in the US system, noted William Lucyshyn, Director of Research, Center for Public Policy and Private Enterprise at the University of Maryland. Economic theory would tell you that efficiency grows and costs fall if you maximize competition and divide the business over an adequate number of competing suppliers. The results of analysis of sixty years of dual source versus single source R&D procurements confirm this theory. Due to competition in the R&D phase in dual source R&D procurements all suppliers that are in competition climb 'the learning curve' faster to higher quality and more efficient production. In those cases when the US Department of Defense failed to buy competitively, its costs actually rose faster, and efficiency suffered – because the supplier didn't feel enough pressure to perform better. Also once the PCP work is done, it matters how the government goes on to buy the developed product or service in bulk: whether through a single-source contract with one of the original developers, or through a managed competition with two or more suppliers. In those cases where the US Department of Defense used dual sourcing in the R&D procurement phase, on average the first unit acquisition cost decreased with 20%. Long term acquisition costs decreased even more when competition was sustained in high volume development phase depending on the mass-market size.

### III. What is the EU doing for PCP?

PCP has been on the agenda in Brussels since end 2005, when a working group of Directors responsible for national ICT Research Programmes began investigating the topic in cooperation with the European Commission. Since then, said Michael Arentoft, of the Unit for Strategy for ICT Research and Innovation in the Directorate-General for Information Society and Media, the Commission's objectives have been two-fold: To draw the attention of member-states to the underutilised opportunity of PCP, and to speed up adoption of the practice in line with the existing legal frameworks. When the Commission guidelines are followed, PCP does not run afoul of the World Trade Organisation's rules on public procurement (the procurer can require a portion of the PCP R&D work to be conducted in Europe); it is exempt from EU procurement directives (avoiding differences in national legal transposition of the procurement directives which hampers joint cross-border procurement); and it does not contain State aid.

In 2007 the Commission officially backed PCP as a missing link in the innovation policy mix, issuing a Communication and Staff Working Document on the topic<sup>2</sup>. Then it started spending money to encourage the adoption of PCP strategies in Europe, on an experimental basis. In 2009 it invited proposals to create networks of public procurers among the member-states to share knowledge about PCP, and raise awareness. In 2011 under the ICT research portion of the EU Seventh Framework Programme<sup>3</sup>, it now offers co-financing for public authorities in Europe to undertake PCPs together to find common answers to shared challenges: the EC offers to reimburse up to 100% of the costs for public authorities to prepare joint PCP calls and up to half of the cost of developing the ICT systems that are the subject of the joint PCP call. The sums involved, by EU standards, are relatively modest: in 2011, €14 million is on the table: €3 million for joint PCP for mobile access to patient health information; €3 million for joint PCP for robotics solutions for the elderly; €3 million for joint PCP for photonics-based solutions to improve the quality and efficiency of public services; and €5 million for proposals aiming to address the quality and efficiency of public services through PCP in any domain of public interest – not just the three fields chosen for the first experiments.

<sup>2</sup> COM/2007/799 and SEC(2007)1668

<sup>3</sup> For more info about these EC funding opportunities: [http://cordis.europa.eu/fp7/ict/pcp/calls\\_en.html](http://cordis.europa.eu/fp7/ict/pcp/calls_en.html)

So how widely is PCP being used in the EU? In most countries, the story is just beginning. A Commission survey<sup>4</sup> found three member-states – the UK, Belgium and the Netherlands – already implementing relatively small pilot programmes. Three other nations, Finland, Denmark and Hungary, have worked out how to begin PCP in their legal environments and have created support frameworks to do so. Eight others – Spain, Italy, Ireland, Sweden, Lithuania, Austria, Poland and Norway – are developing the national support frameworks. The rest of the EU – 13 of the 27 members – are still “exploring” the possibilities, Arentoft said.

