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Consultation Report Supplier Consultations: Small Vessel Procurement January 2013

Office of Small and Medium Enterprises
Acquisitions



TABLE OF CONTENTS

Introduction	ii
Overview	ii
Scope	ii
Purpose	ii
Approach	ii
Findings.....	1
Profile of Respondents	1
Doing Business with the Federal Government	1
Potential Issues with Current Procurement Practices	2
Standardization and Clarity of Requirements	2
Procurement Timelines and Cost of Bidding	2
Contract Delivery Timelines	3
Price versus Quality	3
Pre-qualification.....	3
Payment	3
Performance Liability.....	4
Next Steps.....	4
Annex A – NSBA Submission	5
Annex B – Quantitative Data Summary Report.....	9

Introduction

Overview

Suppliers are an integral element of the supply chain for the Government of Canada. The procurement system as a whole is better able to achieve expected results when Public Works and Government Services Canada (PWGSC) facilitates supplier participation in the procurement process. Improvements to the procurement process targeted at suppliers have beneficial outcomes for all stakeholders in procurement.

Through regular dealings with suppliers, PWGSC was approached by the Nova Scotia Boatbuilders Association (NSBA) who identified a number of concerns with current PWGSC procurement practices for small vessels. The NSBA submission can be viewed in Annex A. As a result, the Office of Small and Medium Enterprises (OSME), on behalf of PWGSC, conducted consultations with the boatbuilding industry on issues specific to small vessel procurement in an effort to determine the extent of the concerns raised by the NSBA and to identify potential areas for improvement in the current procurement process.

Scope

The consultations and this report are focused on boat building and the procurement of small vessels by the Government of Canada, and have no bearing on shipbuilding procurements covered by the National Shipbuilding Procurement Strategy.

Purpose

The purpose of this document is to provide a summary of supplier feedback and the emergent findings and issues.

Approach

Consultations were conducted via an online questionnaire to solicit feedback from all business sizes, regions, and from former, current or potential government suppliers within the boatbuilding industry. All businesses identified as Canadian boat builders in the Government database known as the Supplier Registration Information (SRI) system were invited to partake in the consultation. In total, 47 suppliers participated in the consultation process, providing information on the issues raised by the NSBA. The information and data collected during the consultation was reviewed and analyzed to produce the findings contained in this report.

Findings

The findings section contains a summary of the feedback provided by small vessel suppliers (also called boat builders). The findings have been presented thematically, often combining the results and emergent themes of several questions from the questionnaire. Additional quantitative results can be found in *Annex B – Quantitative Data Summary Report*.

Profile of Respondents

Suppliers across all regions of Canada responded to the questionnaire. Supplier representation was largest in the Atlantic region (36%). There was relatively equal supplier representation in the Pacific (21%), Quebec (21%), and Ontario (17%) regions. Only a very small number of respondents were either from the Western region or National Capital region (NCR).

A very small number of suppliers identified themselves as Aboriginal Businesses as defined under the Procurement Strategy for Aboriginal Business (PSAB), indicating a small Aboriginal supplier base.

The majority of suppliers (83%) identified themselves as small businesses (less than 100 employees) and the remaining 17% identified themselves as medium enterprises (between 101 and 499 employees). No suppliers identified themselves as a large business. This data suggests that the small vessel industry is comprised primarily of small businesses employing fewer than 100 employees.

Nearly half (45%) of respondents are current suppliers to the federal government, while an additional 30% have been suppliers to the federal government in the past. The remaining 25% of respondents indicated that they have never supplied to the federal government.

Doing Business with the Federal Government

Respondents were asked to identify what makes the Government of Canada a desirable client. Respondents identified a number of factors that encourage them to do business with the government, including:

- A sense of loyalty and patriotism to Canada and a desire to provide the best possible products to the government;
- The belief that the federal government is one of the largest buyers of small vessels, a dependable source of initial and repeat business, and a reliable source of revenue; and
- Well-defined contracts, clear specifications, open communication and a structured procurement process.

In addition to regular business factors such as size, scope, and length of production and delivery requirements, respondents outlined several factors help determine whether or not they do business with the government. Respondents noted that complex bidding processes and high cost of bidding may deter them from bidding. For example, one respondent noted that it takes roughly 30 to 40 hours to prepare a bid with only a small

chance of success. This supplier suggested preliminary qualifications as a potential solution to this issue. Other respondents also identified poorly defined or inappropriate specifications and requirements as disincentives to bid for government contracts.

Potential Issues with Current Procurement Practices

The NSBA submission identified a number of potential areas for consideration in the small vessel procurement process and suppliers were asked to indicate whether or not they viewed these areas to be of concern in the current small vessel procurement process.

