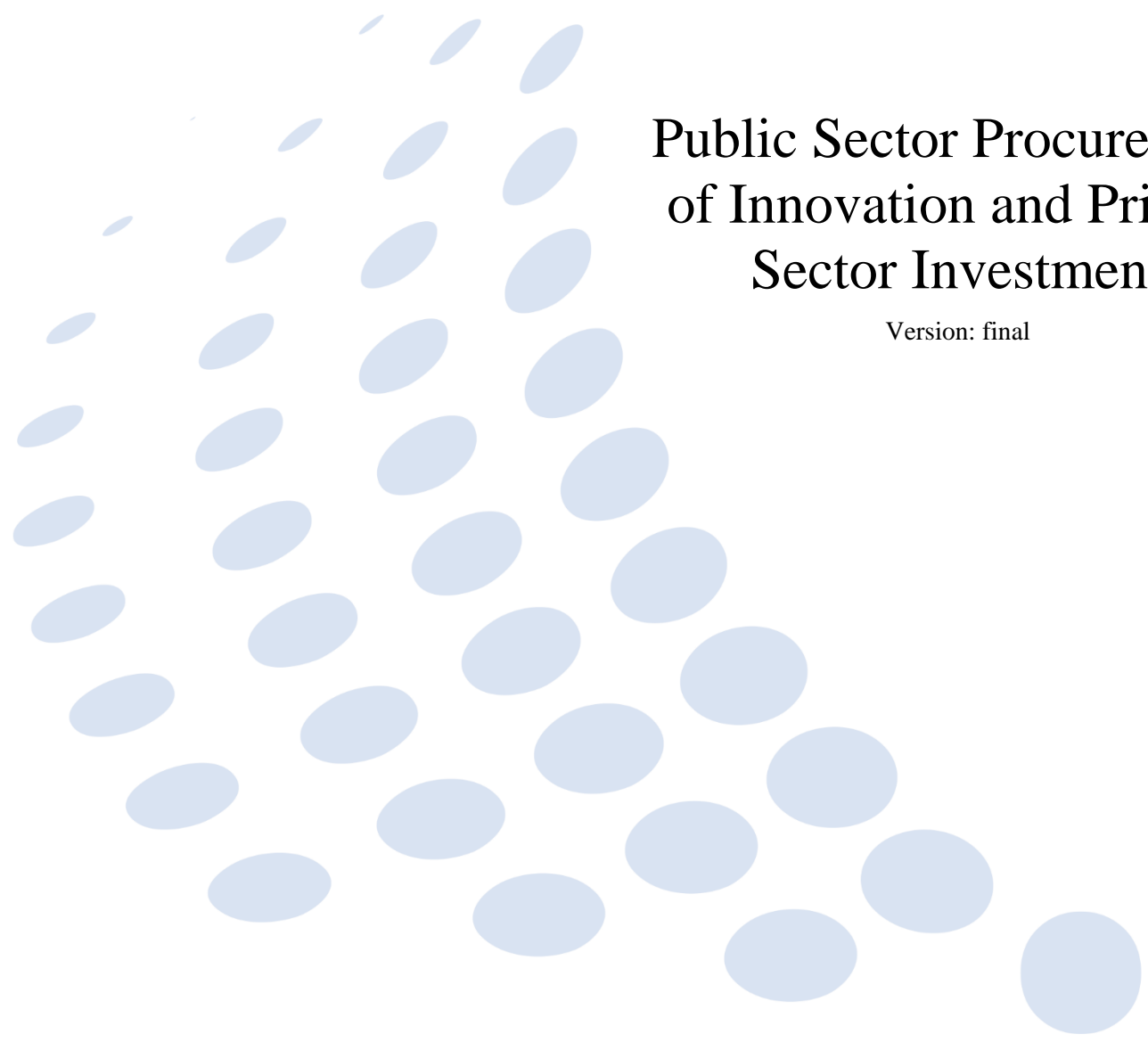




International Network Supporting
Procurement of Innovation
via Resources and Education

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Public Sector Procurement of Innovation and Private Sector Investment

Version: final



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| Public Sector Procurement of Innovation and Private Sector Investment | 4 |
| Why Investors should be monitoring PCP & PPI Programmes | 4 |
| 1 What are PCP and PPI? | 4 |
| 2 R&D and Product Development | 4 |
| 3 Of what interest is this to Investors? | 4 |
| 4 When is the right time to engage? | 5 |
| 5 How to Engage? | 6 |
| Conclusion | 6 |

Public Sector Procurement of Innovation and Private Sector Investment

Why Investors should be monitoring PCP & PPI Programmes

1 What are PCP and PPI?

PCP (Pre-Commercial Procurement) and PPI (Public Procurement of Innovation) are officially recognised and legally compliant procurement methodologies which can be used by public sector bodies (ranging from Government Departments to local authorities and councils) to stimulate and direct the free market to develop and create a new product or service which the public sector anticipates will be required in the future but which, without such public sector intervention, is unlikely to be available for procurement when needed. These procurement methodologies allow public sector organisations to access R&D skills and services to direct and enable innovative product development.

