

Suppliers on standing offer/lowest price purchasing



In 2004, the Procurement Reform Task Force under Parliamentary Secretary Walt Lastewka recommended taking advantage of new technologies and the government's immense buying power. The many issues explored by the report have resulted in the "Way Forward" initiative by Public Works and Government Services Canada (PWGSC) that has elicited mixed reviews.

As of April 2005, using existing standing offers is mandatory for many commodities, centralizing much of the complex competitive bidding process.

That fits well with the e-catalogue initiative, Government On Line, public service modernization, shared services and Service Canada initiatives, and might even be seen by some as a pre-emptive response to the procurement abuses that the Gomery Commission Report may well focus on. Hmm – a modernized, efficient process reform that also meets political imperatives? Irresistible! But does it work? To PWGSC's credit, the initiative has already been tweaked in response to concerns from both client and vendor communities, including small and medium enterprises (SMEs). This is clearly an evolutionary reform that PWGSC is determined to get right.

In exploring this subject, Chatroom brings you some folks in the vendor community who admit to self-interest, but also look to the public good. So let's chat in installment one of this debate!

Sit down, take a deep breath, sip a beverage, open your mind and stay awhile while we chat with:



Andy Moffat
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Joanne Stanley
Vice President, Marketing, CATAAlliance



Dave Thompson
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Everything old is new again

Stanley: CATA calls the "Way Forward" a "Way Backward." Canada is the only country we know of that does not have a government procurement strategy that promotes small business – this initiative actively suppresses the growth potential of Canadian firms. Any claims to cost savings will be overwhelmed by the cost to Canada of its innovation, ownership and technology leadership.

Moffat: It comes down to a level playing field, transparency and accountability. Smaller firms should have access to procurement vehicles that allow them to demonstrate their quality and innovation – even in a competition with larger firms. The federal government has been attempting to control their expenditures over the past years. Reductions in clerical staff and functions have helped create a desire to consolidate procurement within PWGSC, further reducing redundancy and allow the government to demonstrate further public service reductions. So, we see this standing offer emphasis that enables them to do due diligence on fewer different companies and pass further due diligence and the associated costs on to those major suppliers. Government must expect that all associated costs will be reflected in the price of goods and services.

Thompson: The current system is broken. Clients aren't getting the products or professional services in a timely fashion at the right price and vendors are frustrated. We responded to a [DND] RFP managed by PWGSC in December. In the submission of questions process, we said "are you sure you know what you are ask-

ing for?" We were assured they did. Our response was 1,200 pages, costing us \$22,000 to develop. In mid-August, PWGSC said there were 53 submissions; none were considered compliant. While that is incredibly frustrating for us, the worst thing is that the client, DND, has a requirement that has gone unmet all this time.

Fair is fair

Thompson: Prequalifying a number of firms for a standing offer will make the procurement process faster and more efficient – as long as it is actually used. If I take the time and expense to respond, a mechanism is needed to ensure that client departments or agencies use that standing offer. The lowest price aspect is a problem. It is a disservice to the Crown if the standing offer criteria shuts out multitudes of small, talented firms leaving only big players to respond. Just to get access to the work, those smaller firms must go on bended knee to their larger competitors who have the standing offer, and possibly give up 20 or more percent of their profits. That brokerage style environment is certainly not the best result.

Moffat: [SMEs] are encouraged to participate in consortia and subcontracts, but the way the call for standing offers is written disadvantages small businesses. Transparency reporting is done on the main contractor, not subcontractors, which can lead to abuses of the system. Departments are worried that this new procurement approach limits their flexibility, and the availability of suppliers with the specific expertise required. Because of specialization, many suppliers only deal with one or two government departments. Departments are concerned with the creation of generic supply arrangements and the idea that the centre knows best.

Stanley: Value cannot be measured by cost savings alone; it must be related to

the fundamental value of the purchase – possibly the job can be done better with a different product, service, or approach. The impact of government procurement on Canadian innovation and leadership, which includes the value of first or early customer relationships and reference accounts in supporting SME business growth and export sales, and any job losses in the private sector must also be factored in. The heart of the value issue is which methodology the government uses to validate projected savings. Does this methodology factor in the negative side of the equation? And, is the government prepared to create a new ministerial position for SMEs with performance targets?

