



## A Value Proposition Scorecard

Observations on early returns

BY LINDA WOLSTENCROFT

**R**ecent procurements have made early use of the new Value Proposition requirement of the Defence Procurement Strategy (DPS). This column discusses true recent experiences since the December 2014 release of the Value Proposition Guide.

### The Value Proposition Provides Distributed Benefits and Tougher Penalties

Gone are the days in which Industrial and Regional Benefits (IRB) obligors could use loopholes and negotiation strong-arm tactics to water down the benefits they gave to the Canadian economy. Now, a contract can be won or lost on the strength of the Value Proposition to Canada. Also, these benefits are no longer confined to a singled measured factor, but weighted and rated to four unique and distinct tenets that comprise the Value Proposition principles: work is in the Canadian defence sector; work is with Canadian suppliers, with a mandatory minimum for Small and Medium Enterprises (SMEs); Research and Development (R&D) in Canada will result; and, exports from Canada are an outcome.

Further good news is that the penalty for not meeting Industrial and Technological Benefits (ITBs) commitments has been strengthened.

Indeed, it is good news for the Canadian defence sector that the ITB (under the principles of the Value Proposition) now form a transparent part of overall bid evaluations and that obligors must live up to these commitments.

### 10% of Bid Evaluation is for Value Proposition

In accordance with the Value Proposition principles, the nominal weight for Value Proposition in a bid evaluation is 10%; the remaining 90% is allotted for technical, management and price. This tells us that all things being equal within that remaining 90%, the Value Proposition will

be the deciding factor. And to further improve the potential upside to Canada and Canadian industry, the nominal 10% value may be varied to reflect the maturity and competitiveness of Canada's industry in certain sectors. Already the notional evaluation of 10% of the bid evaluation has been adjusted where the procurement has a capability that already exists in Canada and is included in the Key Industrial Capabilities. This has provided a measured advantage to Canadian firms and is what it was entirely intended to do. However, for procurements where there is not a great opportunity for the Canadian industry to compete on an international scale, we may see this 10% value be reduced and become a smaller part of the overall bid evaluation.

### Industry Engagement Can Be Improved

In the document "ITB Policy: The Value Proposition Guide," industry engagement is intended to ". . . [Establish] a two-way conversation between industry and Government to better understand needs and available solutions." During early post-DPS procurements, the "industry engagement" was still scripted and formal, leaving little opportunity for valuable discussions at the LOI and draft RFP stages. The new Value Proposition Guide recognizes that the engagement process is critical for bidders and for Canada. Canada will benefit if this is executed more fully in the future; more one-on-one discussion sessions that extend farther into the process are needed. In doing so, it will prevent any fundamental misunderstandings of how the requirement fits with industry's "art of the possible," which we have seen happen in the past.

### New ITB Plans = Old IRB Plans

The new Value Proposition approach is extremely valuable to Canada, but more finesse is needed for procurements moving forward.

The basic "ITB" requirements appear identical to old-style IRB. The plans required are the same; they are still pass-fail, and reporting and contract requirements are nearly the same. There is room for improvement here.

### Prevent the Good Proposal / Poor Execution Conundrum

There are stronger contractual outcomes for not meeting commitments – penalties are no longer just liquidated damages but actual holdbacks on payment for the contract can occur. This is a deterrent, but the problem is that this happens after evaluation. Canada could still find itself in a position in which the contract is evaluated and awarded, but the benefits to Canada promised are not realized.

### "It's all about Exports"

As we know, it really is all about exports. We are not the US - not even the UK or Australia - who boast far larger defence budgets. Selling to our home government is simply not a sustainable business model for many Canadian defence firms. This makes the international export strategy critical to enable growth of our Canadian industries. In early days, we are happily seeing the rated requirement to produce a robust and realistic international export strategy.

### Incorporate the Full-meal Deal in the Future

Because the Value Proposition Guide release date of December 2014 was too late to fully become incorporated in all in-process procurements, some Value Proposition elements have been missing. In order to receive the full benefits to Canada, this must change as we move forward.

The conclusion is that early returns are positive, but the true measure of success will be seen once we truly start transparently measuring the benefits accrued to Canada.

**Linda Wolstencroft** is president of Aerospace BizDev Inc., which provides strategy and business development assistance in the aerospace and defence sectors. For more information or to contact Linda visit: [www.aerospacebizdev.com](http://www.aerospacebizdev.com)