Market Capacity Framework: An approach for identifying thin markets in the NDIS

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Stewarding Thin Markets Research Team

In 2017, the Australian Research Council awarded the Linkage Grant (in partnership with Department of Social Services and National Disability Services) 'Stewarding Thin Markets'. The grant supports methodological development in identifying thin markets within the NDIS, which require stewarding.

The team is lead by Gemma Carey at the Centre for Social Impact, and involves researchers across the Universities of New South Wales, Melbourne, Swinburne and Western Australia.

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Preparation of the report

This conceptual work in this report was led by Daniel Reeders, with input and guidance from the Stewarding Thin Markets Team.

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EXECUTIVE SUMMARY

- Markets are important to the success of the National Disability Insurance Scheme (NDIS). It is through diverse and robust disability markets that participants can exercise choice and control, thereby delivering on many of the goals of the scheme.
- Yet we are seeing markets emerge with insufficient providers or capacity to meet demand and ensure competition takes place. This has led to debates about **thin market**s – a term used in various ways by different stakeholders to describe market deficiencies ranging from low numbers of providers, to immature markets, to market failure.
- **Market stewardship** is essential to ensure that NDIS operates effectively. However, there is a lack of national or international evidence concerning how effective stewardship of markets should be operated or the types of levers that market stewards can use to address issues of thin markets.
- Our research aims to develop a range of evidence-based interventions that will help markets to function effectively. To do this, we firstly need to define precisely what constitutes a thin market in the context of the NDIS.
- Much of the existing literature relating to thin markets focuses on private sector markets, which lack some features that make the NDIS different. Firstly, NDIS markets are quasi markets (i.e. ones in which government plays important design roles) that have to carefully balance considerations of efficiency and effectiveness. Secondly the NDIS is not one market, but a complex system of markets.
- In this report we develop the **market capacity framework** to support the identification of different types of thin markets. Within this framework we define two dimensions – sufficiency and diversity – and argue that the interaction of these gives rise to different types of thin markets.

		Market Diversity	
		Non-diverse	*Diverse*
Market Sufficiency	*Insufficient*	**Market failure (A)** *"There are no providers offering services for me."*	**One provider with strong tailoring to client needs (B)** *"There is just one provider, but they tailor their service to me."*
	Sufficient	**Multiple suppliers of standardised services that compete on price (C)** *"There are lots of providers but they all offer the same thing, they won't tailor to me."*	**Diversified supply (D)** "I can choose from a range of providers offering different approaches to the service I need."

- We argue that the Market Capacity Framework reflects a major departure from the traditional approaches to markets and aims to capture the complexities of developing, evaluating and stewarding public services markets to achieve their stated goals.
- We outline the ways that this framework introduces a new way of thinking about markets and what we might do differently in market stewardship as a result of adopting this framework, including: opening up the conversation to a broader array of stakeholders; not just focusing on geographical factors; using all available levers; and, drawing on more local knowledge.

INTRODUCTION

Market structures are fundamental to the success of the National Disability Insurance Scheme (NDIS). It is through diverse and robust disability markets that many participants can exercise choice and control, thereby delivering on the goals of the scheme. Following the introduction of the NDIS we have seen unprecedented funding placed into growing and developing disability markets across the country. However, as the scheme is being rolled out, we are seeing markets emerge that do not have enough providers or sufficient capacity to meet demand and ensure competition takes place. This has led to debates about **thin market**s – a term used in various ways by different stakeholders to describe market deficiencies ranging from low numbers of providers, to immature markets, to market failure. Observation and foresight of the various market issues in the NDIS has drawn attention to the importance of effective **market stewardship** within the NDIS.

To date, questions of *how* and *who* will steward NDIS markets has been raised by a number of high profile reviews into the scheme (1,2). These reviews have consistently called for clarity over who is responsible for market stewardship (e.g. Commonwealth Government and/or the National Disability Insurance Agency), and what actions or activities should be deployed in response to thin market problems. However, there is little evidence, locally or internationally, to guide policymakers on how to effectively steward markets within a scheme such as the NDIS. This is concerning because without robust markets the NDIS will fail to deliver on its goals of choice and control for all participants.

This report is a first output from our team who are undertaking work examining thin markets within the NDIS. The aim of this work is to develop a range of evidence-based interventions that will help markets to function effectively. To do this, we firstly need to define precisely what constitutes a thin market in the context of the NDIS. This is important because, as noted, presently 'thin markets' is used as a catch-all term for market problems. Within the literature there is also no single fit-for-purpose source that offers a definition of thin markets. The majority of literature on thin markets focuses on private sector markets, which lack the features of a quasi-market such as the NDIS. We have developed the **Market Capacity Framework** to help progress our research and also as a resource for those more engaged in stewardship processes (either formally or informally). The aim is to provide a better way of understanding different types of thin markets and, in turn, stewardship actions to address them.

