



**Government Procurement in the Canadian  
Technology Sector**

*“How to Make it Better for All”*

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# **Government Procurement in the Tech Sector: How to Make it Better for All**

## **North of 41-Background**

North of 41 is a tech based organization with over 12,000 members across North America. The core of the organization's membership base is comprised of tech entrepreneurs whose companies are in the hyper growth phase of their business life-cycle. As part of the organization's mandate, North of 41 hosts various in person and online events along with other programs including hackathons, roundtable discussions and subject specific training. In addition, North of 41 organizes annual tech days both at the federal and provincial level as a way to encourage dialogue between tech entrepreneurs, policy makers and politicians. As part of the most recent Tech Day on Parliament Hill held in October, 2017, a government procurement roundtable was convened by North of 41, Salesforce.com, Amplifi, and InnoGov Canada. Stakeholders from the tech industry and government participated. The discussion and recommendations from that roundtable are detailed as part of this white paper on improving government procurement in the Canadian tech sector.

## **Executive Summary - Current Government Procurement Policy**

The federal government has made innovation a cornerstone of its governing platform, however, the manner in which government purchases products and services has been slow to embrace innovation. The tech industry in Canada, and specifically Small to Medium-sized Enterprises (SME's) and Start-ups, are continually developing industry leading innovative technology. The federal government is not benefitting from this due to government procurement policies that have remained unchanged for years despite the exponential growth in technology development and adoption throughout the country.

The Canadian technology industry is frustrated with current procurement processes. There is a significant disconnect between the procurement processes and the realities of the Canadian

technology industry. Many of these procurement processes used today were created to fit non-technology focused purchases. This is unfortunate because government due to its rigid policies are unable to benefit from innovative technology that the private sector leverages. The tech sector in Canada is where practical innovations and good quality, high paying jobs are being created. This is not the case with the federal government.

The good news is, is that government officials and those in the private sector are of the opinion that government procurement policies and processes in the technology space need to be overhauled. The question is how? How does government introduce flexibility to the procurement process while still maintaining a transparent and equal playing field for all service providers? Most experts agree that new methods are required to modernize government IT services and one of the ways to achieve this is through the federal government procurement strategy of beta testing new technology innovations.

By updating procurement policies, it will help to introduce innovative solutions to support the way in which government services are delivered to Canadian citizens. It will also provide opportunities for Canada's tech entrepreneurs to assist government by introducing much needed innovation to products and services which are delivered to Canadians.

## **Introduction**

This white paper on improving government procurement policies in the tech sector will highlight four (4) separate areas:

- Technology – Pace of Change;
- Fairness & Transparency;
- Professional Services vs Solutions; and
- Company Size (Major Players vs. SME's).

Recommendations will be addressed for improving the current means in which government purchases products and services from the tech sector. The focus of this paper is related directly to the federal government, however, many provincial and municipal governments are facing the same innovation challenges. As a result, recommendations discussed in this paper are also applicable in many other jurisdictions across Canada.

## **Areas of Focus**

### **Technology – Pace of Change**

Technology is evolving at a rapid pace and the pace of that change is only increasing. Unfortunately, the current federal government procurement processes have not adapted to this new reality. Typically, when governments look to incorporate products or services from the tech sector, what was considered innovative at the beginning of this process is often outdated by the time all mandated process reviews are complete. There is a severe timeframe disconnect between introducing innovation and actual deployment.

Ironically, even some developing nations are leapfrogging Canadian federal technology implementations. An example of this is the mobile-first economy that is being implemented in many African nations. Currently in Canada, long procurement cycles, irrelevant qualifications, complex evaluation criteria, and a large, poorly prepared bureaucracy have created a complicated procurement structure. In most cases, this has created a situation where some SME's are not even able to gain access to bids let alone actually win federal government contracts.