Standardization and Clarity of Requirements

Almost all respondents (95%) identified inconsistent solicitation practices, including non-standardized RFPs and contract templates and the use of inconsistent procurement strategies across Canada as concerns. Respondents indicated that there does not seem to be a standardized approach to requirements, specifications or evaluation criteria. Suppliers note that there are vast differences in the approach to procuring small vessels between Western/Pacific, Central, and Atlantic Canada, causing significant confusion for suppliers who wish to do business in multiple regions of the country.

Eighty-nine percent of suppliers commented that unclear RFP specifications and requirements are a concern with small vessel procurement, which can potentially lead to timeline delays and reduced industry flexibility. Suppliers felt that the specifications and requirements are often unclear, overly complex, and/or leave too much room for interpretation. As a result, suppliers are required to ask multiple questions to gain clarity. This can lead to confusion on the part of both parties and result in resources being allocated to unproductive work that would be avoided by ensuring requirements are well defined and unambiguous at the outset.

Suppliers indicated that there is a lack of understanding among PWGSC procurement personnel regarding vessel specifications and/or requirements. For example, some suppliers noted that procurement personnel put overly stringent specifications on the type of vessel to be built or the materials to be used, even though, based upon the industry and product knowledge, product and/or material alternatives may be available that meet the same performance standards.

Procurement Timelines and Cost of Bidding

Respondents expressed concerns related to procurement timelines and the resources required to prepare responses to a competitive process. Specifically, 92% of respondents indicated concern regarding the length, scope, and timing of procurements. Respondents indicated that more time is needed to prepare quality responses and that, in some cases, they cannot justify the resources necessary to develop a bid and therefore do not invest in trying to bid for government contracts.

Eighty-nine percent of respondents indicated a concern over the cost of bidding, indicating that the cost often outweighed the potential reward of winning the contract. Respondents also cited the chance of a cancelled tender and/or cancelled requirements leading to a lost investment as an issue. Respondents suggested that this is a result of a lack of understanding among clients and suppliers regarding expectations, capabilities,

and budgets. Several respondents indicated that the process often impedes their ability to compete against larger enterprises who can allocate more time, resources, and personnel to the bidding process.

Contract Delivery Timelines

The majority of respondents (74%) indicated concern over requirements for contract completion. Respondents indicated that time and delivery requirements were overly restrictive and not reflective of actual vessel production and delivery timelines. Respondents noted that, in many cases, not enough time is given to actually complete the requirements of the contract (i.e. build the boat). Furthermore, suppliers raised concern over production needing to be complete by respective federal departments' March 31st fiscal deadline.

Price versus Quality

A significant majority of suppliers (92%) indicated that the government's focus on price rather than quality in the small vessel procurement process is a concern. Several respondents noted that quality should play a larger role in the evaluation process and commented that lowest price does not always result in best value. Respondents acknowledged the challenges associated with evaluation methods, however several suggested that a rated scoring system taking into account factors other than price would better balance cost and quality concerns of government.

Pre-qualification

The majority of respondents (71%) expressed some concern regarding prequalification of facilities, quality control and management, expertise, labour, and financials. Many suppliers indicated support for prequalification, noting that it would help streamline the process and reduce duplication. However, many respondents also cautioned about the challenges of prequalification, noting that:

- Many business may not be able to qualify;
- If costs to qualify are too high small businesses may be deterred from participating;
- Poor guidelines may favour established suppliers over new or small suppliers;
- Prequalification, if not standardized across Canada, may cause additional confusion and complexity to the process; and
- Any prequalification system must adapt to reflect changing conditions and to ensure that company information is current when accepting bids.

Payment

The majority of respondents (71%) indicated that payment liquidity, including payments that are not closely linked to costs incurred, holdbacks set above the reasonable minimum, and long payment times, are a concern in small vessel procurement. Several suppliers expressed frustration regarding the amount of time it takes to receive payments from the federal government, noting that it often takes longer than the allowable 30 days to receive payment. These respondents indicated that late payments make it difficult to maintain a viable and profitable business.

Many respondents also indicated concern regarding warranty holdbacks, indicating that they are often too high, and in some cases, create an additional taxation burden on suppliers, as they are sometimes required to pay the Harmonized Sales Tax (HST) and income tax on holdbacks that are invoiced but not paid. Respondents suggested that holdbacks should remain between a maximum of 5% to 10%.

The majority of respondents (69%) indicated concern regarding whether funding was fair and appropriately reflective of requirements, complexity, and risk. Several respondents indicated that this is a concern based upon the number of lost or cancelled bids, while a few noted that this is not an issue.