But political interest is rising, and the Commission is pushing to “mainstream” PCP in the policy world from 2013, as Arentoft put it. Already, at a February 2011 meeting, the European Council included PCP among the priorities for implementation of the EU’s ambitious “Innovation Union” strategy. And Minister Cséfalvay said he put it on the agenda for a meeting of the Competitiveness Council of industry ministers in April. Normally, he said, PCP is a matter for the research ministers, not industry ministers – but he used the prerogatives of the EU Presidency to widen the debate. “The scale is certainly small” at present, he said; and the debate must broaden further – to all ministries that spend money. “It’s much more difficult to persuade the ministers in different departments to set aside sums of money” – but it is important to do so, he said.

#### **IV. PCP related case studies**

The conference included several snapshots of progress – at the regional, national and pan-regional level.

##### **The UK experience**

In 2005, the National Health Service created a small team to stimulate innovation through public procurement. It was spurred by industry complaints that NHS procurement officials weren’t paying enough attention to new ideas and products; and so the National Innovation Centre was created, given a £3 million budget, a permanent staff of five, and told to “act as the glue between industry and the NHS,” recalls Brian Winn, Director of the Centre. But in short order, he found the problem was more complicated: The procurement hadn’t been happening because what industry was offering didn’t always match what the NHS doctors, nurses and administrators felt they actually needed. So his group began with market research: Ask the medical professionals what they actually needed, and then see if industry could supply it. A series of focus groups, conducted privately with front-line healthcare workers, came up with a wish list – what Winn calls WIBGI, or “Wouldn’t It Be Great If...” requests. Among them: Finding a flexible way to get more private side-rooms in the hospital wards, to isolate patients with infectious disease; a way to protect nurses from pricking themselves accidentally when discarding used needles; a safer way for ambulance medics to pick up patients with fractured leg bones without doing more damage. With that information, Winn’s group could tell industry what the NHS actually wanted – avoiding speculative development and waste. “It moves procurement from a passive mode to a proactive mode of saying: We want to commission this.”

The outcome: By adapting a PCP like procurement model, a range of new products were developed – which the NHS bought. A better femur splint is being used now in British ambulances. Portable, sterile containment walls can be set up and dismantled at will in hospital wards. A new kind of cardboard tray was designed, to dispose of needles more safely – that alone saving the NHS up to £160 million a year in staff injuries. All told, the innovations stimulated by the Centre could save the NHS £236 million a year, Winn says. And a bonus: Because the companies developing these new products knew in advance they would have buyers if they succeeded, they were able to amplify their efforts with private financial backing – raising £348 million in all. As Winn says, this is a success for all – the NHS, patients and the economy. “It’s a highly leveraged, value-added procurement process.”

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<sup>4</sup> For more info about the 2010 survey on the status of implementation of PCP across Europe, see: <http://cordis.europa.eu/fp7/ict/pcp/policy/en.html>

## The Dutch experience

In 2003, a peat levee burst catastrophically in a region of the Netherlands and prompted a search for new solutions to management of the country's vast dike network. So in 2007 the Dutch Water Boards and the Rijkswaterstaat, the state agency that manages road and water traffic, decided to use their procurement powers to stimulate innovations. Two systems emerged. One, from a company called Hansje Brinker, uses radio satellite data to monitor the dikes from above – watching for signs of erosion by comparing today's images with those stored since 1992. Another, from a company called Alert Solutions, watches sensors placed in the dikes – measuring such soil characteristics as pressure, temperature and motion. "We have eyes from space and eyes within the levee. This helps us with early detection and better planning of maintenance," said Richard van Breukelen, chief financial officer of the Rijkswaterstaat.