A second area to consider with this pace of change relates to the area of innovation funding by government. Innovation is happening in the SME space and is often encouraged with Federal Innovation Funding - yet this innovation is not introduced nor piloted at the federal level where

direct benefits to the Government of Canada would be realized. Companies today need more than money, they require customers to pilot technology that is being developed. In Canada, the government is the largest purchaser of products and services in the country. Having an enhanced government procurement policy would further validate the reliability of technology being created by Canadian tech companies. By government being able to purchase tech services as part of a piloted program, it will help to promote Canadian tech companies on the world stage while assisting with the growth and creation of additional jobs as a result of this new purchasing process.

### **Recommendations:**

We recommend that the federal government establish a committee of tech industry leaders along with federal government stakeholders in order to develop ways in which to condense the time frames of the procurement cycle. The ultimate goal is to introduce innovation at the governmental level, at a pace that better reflects the realities of the marketplace. In essence, speed up the decision making process, while still adhering to the mandate that each department faces. It would become a win-win proposition for both industry and government.

Each federal department and agency should also dedicate a portion of their "innovation budget" to pilots and proof of concepts with start-ups. If the unused funding is not spent by the departments or agencies by the end of the fiscal year, the unused funding gets returned to the fiscal framework and reallocated to government-wide innovation initiatives.

In the private sector, especially within large organizations such as the banks and insurance companies, "innovation" has become something that gets layered onto existing processes. Unfortunately, government departments and agencies are functioning in a similar manner.

Internal departments are often told to think differently, but are forced to operate in the same traditional environment that has limited the adoption of new technology in the past.

Innovation officers are tasked with introducing new innovative solutions into their organizations, but they end up trying to sell ideas into the department in the same manner that start-ups are tasked to do today. These officers often do not have decision making capabilities or budget to push forward a pilot that they believe is valuable to their group. Thus, innovation adoption is still dampened by executives and business users who have no interest in evolving. A similar situation can be found within government departments and agencies.

Our recommendation to address this problem is for government departments and agencies to dedicate a certain percentage of their budget to running pilots with start-ups. The opportunity exists to push innovation into a department/agency and kick-start adoption in a way that currently does not exist. If a department set aside 5% of their innovation budget, it could represent 10's to 100's of small micro pilots with start-ups all across the country. With such a small amount of capital and risk, the Government of Canada could open up a firehose of innovation within each department and agency. Ultimately, it can be demonstrated that the value of this policy recommendation far outweighs the risk. The Government, the start-ups, and all Canadians end up winning if policies such as this are put in place.

## **Fairness and Transparency**

When discussing government procurement, the issues of fairness and transparency are of the utmost importance. This in part is why the federal government's procurement processes may be intrinsically complex. The federal government has a responsibility to be seen as fair, open and transparent.

This is not likely to change anytime soon nor does the Canadian tech industry advocate the removal of these principles. In fact, fairness and transparency are required of any procurement policy in order to ensure a level playing field for all parties. However, as well intentioned and detailed as the current GRID selection system is, the excessive documentation requirements are being superseded by an outside vendor/company's ability to provide innovative technologies and

solutions. In essence, the process makes the solution obsolete by the time a procurement is concluded.

### **Recommendations:**

There are procurement methods that are fair and transparent that also allow for logical and subjective evaluation by subject matter experts. This is a direction that the Federal Government needs to move towards – and actually is – but far too slowly. The North of 41 tech network of professionals and business leaders can collaborate upon this ideal and provide valuable industry insight in order to achieve this goal. We recommend that the federal government procurement policies should reflect the procurement policies that large fortune 500 companies utilize. These companies have fairness and transparency as part of their core values because these companies have to answer to their shareholders, not unlike the federal government has to answer to the taxpayer. If industry can implement procurement innovation on a condensed time schedule while maintaining fairness and transparency principles, so too can government.

### **Professional Services vs. Solutions**

There is a need to separate what is considered professional services from what is considered implementing innovative solutions. Over the years, one unfortunate approach in technology procurement is the issuing of large professional services contracts to provide technical resources to the government – essentially “staff augmentation”.

These “supply arrangements” or “standing offers” are useful for government managers because it allows them to hire “bodies” to work in their organizations or departments. However, this has long been seen as an affront to public servants to have high cost consultants sitting in seats seemingly mimicking employees without long term commitment to operation excellence or standards improvement. There is general acceptance that some level of supplemental staffing is

required to gain access to specific expertise, however these vehicles should not be used for developing solutions, and certainly do not promote innovation for government departments.