Performance Liability

The majority of respondents (89%) indicated concern regarding performance liability, including cases where Canada stipulates design and holds the contractor responsible for performance. Several respondents commented on the excessive liability contractors must carry on some government contracts. Additionally, many of the respondents indicated that where Canada provides the design, and the builder follows those specifications, the builder cannot and should not be held liable if the design does not work. Respondents indicated that, in such cases, the design is the responsibility of Canada and as such, it is unreasonable to place liability with the builder.

Consistent with this, 77% of respondents indicated that either stipulating Crown liability or contracts based on Design and Build would help solve this problem.

Next Steps

This consultation confirmed that issues originally raised by the NSBA are generally shared by other boat builders.

Additional discussion through venues such as Procurement Outlook conferences will help explore appropriate solutions.

Annex A – NSBA Submission



13th Jan 2011

Concerns and solutions re. Canada’s Small Vessel Procurement process

Prepared by the Nova Scotia Boatbuilders Association (NSBA)
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#	<i>Boatbuilder Concerns</i>	<i>Proposed solution</i>	<i>Barrier</i>
General			
1	The Canadian tax payer could be getting better value from small vessel tenders because some qualified boatbuilders decide it's just not worth bidding when considering the cost of preparing bid, the evaluation process, and the likely value of a resulting contract.	Simplify the bidding process as per suggestions below. Award contract on best value, not lowest price. Evaluation to be done with weighted scores addressing technical, managerial, and financial response separately and then combining them for a final score.	Capacity issue
2.	There is inconsistency in evaluating and awarding and managing small vessel contracts by PWGSC.	PWGSC staff should be trained to a standard bid evaluation, and contract management procedure, and the resulting practices should be subject to a regular audit.	Evaluation issue Complexity issue
3.	There are often unreasonable time lines for small vessel delivery to meet end gov't FY deadlines.	PWGSC to allow completion of contract beyond the end of FY deadline.	Evaluation issue
Preparing Bid Response (Bidder)			
4.	Preparing responses to tenders for small vessels requires bidders to prepare lengthy documentation each time justifying their qualifications to do the work.	Suggest pre-approval of companies for contracts up to a certain value to eliminate much of the repetitive documentation that is regularly required. See separate NSBA proposal for PWGCS pre-qualification of boatbuilding companies.	Capacity issue
Evaluating Bid Response (PWGSC)			
5.	On occasion, PWGSC	Before contract is awarded, ensure	Evaluation issue

	awards contracts to suppliers who cannot meet contracted deadlines even though the successful bidder said they could.	selected company has facilities, experience, resources and capabilities to successfully complete the contract within the time period. See separate NSBA proposal for PWGCS pre-qualification of boatbuilding companies.	Capacity issue
6.	Preparing a response to a tender for a small vessel is burdensome, expensive and unnecessarily complicated – and is often in disproportion to the size of the vessel and/or value of the contract.	Establish a stream for vessels less than 24m in length and develop a process for this set of vessels.	Complexity issue
7.	Awarding contract on lowest price is never the least expensive solution for Canada, and does not give enough merit to qualified companies.	Award contract on best value, not lowest price. Evaluation to be done accordingly weighting technical, managerial and financial responses separately.	Evaluation issue
Preparing Tender (Bidder)			
8.	Often the requirements for a new small vessel are ambiguous or unclear and the bidder has to rely on interpretation. This can be time-consuming for both the bidder and (during evaluation) for PWGSC.	PWGSC to supply a drawing or sketch to supplement specifications in cases where the customer knows what they want. This would eliminate some of the guess work and interpretation of specifications. PWGSC to make a concerted effort to make sure specifications are very clear to reduce the need for interpretation.	Complexity issue
8A.	It is not best value to the tax payer for Canada to go out to tender each time a repeat vessel is needed.	Award Sole Source or Standing Offer contracts to suppliers for repeat vessels who have demonstrated consistently good performance in terms of delivery, price and vessel performance.	Evaluation issue
9.	It is unreasonable to expect the boatbuilder to be responsible for the design and performance of a boat when a detail design and specification for it is provided by PWGSC.	In cases where a detailed design and specifications has been provided by the Crown, the boatbuilder should not be held responsible for the design and performance of the boat. Consider award of Design & Build contracts to manufacturers.	Complexity issue
Managing Awarded Contract (PWGSC)			
10.	Preparing a response to a tender for a small vessel is	If tenders are withdrawn or cancelled by PWGSC before a contract is awarded,	Complexity issue

	burdensome, expensive and unnecessarily complicated.	bidders should be reimbursed by PWGSC for the cost of developing their submissions.	
11.	SMEs cannot finance Canada's small vessel procurement.	Progress payments to be made promptly by PWGSC and according to the agreed contract. All payments to be by direct deposit to bidder's account.	Capacity issue
12.	SMEs cannot finance Canada's small vessel procurement.	Review the need for withholding 10% off each progress payment in addition to a warranty holdback of 5% to 10% payable 12 months after delivery.	Capacity issue

