

PROPOSAL COSTS

Winning a gold medal for procurement

BY LINDA WOLSTENCROFT

In the 2014 Winter Olympic Games, Canada's men's hockey team captain Sidney Crosby has faced the challenge of leading his team to bring home the gold for Canada once again. Having scored the gold-medal-winning overtime goal at the Vancouver 2010 Olympic Games, and having maintained a stellar NHL career, he's the natural choice for Canada to entrust this job to.

The cost to engage in this challenge is high – monetarily, physically, and emotionally – but the rewards can be even higher. In the Olympics, Canada consistently plays for the right to claim dominance on the global stage, for the honor of being a world leader in its national sport. These are high stakes.

Similarly, the chance for a company to win a high-value contract is of the utmost importance. It can mean the difference between intense growth with high returns, or merely average returns.

The impact of losing a high-value contract can be that great people within the team move on to greener pastures, that the stature of the company diminishes in the eyes of its customers and prospects, that stock prices and returns to shareholders decrease, and that the confidence levels within the company fall. Not to mention that it could take some time before the next big opportunity presents itself. In this situation, the best companies use the experience to learn real lessons and adjust their strategy and approach for the future. On the other hand, some other companies will take the less healthy approach and assign blame to external forces such as the customer or the competition, or to one component of their own team, while covering up the true reasons for the loss.

Imagine the gargantuan costs for Sidney Crosby and his team to be ready for this challenge. Consider the years of training, mental preparation, competitive analysis, and teambuilding. Compare this to the huge costs of a company developing itself, its products and services, its strategies, and tactics, to bid on a large contract. In absolute terms the costs are on different scales, but in relative terms they are comparable.

What happens if something derails an Olympic competition? Drug tests, injuries, political strife, terrorist threats, transportation glitches and logistics flaws are all potential pitfalls. If the competition doesn't proceed as planned, who pays for the costs incurred? One could argue that it be the IOC, because they organize the games and are ultimately responsible for the success of the competitions; but we all know the answer is that the respective countries where the athletes are from, pay the costs.

PROCUREMENT DERAILED

But what happens if something derails procurement? Such as cost overruns, politics, competitive threats, process glitches, logistics flaws? If the competition doesn't proceed as planned, who pays for the costs incurred? Should it be the procuring agency, because it is they who developed and executed the competition and are ultimately responsible for executing a successful competition? In Canada, normally the competing companies pay the costs, and typically this is a condition of submitting a bid.

We've seen one exception, and if there is one, could there be more? In January, the Canadian Press told us that they had learned that the Canadian government paid out as much as \$8 million to settle legal claims arising from the collapse of the first failed bid of a major procurement.

So while proposal costs are typically the responsibility of each bidder, we are seeing an exception.

Which prompts us to wonder, in the context of other procurements that were stopped, how many other companies were compensated? How many were not? How many other failed procurements were there? Were the bidders compensated?

While we may not have all the answers to these questions, what is fortunate here is that the problem was been uncovered. So moving forward, the approach to these situations will eventually become consistent. Even though looking forward does not undo the wrongs of the past, it can help improve fairness in procurements in the future. And in the interests of being fair to all bidders, when we consider all the fair, open, and transparent competitions that are held, now we may ask whether procurement rules can be revisited for compensation of bid costs for failed procurements.

These issues are not simple to solve, and they can't be solved overnight. However, today what is encouraging for procurement is that the process is being improved. The 2013 Jenkins report on procurement in Canada has been well received by government and industry, with recommendations being implemented. At the same time, we have the benefit of learning more about specific problems with procurement. Therefore, while there is no simple challenge and no simple solution, with this focus, the gold medal for procurement is within our reach.



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