### **Recommendations:**

It was noted that government and industry would like to see a movement towards smaller, targeted solution-based procurements. This would allow experts to contribute to projects and provide unique technical skills. Currently, these skills are not readily available nor developable in a timely manner to achieve needed deliverables. Based on tech industry projections, new digital tools for development of online citizen services will require specialized skills. The outdated “GRID” descriptions or point allocations based on “time in the saddle” are inadequate and counter-intuitive to the agile needs for expert contributions in emerging technology areas. There must be a new way for real innovation to be encouraged.

### **Company Size (Major Players vs. SME’s)**

Technology procurements from the federal government today favour large organizations. Inflated requirements, irrelevant insurance demands and corporate guarantees, along with time-consuming and resource-intensive bid processes – basically eliminate many innovative and capable Canadian companies from bidding on federal government work. Government must learn to innovate and to accept innovation in and of itself. Procurement policies can be a useful tool to support early-stage tech companies while at the same time encouraging government to modernize its own delivery of services.

Further, in some Canadian jurisdictions, there is a requirement to pay a 3<sup>rd</sup> party for access to request for proposals (RFP) that are being tendered by government. If a potential bidder has not signed up and paid for an annual subscription to the 3<sup>rd</sup> party, they are then prevented from knowing the complete details of the RFP. These subscription costs can be in the range of a couple of thousands of dollars. Further, there may be a one-time access granted to a SME to receive

bidding information, however, in order to submit a one-time bid, it will require a high fee payment to the 3<sup>rd</sup> party provider as well. This one-time fee is only marginally lower than the annual subscription rate that is being charged to access government RFP bids. This creates a financial barrier to access.

## **Recommendations**

The positive trend in industry today is to move away from big I.T. projects – executed almost exclusively by large, multinational organizations – towards smaller, agile projects. The Government of Canada procurement policies need to follow this trend in order to access innovative technology and level the playing field for smaller companies to compete. The Government of Canada procurement policies are not setup to leverage the innovation that is occurring at the SME level of the tech industry. The current multi-year procurement cycles are too long; and as such, a shorter “beta” procurement system would be necessary to encourage industry participation. The ability to list the government as a client/customer can help enhance a tech company’s client roster. Such procurement policies can be a win-win for government and the tech industry.

## **Conclusions**

From the discussion with industry stakeholders, there should be a commitment to review the overall procurement policy sooner rather than later. As part of this review, it should also include a change to the current far-reaching and large-scale procurement processes. If properly fixed, an enhanced procurement process could contribute in the effort to attract talent to supplement the needs of the public service employees. This review should also be conducted every couple of years in order to stay current with industry trends. By not updating procurement policies on a regular basis, it will allow the federal government to slip back into the situation we are currently attempting to address.

There is also a need to establish a cross-cultural laboratory process to ensure contracted service providers work in concert with public sector staff in a purposeful change management environment. An emphasis on collaborative solutions is needed in order to implement new technologies to meet future digital services.

Finally, there should be an established “first movers” advantage within the Government of Canada procurement processes for new technologies and Canadian companies new to the Federal procurement processes. This would allow the government to access up-to-date solutions and to establish Canadian companies as proven market participants.

In the end a robust and effective procurement policy is good for government and industry. At its root, it would also support innovation which leads to job growth in both the tech sector and government. It can become a win-win for both sectors. Good jobs are not reserved for either the public or private sector but it is through collaborative efforts that targeted outcomes and relevant citizen services will be achieved. It also shows government’s support of the Canadian innovation agenda.

Many private sector organizations are looking to support positive, creative change within the government and specifically in its delivery of services to Canadians. There is strong awareness around these issues and some creative early stage efforts are signalling that now, is the right time to address this matter. The private sector is eager to contribute to this discussion through consultation in a concerted effort to help shape the future technology procurement landscape.

**The Authors:**

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