Rules of the game

by Marlene Orton

The Information Technology Association of Canada – ITAC – set up a six-member subcommittee in mid-2002 to examine issues of procurement with the federal government. Alex Beraskow, President of Ottawa-based IT/NET and an ITAC member, has been part of that committee. A veteran in the world of IT and management consulting, Beraskow's company is among the many IT competitors concerned about federal procurement practices. He agreed to be interviewed by *Summit* on the subject but not as a spokesman for ITAC.

Seeking a level playing field for IT procurement

Why was the ITAC subcommittee struck to deal with federal government procurement?

AB: We are essentially trying to work with the procurement folks in PWGSC [Public Works and Government Services Canada] to help them fix some of the problems. The cost of responding to Requests For Proposals [RFPs] is very high, the selection process does not result in success for the client often enough, and the opportunity is too often indeterminate. It is a large issue – one of the top three or four to fix within the federal government. It's in our interest – the industry – to have the best procurement practices possible so that we have a robust set of processes that also ensure a level playing field.

Ottawa alone has over 300 professional service firms competing at any one time. So at any one time I, a mid-tier firm, am competing against IBM Canada, a multinational and Tier-1 firm. Another day I may be competing against Joe Smith working in his basement. The competitors are varied in this marketplace.

[Procurement] has to be efficient to make the whole process work. It is in the interests of the government to make it competitive. If I can lower my cost of operations, then I will have to pass on the savings to my client. Right now, we are working through all the issues and trying to see where there is consensus among the members. We are all competitors so what may serve IT/NET may not serve IBM Canada, for example.

What is the main concern about procurement?

AB: The federal government procures approximately $5 billion in IT products and services a year and about $1 billion of that are services. The size is quite significant. The federal government is a monopsony. That is the reverse of a monopoly since here, there is only one buyer in town and they make the rules.

Our main concerns are to make the process more efficient and effective – efficient so that our costs are lower, effective so that our clients – those of PWGSC – get products and solutions that they want.

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How does competition save money for the federal government?

AB: Essentially, professional services is a good market economy, given the level of hyper competition. You have to offer competitive prices to be successful. Sometimes the clients genuinely want the lowest price, but we – at IT/NET, for example – would not bid on such an RFP. That's not what I'm selling. There are a lot of staffing firms, the Tier-3 firms that operate on very low margins, offering very low prices. If clients want a Tier-3 solution, then that should be stated and then Tier-1 and Tier-2 companies won't bid. They don't have to waste their time and resources. The government doesn't let you know ahead of time if they are after the lowest price or the highest value, so you don't know which RFPs you should be bidding on.

Do federal purchasing officers understand the difference between the three tiers in IT professional services? What is the difference in the products and services they offer?

AB: I don't think it's generally known or understood. Tier-1 firms would be the large multinational IT companies such as IBM Canada, Microsoft Canada, CGI, EDS. Tier-2 firms tend to be locally based, with a focus on a specific market. They also tend to be employee based, are prepared to take responsibility for their work and to do work on a fixed-price basis.

Tier-3 firms do not have employees as everything is done on a subcontract basis. They typically have a cadre of anywhere from 10 to 300 people doing subcontract work. They are often called staffing firms or staff augmentation firms. Typically they work only on a *per diem* basis and have virtually no overhead. They work rather like a placement agency.

So you feel an RFP should identify more specifically the kind of work that needs to be done?

AB: The principal issue is full disclosure before, during and after the procurement. The more information available in the RFP, the easier it is for a vendor to know whether to bid an RFP or not. Full

disclosure before the bid will explain who is invited to the bid. For example, how much is the bid for? After the bid, we would like to see a full debriefing about why a company won or lost.

A debriefing would surely be an onerous task for any buyer. Is that not expecting too much?

AB: If you are a purchaser in any department, you would probably issue, say, 1,000 RFPs. Do you want me to learn how better to respond to your RFPs, to provide a higher quality response, one perhaps that is more competitive next time?

Putting together a good RFP response could cost anywhere from $5-500 thousand. So if I am investing $10-20 thousand in a typical RFP, can you spare an hour to tell me what I did wrong? For us to work in a partnership mode, I have to better understand your requirements. If I messed up in the delivery, I need to hear back. The issue is not how to write an RFP. The issue is what was wanted and needed and where did we mess up in our understanding. It all goes to levelling the playing field. It's to their benefit that I, as a firm, write better proposals. You still need to understand what the client wants, their expectations in developing a solution. The process is fairly complex.

Doesn't full disclosure reduce competition?

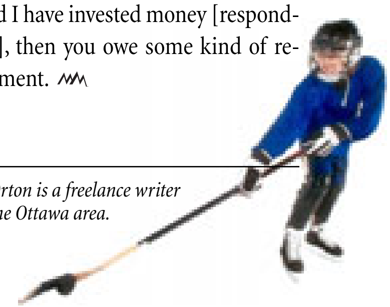
AB: In fact, it allows vendors to make an informed decision. If someone has been in a client area but there is no indication of a preferred candidate, then I, as a businessman, cannot make an informed decision about a bid. I'm then playing Lottario. If someone has a lock on the business – we have clients who do tell us there is an incumbent and they are pleased with the incumbent – then I can decide whether to bid for it, and occasionally I will.

What other issues does industry face?

AB: Full disclosure is an important one, but another is cancellation of an RFP with no reimbursement. There have been situations where companies invested $20,000 or more writing the proposal and the decision gets made to cancel the RFP and find another solution to the problem. One argument says that's the price of doing business. Another argument says we made this investment based on an anticipated need. It was cancelled and there should be some reimbursement.

Do other government sectors reimburse for a cancelled proposal request?

AB: If you are bidding on municipal contracts, it is not uncommon to ask for a $25,000 bid deposit. That says I am serious about giving a response and if I don't give a response, I forfeit that deposit. I am suggesting the federal government look at the reverse – pay for some costs if the RFP is cancelled, or only go out for bids when you are sure the RFP is real. A process with a bid deposit exists in other government sectors and the federal government can copy elements of it. The *quid pro quo* to a bid deposit is that if you issue the bid, then you kill it and I have invested money [responding to it], then you owe some kind of reimbursement.



Marlene Orton is a freelance writer based in the Ottawa area.