CONCEPTUALISING NDIS MARKETS

One of the core challenges facing the implementation of the NDIS is ensuring efficient and effective supply of disability services. Service quality, quantity and timeliness are all elements of the delivery of an efficient and effective supply of disability services and supports. Conceptual clarity on what constitutes NDIS markets is essential for addressing questions of market capacity and thin market issues.

There are two important features to consider when conceptualising markets in the NDIS; the first is that they are quasi-markets and stewards must make the market environment, the second is that the NDIS is not 'one market', but a complex structure of markets.

The NDIS as a quasi-market

The idea that we should leave issues to the market is quite powerful within the literature and the general population's imagination. Market forces have been harnessed within public services over the last forty years as a way to improve responsiveness to consumers and to drive improvements in services (3). However, such markets differ from conventional markets given that governments typically play an important role in designing these markets, provide much of the funding and set many of the rules in order to illicit certain behaviours from suppliers. Conventional markets are based on supply and demand relationships, where some individuals miss out on, or receive lower quality of, a product or service. In the public sector, value for money *and* equity are crucial (4); markets must meet key principles of government service delivery, which are 'effectiveness, efficiency and equity'(5). For this reason, public service markets are often known as **quasi-markets**.

In a conventional market, changes in price provide information on supply and demand. Traditional market economics places a heavy emphasis on the ability of price variations to 'signal' needed changes in supply and demand for particular goods. According to such theory, this is how markets can coordinate an efficient allocation of limited resources. In a quasi-market, for the most part, prices do not change according to purchases between providers and participants[1]. The emphasis on pricing means that conventional market economics may not always be the most effective way to understand public service markets.

To give an example of some of the ways that quasi-markets differ, prices for NDIS supports are mostly set by the NDIA. Thus, unlike conventional markets, changes in price do not provide information about changes in supply and demand. Information about supply has to be gathered and distributed in some other way. Information provision is therefore an important practice of market stewardship – whereby government takes actions to guide or correct a quasi-market (6). Anything that makes it difficult for participants, providers, and the NDIA to gather information will affect the functioning of markets in the NDIS.

[1] There is some scope for prices to vary, such as with benchmark pricing and quotation.

One NDIS market or a complex series of markets?

The NDIS is typically described as comprising a series of different regions, this is how the NDIA describes markets within market positions statements and price guides. Concerns over thin markets are often framed in a geographical sense, with different areas having various characteristics that affect the operation of markets. For example, there are likely to be greater numbers of providers in more densely populated areas and fewer in regional or remote areas. However, we argue that in thinking about thin markets we need to go beyond just the geographic region and consider markets as even more localised entities.

Adopting a more localised, or granular, definition is important for enabling us to identify particular support needs and service types that are lacking in supply, despite occurring in regions that have busy marketplaces with good supply in most other markets.

We refer to NDIS regions as *marketplaces* —

- A **marketplace** is a geographical space in which multiple markets for different goods and services operate side-by-side.
- A **market** is not *only* geographically defined. Rather, it is constituted by the individual participants with particular kinds of impairments/abilities who purchase a particular support type from local providers.

This means the boundaries of markets are dynamic, because they are defined by purchase relationships between consumers and providers, not by geographic area or administrative region. For example, the market for physiotherapy in the Australian Capital Territory includes participants who live across the border in Southern New South Wales.

A distinction between marketplace and market is important because it helps us see that a thin market can occur for reasons beyond geography. We also see thin markets occur in urban areas, which are often assumed to face fewer market problems. For example, a particular region may have a lot of therapists, but further investigation shows it has plenty of physiotherapists, but few speech therapists. This indicates a thin market for speech therapists in that marketplace, but not for physiotherapists. It may also be more appropriate to use a term like **market gap** in a regional area where there is no provision at all; the term thin markets suggests some basic level of supply exists. Appropriate responses to a market gap may be different from the remedies needed to address a thin market.

Understanding markets as granular and defined by service provision underscores the nature of the challenge faced by the NDIA and other actors charged with implementing the NDIS. **Each region is not one single market but a complex bundle of markets.** This greatly enhances the difficulties faced by a central agency - or even regional offices - in seeking to identify which markets lack capacity to meet local needs.

Importantly, this indicates that efforts must draw on local market knowledge, including local area coordinators, individual participants, families and carers, community advocacy organisations and other local actors. When we understand the complex structure of markets in the NDIS we can do more to develop the monitoring, evaluation and stewardship activities that work at the local level.

The following section offers a new concept of **market capacity** that separates out the concerns currently being debated under the heading of 'thin markets'.

INTRODUCING MARKET CAPACITY

In the public and policy debates over thin markets, we always need to keep the policy goal of the scheme in sight: increased choice and control for people with disability in Australia over the services they receive and the lives they lead. As noted, the current use of 'thin markets' is confusing – used interchangeably to refer to immature markets, low numbers of providers arising from a range of reasons, as well as market failure (7). Market capacity is a way of thinking about the ability of markets to deliver on the goals of the scheme, which unpacks specific market problems.