Pre-qualification of Boatbuilding companies – a proposal from the Nova Scotia Boatbuilders Association (NSBA)

Tendering on government small vessel projects is a very time consuming and expensive process for any boatbuilding company, so it is important that companies not be asked or encouraged to tender if they have little chance of getting the job.

The Nova Scotia Boatbuilders Association (NSBA) offers the following suggestions for Public Works and Government Services Canada's (PWGSC) consideration, with the goal of streamlining the tendering process for small vessels:

1. Establish a new procurement stream for small vessels less than 24m in length.

Important note

Canada's National Shipbuilding Procurement Strategy defines small vessels as ships under 1000 tonnes. This threshold is well above the size of vessels manufactured by boatbuilders as ships of 1000 tonnes are typically over 75m (246 feet) in length and are manufactured by the shipbuilding industry.

Point #1 is not essential for our proposed pre-qualification process and should not be pursued if it threatens to in any way delay the implementation of Canada's National Shipbuilding Procurement Strategy.

2. Pre-qualify builders of small vessels, e.g. boats less than 24 m in length, based on fundamental factors such as:
 - ☞ Facilities - are the company's facilities suitable for building the type and size of vessel required?
 - ☞ Quality Management System – what QMS does the company have and regularly practice?
 - ☞ Quality Control program – what QC program does the company have and regularly practice?
 - ☞ Material of construction - is the company's expertise in steel, aluminum, composites, wood or wood-epoxy? Or all?
 - ☞ Labour force – what is the technical expertise and relevant experience of the company's workforce? What qualifications do the key employees have?

- ③ Financial Stability – does the company have the financial stability to service the contract?

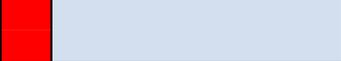
To ensure that every company has a fair opportunity to build government vessels, any company that wishes should have an opportunity to be pre-qualified. It should not be onerous or expensive for a company to be pre-qualified. However, the NSBA recognizes the importance of upholding high standards, so pre-qualified yards must be capable of producing quality vessels.

Pre-qualification of any boatbuilder by PWGSC would remove the requirement for bidders to address the above bulleted criteria in each and every proposal submitted to PWGSC in response to tenders for small vessels and would result in a far less onerous bid process for the boatbuilding industry.

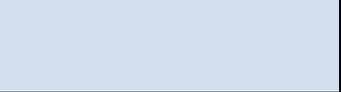
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Annex B – Quantitative Data Summary Report

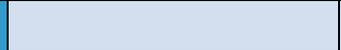
1. Please indicate the region(s) that your business is located in:

Response	Chart	Percentage	Count
Pacific (British Columbia and Yukon)		21%	10
Western (Alberta, Saskatchewan, Manitoba, Northwest Territories, Nunavut)		4%	2
Ontario (Excluding National Capital Region)		15%	7
Quebec (Excluding Gatineau [Outaouais])		21%	10
Atlantic (New Brunswick, Nova Scotia, Newfoundland and Labrador, and Prince Edward Island)		36%	17
National Capital Region (Ottawa/Gatineau [Outaouais])		2%	1
		Total Responses	47

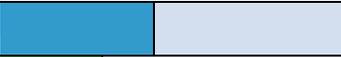
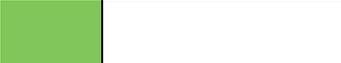
2. Please indicate the size of your business:

Response	Chart	Percentage	Count
Small Business (Less than 100 employees for goods and 50 employees for services)		83%	39
Medium Business (101-499 employees for goods and 51-499 employees for services)		17%	8
Large Business (More than 500 employees for both goods and services)		0%	0
		Total Responses	47

3. Is your company an Aboriginal Business as defined under the Procurement Strategy for Aboriginal Business (PSAB)?

Response	Chart	Percentage	Count
Yes		4%	2
No		96%	44
		Total Responses	46

4. What is your current relationship with the Government of Canada?

Response	Chart	Percentage	Count
Currently a supplier		45%	21
Have been a supplier in the past		30%	14
Have never sold to the federal government		26%	12
	Total Responses		47

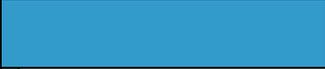
5. What makes the Government of Canada a desirable client?