A second Dutch effort – now in mid-stream – is to improve the management of traffic on the country's congested roadways. Since the 1980s, when the first such systems began, a patchwork of non-standardised, regional systems has emerged. To develop an integrated, national system the Rijkswaterstaat four years ago signed a memorandum of understanding with the English Highways Agency and the Flemish Agentschap Wegen en Verkeer. With them and industry, the Rijkswaterstaat has developed a proof of concept process and will decide on a winning entry in December 2012. "We think that PCP is a very useful method of driving innovation and our business needs for the future. It's really helping us to replace old methods of cooperating with the market parties"

## The Belgian experience

In Flanders, the Agency of Innovation in 2008 decided to allocate €10 million to create a Knowledge Centre for Procurement of Innovation. "Raising political awareness was the first big step we took," said Christophe Veys, Procurement Legal Advisor at the Agency; after all, PCP was a new concept for Flemish procurement offices. As a result, by the end of 2009, 48 possible projects had been proposed. Of these, six have been launched and work is underway on another 10. A three-step process has been developed: an 'Innovation Platform' stage in which the IWT consults industry on the state-of-the art in preparation of the development of the specifications for its needs; a PCP phase in which the agency buys the needed R&D at market prices; and a final, Commercial Tender phase in which the agency scales up its purchases and buys the newly developed product or service through normal public tender. This innovation process, Veys said, "starts from real, concretely specified needs of actual procurers." Unlike some programmes elsewhere, it doesn't favor small companies over large or put any other broad social need first: It's all focused on efficiently buying innovations for the public services.

## In Development

Several EU member-states are moving towards PCP rapidly. Examples include:

**Finland** - In 2008 Finland launched a new, national innovation strategy that included a focus on 'demand-driven' policies – using the power of market demand to stimulate innovation, according to Jan Heiniluoma, State Secretary for the Ministry of Employment and Economy. That's a new approach, broadening the number of actors viewed as responsible for innovation, trying to remove barriers to innovation, and viewing the public sector, with its big budgets, as "a key actor in the national economy." One consequence: public procurement is viewed as a tool for innovation. That's the policy goal; in practice, he said, "the use of public procurement as a tool to promote demand for innovation is still in its early stages in Finland." Two years ago, innovation agency Tekes launched a new financing instrument for innovative public procurement, to reduce the financial risk and offer technical support to municipal authorities wanting to try it. Generally, he said, "too often the public sector buys goods and services already in the market. It does not see procurement as away to renew and develop public services." The intention, he said, is to launch some PCP pilot projects and take into account the experiences.

**Hungary** – A national economic strategy, the New Széchenyi Plan, envisions science and innovation as an engine of economic growth, according to Andrea Jánosi, Deputy State

Secretary in the Hungarian Ministry for National development. PCP is part of the plan – and a newly created Public Procurement Council is working to “spread the culture” of PCP around the rest of government. Starting with this legal framework, the first pilot efforts in PCP are underway in the Hungarian region of Észak-Alföld. The objective: To get better value for money, a shorter procurement process, and innovative products and services. The Regional Development Agency, according to László Fésüs, Director of the regional operational programme, has developed a three-phase process – starting with studying the R&D needs of the region, then developing two possible PCP pilot projects, and finally proceeding to product development. In all, a 24-month process is envisioned, Fésüs said.

**Spain** - In July 2010 the government adopted a new State Innovation Strategy to “transform the Spanish economic model into a sustainable economy based on innovation and knowledge,” according to Paloma Velasco Garcia, Director of Global Innovation Programmes at the state Centre for the Development of Industrial Technology. The strategy aims to boost R&D intensity to 1.9% of GDP, grow 40,000 new innovative businesses, and create 500,000 high-tech jobs. It includes a plan to use pre-commercial procurement and public procurement of innovative solutions to develop healthcare, a green economy, modernisation of government administration, and the ICT, tourism and security sectors. The aim is to improve public services, leverage funds for industrial RDI, and support the commercialisation of industrial innovation. Planning to act on this new strategy is now underway.