We define market capacity according to two dimensions: **market sufficiency** and **market diversity**, which is a way to balance efficiency and equity concerns. These two dimensions – sufficiency and diversity – are defined as follows:

- **Market sufficiency** means there is enough service provision for competition to emerge and for basic needs to be met, even though there may not be optimal fit with participants' needs and preferences.

- **Market diversity** refers to the availability of different approaches to service provision, enabling participants to have a meaningful choice. If participants don't have a meaningful choice of provider, and if they cannot change provider when they are unhappy with the supports they receive, then competition-driven market incentives and dynamics do not operate and the market cannot evolve into a mature market.

Distinguishing between market sufficiency and diversity helps to disentangle the separate conversations that are currently happening using the same language of 'thin markets.' It also helps ensure that economic and social policy perspectives are working to complement each other, rather than being in tension with each other on what it matters to measure.

The market capacity framework

The following table shows the intersection of market diversity and market sufficiency to illustrate four scenarios of market capacity. Market failure is noted at one extreme (A), being defined as a condition of market insufficiency and non-diversity. At the other extreme there is diversified supply, in which the market is both diverse and sufficient (D). We explain all the market capacity scenarios more fully below.

<table>
<tr><td colspan="2" rowspan="2"></td><td colspan="2">Market Diversity</td></tr>
<tr><td>Non-diverse</td><td>Diverse</td></tr>
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“I can choose from a range of providers offering different approaches to the service I need.”</td></tr>
</table>

TABLE 1 A framework for assessing meaningful choice and control in markets

Expanded scenarios

(A) Market failure	There are few or no providers, so there is little competitive incentive for responsiveness to participants’ different needs and preferences. As a result, dynamic market function does not emerge and prices are inefficient.
(B) One provider with strong tailoring to client needs	In a region where there are few or no providers, the NDIA may institute a competitive tender for a provider of last resort (or similar). The provider works with each participant to propose a package of supports to NDIA with pricing by quotation (the

	existing mechanism for micro-commissioning). The strong emphasis on tailoring offers meaningful choice and control to the participant despite there being only one provider.
(C) Standardisation	Multiple providers offer standardised services and compete on price, so that participants have no meaningful choice and control. This has been seen extensively in the job-seeker support market in Australia, social care in the UK and aged care in both countries.
(D) Diversified supply	Multiple providers offer qualitatively different approaches to service provision. They target different niches defined by the needs of participants and the prices for services set by the NDIA, generating incentives for responsiveness to participants' needs and preferences.

WHERE TO FROM HERE?

The Market Capacity Framework reflects a refinement on traditional approaches to market descriptions, which is tightly focused on price. The Market Capacity Framework aims to capture the complexities of developing, evaluating and stewarding public services markets to achieve their stated policy goals (e.g. equitable choice and control within the NDIS). According to this framework, even though prices may be centrally fixed, other aspects of the market may 'signal' and influence other market actors. To effectively steward these markets, we need to understand these signals.

The Market Capacity Framework introduces a new way of thinking about how we evaluate markets and coordinate the market stewardship efforts of multiple actors. This section outlines what we might do differently as a result of adopting the framework.

A broader conversation

At present, Commonwealth Government and the NDIA have been noted as the market 'stewards' of the NDIS. Our framework, however, indicates a broader array of actors need to be involved, particularly with regard to gathering and acting on local knowledge of specific market issues. These include: state and territory governments, regulatory agencies, provider peaks, providers, community peaks, advocacy organisations and people with disability and their carers, families and communities.

A different focus

The conversation about thin markets currently has a strong geographic focus. Under the market capacity approach we acknowledge there can be insufficient markets due to a lack of variety of services in urban areas. In regional and remote areas it could mean earlier actions on market problems (e.g. shifting to a single provider offering a diversity of services) as specific needs will more easily be identified.

Using all available levers

By understanding markets as complex systems, we can identify a broader range of levers —variations in policy and procedures — to promote market sufficiency and diversity. There are not a generic set of procedures to fix thin markets, focussing on markets at the local level will help build specific local solutions.

Local knowledge and local action

Understanding markets as complex systems also means acknowledging the importance of local knowledge. The 'bird's eye view' of NDIS regions does not tell us what action is needed to influence market capacity on the ground. This means supporting local stakeholders to take action using local knowledge. Research is needed to identify (and share) what works.

CONCLUSION

There is growing concern over thin markets in the NDIS, and subsequent market stewardship responsibilities and actions. In this report we have argued that we need more conceptual clarity regarding what is meant by 'thin markets', before determining questions of how stewards can intervene to improve market operation.

We have put forward a new more nuanced approach to understanding markets within the NDIS. The Market Capacity Framework draws out different dimensions of thin markets (sufficiency and diversity), in order to show the full range of market problems that might emerge. By enabling stakeholders to identify more precisely the problem in a given market, actions are more likely to be responsive and effective.

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