The responses to this question are summarized in the *Doing Business with the Federal Government* section, beginning on page 1.

6. What factors influence your decisions to sell to the Government of Canada?

The responses to this question are summarized in the *Doing Business with the Federal Government* section, beginning on page 1.

7. Solicitation practices for small vessels across government. This includes issues such as non-standardized RFP and contract templates, and inconsistent procurement strategies and evaluation approaches.

Response	Chart	Percentage	Count
Yes, this is of concern in small vessel procurement.		95%	37
No, current practices are appropriate.		5%	2
	Total Responses		39

8. Length and scope of procurements, including time and bundling options.

Response	Chart	Percentage	Count
Yes, this is concern in small vessel procurement.		92%	36
No, current practices are appropriate.		8%	3
	Total Responses		39

9. Prequalification of facilities, quality control and management, expertise, labour, financials, etc.

Response	Chart	Percentage	Count
Yes, this is concern in small vessel procurement.		71%	27
No, current practices are appropriate.		29%	11
	Total Responses		38

10. Cost of bidding relative to return on bid investment. Issues associated with high cost of bidding include too much unfunded work required, too much information required, repetitive qualifications, and cancelled requirements leading to a lost investment.

Response	Chart	Percentage	Count
Yes, this is concern in small vessel procurement.		89%	34
No, current practices are appropriate.		11%	4
	Total Responses		38

11. Evaluation based on lowest compliant bid, rather than rated to achieve best overall value.

Response	Chart	Percentage	Count
Yes, this is concern in small vessel procurement.		92%	34
No, current practices are appropriate.		8%	3
	Total Responses		37

12. Payment liquidity, including payments that are not closely linked to costs incurred, holdbacks set above the reasonable minimum, and long payment turn around times.

Response	Chart	Percentage	Count
Yes, this is concern in small vessel procurement.		71%	27
No, current practices are appropriate.		29%	11
	Total Responses		38

13. Timelines for contract completion.

Response	Chart	Percentage	Count
Yes, this is concern in small vessel procurement.		74%	28
No, current practices are appropriate.		26%	10
	Total Responses		38

14. Price – fair funding to appropriately reflect requirement, complexity and risk.

Response	Chart	Percentage	Count
Yes, this is concern in small vessel procurement.		69%	25
No, current practices are appropriate.		31%	11
	Total Responses		36

15. Specifications may be unclear, resulting in conflicts and reduced industry flexibility.

Response	Chart	Percentage	Count
Yes, this is concern in small vessel procurement.		89%	33
No, current practices are appropriate.		11%	4
	Total Responses		37

16. Performance liability, including cases where the Crown stipulates design and holds the contractor responsible for performance.

Response	Chart	Percentage	Count
Yes, this is concern in small vessel procurement.		81%	29
No, current practices are appropriate.		19%	7
	Total Responses		36

16B. If "yes," would either stipulating Crown liability or contracts based on Design and Build help solve this problem?

Response	Chart	Percentage	Count
Yes		77%	24
No		23%	7
	Total Responses		31

17. Please prioritize the issues identified, with 1 as the highest priority and 10 as the lowest priority. If you do not agree that issue is of concern in small vessel procurement, enter 0.

	0	1	2	3	4	5	6	7	8	9	10
Inconsistent solicitation practices across Canada	3%	51%	8%	8%	3%	5%	3%	11%	0%	0%	8%
Length and scope	5%	22%	0%	5%	19%	27%	0%	14%	3%	3%	3%
Prequalification	8%	38%	5%	11%	5%	11%	3%	5%	8%	0%	5%
High cost of bidding and onerous requirements	3%	41%	19%	0%	0%	14%	5%	5%	5%	3%	5%
Evaluation based on lowest compliant	5%	38%	11%	8%	5%	11%	5%	5%	3%	3%	5%
Payment liquidity	8%	22%	3%	3%	8%	14%	14%	3%	8%	14%	5%
Timelines for contract completion	5%	27%	5%	5%	8%	11%	14%	14%	8%	3%	0%
Price – fair funding	11	22%	6	14	11%	8%	3%	3%	14%	6%	3%
Unclear specifications	8%	35%	11%	5%	8%	8%	3%	5%	8%	8%	0%
Performance liability	14%	32%	5%	11%	5%	14%	0%	3%	5%	3%	8%

18. Are there any other issues with the current practice for small vessel procurement that have not yet been identified? Please include an indication of how you would prioritize this/these issues.

Except for issues already addressed in the *Findings* section, no additional themes emerged from the responses to this question.