**Sweden** - The Swedish government’s aim, embodied in a new VINNOVA PCP programme, is to link public sector demand for innovative products and solutions to industry. The intention is for the government to act as first customer and catalyst for key innovations – as happened historically with, for instance, Televerket’s role in stimulating the Swedish telecommunications industry. “Public procurement, which in Sweden amounts to close to 20% of GDP, around 450 - 600 billion SEK annually, represent a staggering volume and potential market power,” according to Ann-Mari Fineman, Head of VINNOVA’s Department for IT Applications and Services. VINNOVA’s role, she said, is to “act as catalyst helping public procurers with market consultation, and preparation for the PCP process.” The Swedish programme, based on the EU model, provides financing for procurement process costs and, in some cases, up to 50% funding for the actual contract costs. A budget of €1 million is allocated for 2011, and VINNOVA aims for three to five projects. A VINNOVA call for proposals opened at the end of April 2011, and a communications campaign is planned with target pitches to selected public bodies, participation in seminars and conferences, and exploring partnerships with regions and local councils.

## V. Barriers and suggestions

Despite the progress towards PCP in Europe, there remain many barriers. Heiniluoma, of the Finnish employment ministry, provided a short-list: “A risk-averse public sector, lack of knowledge and capabilities, and lack of money and human resources.” Generally, he and other speakers reported, few government officials are interested in fighting their way through the conventional public-procurement system for the sake of some risky, complicated contracting processes – no matter the benefits they could bring. To overcome that attitude, he said, “there is no one fix-it-all solution. It requires a fundamental change in mindset.”

And if PCP is hard within a country, adding a cross-border dimension can be harder still. Oluf Ravn, CEO of Global Healthcare Procurement, a Nordic joint-procurement initiative, recalled sending back in 2006 letters to all the member-states to find out who would want to begin “exploring possibilities for PCP in healthcare.” Number of responses: five. The problems, he said, include the perceived expense of doing PCP across borders: translation, the call mechanism, the contracting. And there are many difficult questions. Which country’s procurement rules should apply? If there are disputes, which complaints body handles them? EU guidance on all this is necessary, and does help – but more remains to be done.

From the conference speakers and audience, a long list of suggested remedies emerged. In reporting these, the Commission does not mean to imply it endorses any particular one. It is simply gathering and reporting the suggestions here for the sake of open debate.

## Suggestions

1. **Make more money available.** Several speakers observed that these are difficult times to be advancing any new spending initiative – but that its pilot nature and potential importance make it an important priority, nonetheless. Hungarian Minister Cséfalvay said he was “very happy” that the EU has confirmed there is a budget for €14 million of EC co-financing for cross-border pre-commercial procurement pilots this year. “But if we would like to achieve real breakthroughs, I would say (€14 million) is a good start but is not enough. So I encourage the Commission to think about it, to increase the size. If we would like to in Europe have something similar to the US, the amount should be €1 billion.... That is the scale we need.”
2. **Focus on the needs of the ‘real’ procurer** – the civil servant who will use the product or service to improve the quality, effectiveness and efficiency of public services. The UK NHS programme learned early on that it isn’t enough to engage the administrators and procurement officers; to make real progress you have to talk to the nurses, doctors and others who will actually use the new services or products. “Need is the starting point of every successful programme,” said Winn of the NHS. Further, he notes, it’s “tricky” to get a typical civil servant to speak frankly about what they need; “you’re asking them to air dirty laundry in public.” So special care must be taken to get their confidence. But it’s vital to success. The aim, said Winn: “Avoid industry conducting speculative development. Give them a target for industrial design and talent, so they don’t have to guess. It increases the probability there will be market take-up. It moves the procurer from a reactive mode to a proactive mode of saying: ‘we want to commission this.’” Finally this experience also shatters the myth that procurers do not have the necessary skills to do PCPs. With their small £3 million budget, NHS NIC shows that real procurers can on their own successfully execute PCP-like projects, in a manageable not-overcomplicated way, and in a relatively short time frame (18 months) to deliver working products for concrete operational needs.
3. **Start small and stage the work in phases**, rather than committing all at once. The Belgian, Dutch and UK experiments in PCP have all operated in a multi-step process: researching the problem, inviting solutions, and only then proceeding with the work. Noted Winn: “Provide checkpoints along the way so it’s easy to kill the projects if they are going astray.” It allows time to “sanity test” the proposed solution, and catch problems early. Moreover, “you avoid becoming locked into one provider. Each step is a new stage of the contract. It’s good project management to allow no-go decisions. You may find prototypes don’t work. You can kill the project. You’re not committed to spend more on a dead duck.”
4. **Raise awareness of PCP among all potential participants.** “Promotion, marketing and raising awareness are extremely important for the public sector, as well as for SMEs” who might bid on contracts, said VINNOVA’s Fineman. To succeed, she said, VINNOVA knows it “will have to actively look for applicants (public procurers) and projects – there is no queue to become the pioneer.” In the UK, Winn has tried multiple means to get the word out: among them, conferences, professional networks, engineering institutes, knowledge-transfer networks and trade associations. All of this is necessary if procurement officers are to gain enough confidence to take a risk with PCP: “The biggest barrier to PCP at the moment is traditional procurement officers,” said Winn. For all of this, EU action to encourage discussion and information-sharing among national officers is vital, several speakers said.
5. **Keep the bureaucracy light** – especially if you want to attract SMEs. Said the EVCA’s Butler: “The more complex processes get, the more difficult it will be for small companies to participate. It has to be clear at the outset what small businesses can handle.” For instance, for a small, under-capitalised company to cope, the “decision-making time frames have to come down from 18 months to six months. Is this possible?”

