

Two 'solitudes'

by Louis-Martin Parent

Selling to the federal government can be complicated.

To some, that is an obvious and unfortunate understatement, to others, a way of life. For many government officials, it is the cost of ensuring the process stays above board. However, the Canadian Federation of Independent Business' (CFIB) 2011 report on federal procurement showed that, for many small suppliers, the government's need for the procurement process to be accountable, transparent and fair has made it impossibly opaque.

Over 95 percent of Canadian businesses have less than 50 employees making small- and medium-sized enterprises (SMEs) a significant business presence. CFIB represents the views of over 109,000 SMEs to government through regular surveys of its membership – the basis of every policy position it takes. CFIB constantly reminds policy makers that most of its members are too busy running their operations to stay current with all the legislative and regulatory changes that may affect them, including those for procurement.

The survey on which the 2011 report, *Big Opportunities, Bigger Challenges* (www.cfib.ca), was based garnered ap-

Procurements between small business and the federal government are still hit and miss

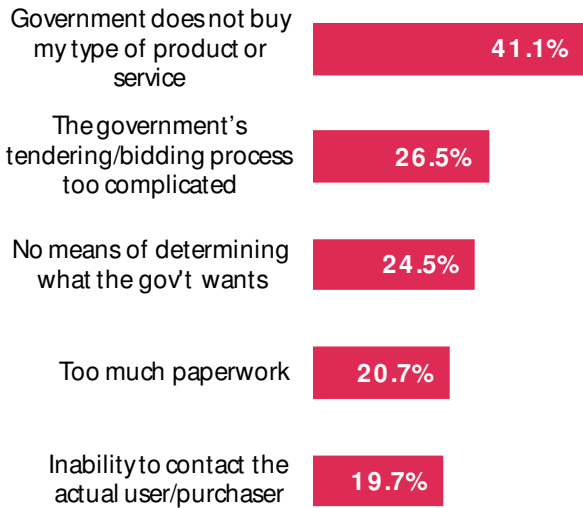
proximately 1,200 responses, over 600 of which said they had sold to the federal government in the past five years. This firsthand perspective provides specific examples of the hurdles SMEs have to overcome to sell to government. As a general example, CFIB understands that many firms exist in Ottawa whose only expertise is the actual process of bidding on contracts. They then subcontract all the work out. This is not only a first indication of the complexity of the process; it also adds an extra percentage cost to the final product. We believe this is a case for change.

Why don't more small businesses sell to government?

Survey data (2008) tells us that only one-fifth of SMEs sell to government. Perhaps the best primer on the areas needing improvement lies in their answers to the question: "why don't you sell to the government?" The most frequent reason was that the business' product was not one that government would normally buy. The next four, however, are directly controlled by government (Figure 1): process is too complicated; don't know what the government wants; too much paperwork; and, cannot discuss bids with the end user or purchaser. Thus, CFIB believes that opportunities are being missed by both government and SMEs.

These reasons speak to a 'procurement wall' – an inaccessible process. Before government officials reiterate the necessity of things being as they are, let's consider things from the small business owner's perspective. CFIB's average member has 12 to 14 employees. Most of the time, any compliance, bidding or regulatory work is done by the owner, as opposed to a 'compliance officer/team,' as in a larger company. Therefore, the owner must

Figure 1:



ask: is it worth my time to take several days to learn about the process, prepare a bid and wait at least a few months for a response? It is a huge leap of faith to fully engage in the process given the higher overall cost of bidding for small companies, so SMEs will often turn to more accessible private sector opportunities.

Who sells to the federal government? Here's a glimpse...

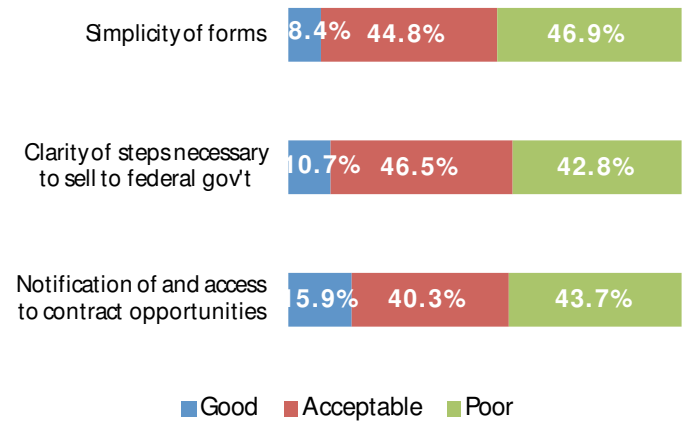
CFIB's report confirms that small businesses provide all kinds of goods and services to government, however, two important facts are revealed. First, more than 80 percent of those that already sell to government said they have been doing procurement for more than five years – showing that there are few newcomers in the procurement game. Those businesses that do sell to government persevered – many learning the hard way through trial and error.