2 R&D and Product Development

Across Europe approximately €2.5Bn is spent per year on procuring R&D. Much of this is through traditional funding mechanisms such as grants and subsidies and a large percentage goes to University research departments and Research Councils. PCP and PPI represent an initiative to bring research closer to the market and to increase the proportion of that €2.5Bn which is channelled directly to innovative companies (who traditionally are SMEs) by challenging them to respond to the real needs of public sector organisations. The mechanism for this is that public procurers fund companies to conduct applied R&D projects which lead to prototypes and small batch production models ready for market uptake.

3 Of what interest is this to Investors?

The very existence of a PCP project sends some concrete signals to the new product development market. These include:

- a) That there is a future purchasing intention from a Government Body
- b) That funding has been identified to support that future purchase
- c) That there is no current solution available
- d) That there are development funds to enable the creation of a solution

In terms of a new business and investment opportunity, these signals show new product developers that:

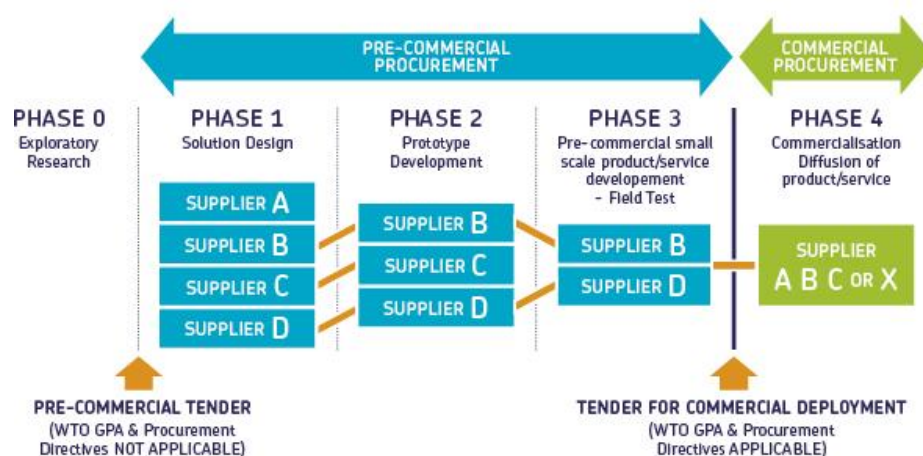
- a) There is a ready-made market with a well funded customer willing to buy
- b) There is no incumbent supplier
- c) The customer will provide development funding
- d) The customer will participate in the development (phased co-development)
- e) At project completion, the successful Supplier will be in a unique position to service the customer's requirement
- f) Due to owning the new product IP, other markets can be exploited.

Many of the characteristics which denote a strong investment target are automatically fulfilled by those companies participating in a PCP project, in particular:

- Is there a market? YES
- Is the customer funded? YES
- Does the customer have a propensity to buy this solution? YES
- Does the company own the IP? YES
- Has the development work depleted the company's financial resources? NO
- Is there likely to be potential for on-sell to similar customers? YES

4 When is the right time to engage?

A PCP is a stage-gated development process typically involving more than one company, each company developing and strengthening the argument that its own particular solution to the Procurer's un-met need is the best one. The Procurer makes a decision at the end of each phase of development about which products it thinks will best meet its needs and moves only those solutions forward for further development and demonstration.



The question of when it is the right time for an Investor to engage with one (or more) of the Suppliers engaged in a PCP project is essentially one of risk-appetite. The earlier the engagement (eg Phase 1) the more likely it is that the selected investment target may not complete the PCP process to the end. The later the engagement (perhaps even in the PPI or commercial procurement phase) the greater the probability that another investor will have already 'done a deal' and the investment opportunity no longer exists.

5 How to Engage?

There is no right or wrong answer to this question. One engagement model is to focus solely on EU-funded PCP's, on the basis that they will be well funded collaborative projects shared between multiple government agencies from many EU member states. This implies that the need is common and the marketplace large, both of which are encouraging indicators from an investment viewpoint. A pro-active approach would be to monitor planned EU PCP Calls and speak to the appropriate EU Directorate to express interest. Some Investors involved with the current DECIPHER PCP¹ have adopted the approach of waiting until project establishment and then becoming actively involved alongside the Project Board to assist with adjudication of the bid responses. This not only gives knowledge of who the supply-side organisations might be but also provides insight into whether their solutions are potential investment candidates.

In essence there are three (3) main points of entry:

- The EU Directorate which is funding the Call (for an EU-wide project)
- The Project Office (usually a government department or their agents) which is co-ordinating the PCP project
- The companies participating in the PCP project and proposing solutions

Conclusion

A PCP project creates a self-selecting group of investment targets who automatically fulfil a number of important investment criteria. There is no reason why members of the investment community should not engage with the public sector about their plans for PCP projects and make use of the informatio

¹ OJEU: [217431-2014](#)

Tender

docs:

https://contractaciopublica.gencat.cat/ecofin_pscp/AppJava/en_GB/notice.pscp?reqCode=viewCn&idDoc=8711686&idCap=206757&

Additional docs:

<http://www.decipherpcp.eu/call-tender>