All for one and one for all

Moffat: Only a finite number of bidders are actually on standing offers and, out of all the high tech firms, the same names are always the bid winners. So, the number of suppliers is less through this kind of contracting, but with the overheads of large firms being much higher than smaller competitors, there is no way government will realize the savings they want. The limited number of standing offer suppliers leads to an environment of less competition, offering the potential for informal price fixing, and less incentive to innovate. When you already have the supply agreement why be creative? As margins drop for suppliers, risk must be mitigated a great deal more. Fewer will embark on the riskier projects and approaches that often lead to innovation.

Thompson: Anyone can write a lowest price response to a standing offer, but that won't deliver the best value to the Crown. Price should be one criteria, not the dominant one. In a lowest price environment, if a bidder's normal *per diem* is \$600 but a competitor will bid \$300, they'll bid \$300 too, but in the scope of work what was a 2-day job now becomes a 4-day job. In an ongoing relationship that can also lead to 'making it up' in other con-

tracts and the increased potential for fudged time sheets and overestimated work plans.

Stanley: A proactive initiative by federal and provincial ministries could be to introduce the "Government as the Reference Account," which would help link innovation, commercialization, and the power of government procurement as a vital tool in sparking the "early sale" for companies. The average size of Canadian firms is five or six people, and figures indicate that for every dollar the government invests in a purchase from a SME, it gets back \$20 in new revenues. SMEs represent 20 percent of all Canadian exports. When a Canadian SME sells its products overseas, one of the first questions is 'who in Canada uses it?'

The best is yet to come

Thompson: The surprise about the latest initiative was that it went from "don't worry about it, we're going to consult" to "here it is." Despite the motions the government went through, there wasn't any real opportunity for input. [SMEs] cannot afford lobbyists to monitor and influence federal policy and aren't knocking on politicians' doors, so no wonder new policy would favour larger firms. From a taxpayer's perspective, centralized purchasing avoids the duplication of effort over [several] government departments. But each department is so diverse their requirements – especially technical ones – are all over the map. Some set aside programs do appear to be effective. The US federal government has specific procurement set asides based on geography, company size or achieving other policy objectives. A continual refresh opportunity is needed, at least annually, so new people can apply to the standing offer. Lowest price/standing offer purchasing can be very effective for commodity purchasing or e-cataloguing, but not for most professional services procurements.

Stanley: Canada's "Way Forward" should help create a knowledge-based, innovative economy with exemplary, globally competitive users and producers of technology. Overall targets for SME participation in government procurement need to at least match or exceed US federal targets (23 percent). The "Way Forward," is an uphill battle for SME participation. Is the federal government prepared to establish auditable targets? Will it publish annual lists of the top contracts and suppliers by dollar value as part of an annual report to Parliament? CATA has repeatedly encouraged a genuine "Way Forward" agenda based on five-points: obtaining value for taxpayers; establishing targets; creating reference accounts; measuring government's direct and indirect costs; and linking to Canada's innovation agenda.

Moffat: The business community is unable to assist [the federal government] in any meaningful way about what they're proposing because they're not proposing anything openly. The government wants to reduce the number and diversity of vendors to reduce costs and risk. To be successful this must be done in collaboration with industry. It seems strange that with so much solid technology available to enable distributed procurement while enforcing centralized policies, the government is choosing to consolidate the procurement process and restrict competition. It could be using technology to facilitate electronic negotiations within communities of skill sets. Through an electronic bidding process, as a brand new software vendor, you could describe your application, get it registered and classified and negotiate a contract. Clearly it is complex, but the technology is there and the suppliers have the will. However, if the government insists on sticking with standing offers, the approach should be similar to DND's. DND constantly pre-qualifies any and all suppliers who are then invited to bid competitively for individual projects. ~~~