6. **Allow room for competition.** Current experiments in PCP have used competition among rival concepts and bidders in the development stage. And the US experience is that – at least once the concept is developed and work moves to full commercial procurement – it’s wise to keep competition among bidders also in the full commercial procurement phase. Said the University of Maryland’s Lucyshyn: “Competition continuously through the programme encourages innovation and high quality. It reduces production cost. The life cycle cost reduces. And it strengthens the industrial base and quality of services.”
7. **Help suppliers plan beyond the immediate government contract.** It’s great for PCP to help a government agency get a useful innovation; but without extra effort, the work could all stop there. To get full economic benefit, the supplier needs to be able to tailor production for the commercial marketplace, or scale up to international markets. Veys of Belgium warned against PCP suppliers falling into a “valley of death” – with their PCP work done, but without the means to seek more customers. He suggested, for instance, additional EU funding to assist suppliers in this delicate stage. In the UK case, said Winn, “we are taking it as a learning point to be more proactive in helping companies raise finance. We want to create an investment-readiness plan – to put our arms around the company and go to the venture capitalists with a plan, and say: “In the opinion of the NHS, there is a market, this is the solution, and we need some capital to roll out to scale.”
8. **Reach out to a broad audience when planning PCP.** VINNOVA’s Fineman noted the importance of local procurement officers looking beyond their own needs, to collaborate with other potential stakeholders. Veys of Belgium suggesting grouping procurers with common needs – for instance, fire departments in several areas or member-states at once organising a call for fire-retardant textiles, rather than each trying to do it on their own.
9. **Build PCP into a broader innovation plan.** Several member-states that have tried, or plan to try, PCP are incorporating it into a bigger kit of tools to stimulate innovation in their economies. The Finnish effort, for instance, fits into a national innovation strategy that emphasises demand-side policies. And in Sweden, according to VINNOVA’s Fineman, PCP is part of a broader perspective on encouraging demand-driven innovation in the public sector. The same goes for the EU, many speakers said. For instance, PCP could be a good use of existing EU structural funds. PCP could also be used in European Innovation Partnerships, in solving the ‘Grand Challenges’ that the Commission has identified as EU priorities, and in pursuing other initiatives advanced in the Commission’s October 2010 Innovation Union strategy.
10. **Provide more-tailored EU help for member-states.** Belgium’s Veys noted that preparing your organization for rolling out a PCP can be administratively complex, and hands-on EU assistance could be useful. For instance, he asked whether the Commission could support the member-states “with legally ready-to-use implementation for PCP (PCP procedure written down for every MS-specific legal context).” A further suggestion from him: an EU help desk for PCP. In Flanders, he said, it has taken two years to prepare for the first projects – and along the way he has counted some 125 different administrative actions needed for each one. To overcome this, local officials need ready access to experts in the law and practice of PCP.