Second, small businesses operate mostly in a direct, sole contractor type of arrangement (74 percent). This is key, given that a significant trend over the past 10 years has been 'bundling' (the grouping of contracts together to form single, larger contracts). When SMEs ask government officials how they can bid on these 'bundles,' they are told to bid jointly. Setting aside possible allegations of collusion, to ask a small business to share their operations with direct competitors is not only risky, but exponentially raises the complexity of the project – perhaps why only five percent of respondents said they were part of a partnership or joint bid.

Reality check

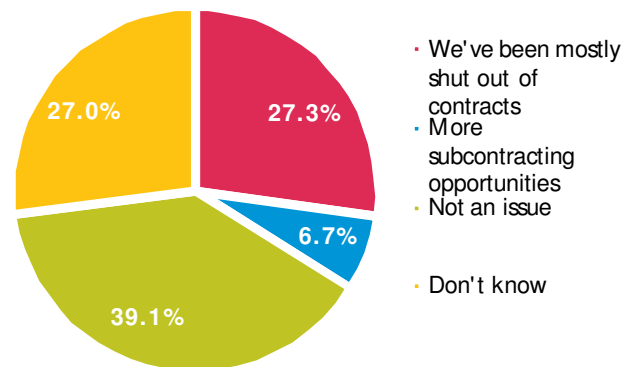
CFIB's survey asked SMEs to rate various aspects of federal procurement (Figure 2). Almost half rated "Simplicity of forms," "Clarity of steps" and "Access to opportunities" as "poor." It is clear from the responses that for many small suppliers federal procurement appears too cumbersome and complex and thus too far removed from how they normally operate.

Figure 2:



We often hear from government officials that bundling is an exaggerated problem – if one at all. Yet, SMEs in many different industries say it is a reality and that, for the most part, the effects have been negative (Figure 3). One-third of respondents said that they had seen contracts increase in size, and, of those, four-fifths said contract opportunities have been reduced significantly because of it. CFIB encourages governments at all levels to cut costs whenever possible, yet this 'bundling' trend could be devastating for many industries.

Figure 3:



The business case for a bundled contract, from the government's point of view, is that it is cheaper to have one contract and one supplier, through lower contracting and overhead costs and economies of scale. We have not seen an actual business case for larger consolidations (e.g., Shared Services Canada), nor do we ever see elements such as after-sales-service or flexibility in responding to client issues being taken into account. Throughout the survey, many commented that the government is primarily interested in the purchase price instead of overall value and quality of a product or service. The problem is that SMEs cannot capitalize on economies of scale in the same way that larger businesses do. In fact, when asked how they market their product or service, "cost effectiveness" came in fourth (49 percent), after "My company's reliability and reputation" (74 percent), "product or service quality" (70 percent) and "knowledge and industry experience" (69 percent). One construction member sums it up: "No regard for quality or performance of last contract (is considered) - only lowest price matters. Good quality and workmanship is not often the cheapest."

Help! I need somebody...

What have we learned? The process is complicated enough for current sellers, let alone prospective ones. Contracts in many sectors can be massive. The value proposition brought by a small business seems to be at odds with government requirements.

So where does a small business go for help? By all accounts, the answer is: "I don't know."

Only six percent of respondents said they knew of the role played by the Office of Small and Medium Enterprises (OSME) in federal procurement. Less than one percent said they used the services of the Office of the Procurement Ombudsman (OPO), though significantly more knew it existed. Small businesses simply do not know what resources are available to them, and even if they do, take-up is limited. The fact that both offices are relatively new and not well known in the private sector does little to change the feeling of helplessness in many SMEs.

Our current follow up with some survey respondents shows that little has changed. One member told us that it is an unspoken rule among businesses in his service-related industry that "if something goes against you while bidding on a contract or during a contract, you don't complain – end of story." Some of

this is reality, while the rest may be a matter of perception. Nevertheless, it must be addressed.

A few questions to consider...

We believe that *Big Opportunities, Bigger Challenges* contains valuable information for policy makers, but it does not solve the problems, real or perceived, of federal government procurement. Public Works and Government Services Canada is creating a national procurement strategy. Given the complexity and often competing objectives of federal procurement, we urge all stakeholders, especially those developing the new strategy, to consider the following questions in order to best utilize the strengths of small businesses:

- *Is it feasible for a small business to meet all requirements of your procurement process in the manner and timeframe required?* Bottom line objective of any renewal process: the process must be simple, clear and accessible. Policy makers need to understand the realities of small business and tailor their requirements to that reality.
- *Do current policies and systems take the process to a point where it ends up alienating small business owners?* Government policies that aim to encourage accountability and fairness can also be counterproductive. Where is the line between process assurance and accessibility?
- *What is the role of federal government procurement in economic development?* As Canada's largest purchaser of goods and services, its decisions directly affect Canada's economy as a whole – an economy made up largely of small businesses. Given contract bundling, should there not be some discussion as to the role of the government in the overall economy?

There are many other topics explored in the CFIB report, but its success will be measured on whether it generates a better understanding among procurement professionals of small business' realities. It is difficult to expect a national procurement strategy to succeed if this basic criterion is not properly addressed. ❧

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