# Pay little, get little

*by Thom Barker*

## IT goods and services require smarter buying

> *"It is unwise to pay too much, but it is worse to pay too little. When you pay too much you lose a little money; that is all. When you pay too little, you sometimes lose everything because the thing you bought was incapable of doing the things it was bought to do. The common law of business balance prohibits paying a little and getting a lot, it cannot be done. If you deal with the lowest bidder it is well to add something for the risk you run. And if you do that, you will have enough to pay for something better." – John Ruskin*

THE WORDS "SMART-BUYING" correctly suggest there is a lot more to making the right purchase than getting the best price.

This is perhaps more true of IT professional services than any other area. In contrast to other services, where market value is fairly stable, expectations are well understood and product can be easily evaluated, assessing value in services, such as IT that require a high degree of specialization and sometimes innovation can be tricky at best.

You can call it supply and demand but the bottom line is that government, largely because of political inertia and lengthy bureaucratic processes, is usually playing catch up in order to take advantage of fluctuations in economic conditions.

The federal government, as are other governments, is making moves to buy smarter. In December of 2003, Public Works and Government Services Canada (PWGSC) was mandated, under the direction of Deputy Minister David Marshall, to reduce the cost of goods and services by 10 percent, reduce procurement processing time by 50 percent, reduce costs of purchasing by 10 percent, and simplify the procurement process to make it easier for the private sector to do business with the federal government. A government-wide procurement review was undertaken headed by Member of Parliament Walt Lastewka, and in late 2004 PWGSC released a concept paper outlining the results and proposed changes. (See "The big fix" in *Summit*, January/February 2005.)

Professional services represent roughly half of the federal government's $13 billion in annual procurement and therefore are an obvious area where significant savings might be realized. Furthermore, the surfeit of IT consultants could definitely put purchasers in the driver's seat. Michael Turner, assistant deputy minister of IT Services for PWGSC, confirms that his department is reducing the number of IT consultants it hires and has negotiated a "slight break on rates" with some of its major suppliers in response to Marshall's challenge. But he insists the move is strictly related to internal budget pressures and government-wide concern about the volume of consultants being hired. "It has no connection with market conditions, *per se*."

Still, many suppliers of IT professional services, such as Norman Carr, senior vice president (Eastern Region) for Ajilon Consulting, charge that the government is purposely driving down rates by sacrificing quality for price, a strategy he says will backfire in the long run. "They used to buy the best, now they buy the cheapest and sooner or later the wheels will fall off."

Turner dismisses such claims but his question, "Surely they're not suggesting that we don't have a responsibility to try and save taxpayers some money?", hints that it may be playing an unofficial role in negotiations.

If the government is using the high tech downturn as leverage, they're not very opportunistic about doing it as it has been almost two and a half years since IT fortunes changed. It may already be too late. As Carr points out, "It's going to be short-lived. The private sector in Montreal and Toronto is very active. [Consultants] go where the money is."

Barbara Allen, a Ph.D. candidate at Carleton University's School of Public Policy and Administration sees a more cyclical problem that pits the immediate pressures of administering public funds against the need for long-term policies to effectively address changing economic conditions. "Generally, I think [government] employees are trying to look far enough down the road, but change is such a long process that they may miss the boat. That's easy to say, but it's much more complicated than that. People are under enormous pressure to cut costs."

The challenge for governments is to entrench policies that balance the rigidity needed to ensure value and accountability with the flexibility required to respond in a timely manner to exigent circumstances. In a general sense, Lastewka's report seeks to address this challenge at the federal level by consolidating procurement responsibility under one department, improving standards of project management, educating employees in value-based decision-making and establishing a balance between in-house expertise and external talent. Some provincial governments have taken similar measures.

Another big challenge government faces is balancing the employee versus contractor equation. Historically it seems that governments flip flop on this with some regularity. When quality employees are abundant, governments tend to hire; when the market gets tight governments tends to outsource. Experts are divided and data is inconclusive as to which model better serves cost, intellectual property and continuity concerns.

It seems there will always be a need for both, and an attempt to develop and retain enough in-house expertise to at least adequately manage contractor relationships

is both required and proposed. There are no major revelations here. Lastewka's task force investigated best practices of large public and private sector organizations, reviewed past audits, legislation and policies and consulted with stakeholders from employees to citizens. His general goals are applicable to the specific case of IT professional services, but special attention must be afforded to this area.

The rapid and ongoing evolution of information technologies, the persistent churn in the industry and the high costs associated with IT projects tend to be a perpetual sore point. Improving general policies and processes will likely address some of the specific issues but a big part of solving the unique problems of IT projects lies in debunking a few myths:

• Myth one – information technologies are complicated. They are not. What are complicated are the business requirements that technology is supposed to address. If the function and output of an application or system are well defined and the strategies for deploying it and achieving user acceptance are sound, applying the technology is relatively simple. Ridiculous cost and schedule overruns of IT projects are almost always avoidable if proper requirements analyses are done and competent people are hired.

• Myth two – IT is an appropriate solution for every problem. Not so, and easily avoided with a simple cost-benefit analysis. If costs outweigh benefits, something is not worth doing. Of course, it's not that simple. First you have to know what you want the thing to do. Then you have to get a straight answer on what it's going to cost to make it do what you want it to do. Then you have to somehow calculate what the actual value is of it doing what it's supposed to do if it ends up costing what it's supposed to cost. And all that takes time and money. A lot less time and money, though, than implementing and maintaining an expensive solution that adds unrequired complexity.

• Myth three – information technology reduces expenditures. It could, but it does not. What it does do is raise expectations for more, better and faster government services. What it may do is allow the government to shift financial resources to other priorities. What it usually does is create more or ongoing expenditures.

And that's fine as long as it provides benefits to Canadians and that the government can quantify what those benefits are.

There are no major revelations here, either. As far back as the 1995 Auditor General's reports, *Systems Under Review – Managing the Risks*, these principles have been recognized by the government and incorporated into procurement practices.

Lastewka claims that for the most part the federal government does a good job of procurement. But, as he admits, there is always room for improvement.

In obtaining value for money there is a fine balance between theory and practice. "Smart-buying" is a good theory. Improving procurement processes should not only reduce the costs of purchasing but enhance the consistency with which good value is obtained. ⋀⋀

---

*Thom Barker is an Ottawa-based freelance journalist and former IT Project Manager.*