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**REPORT**

# Temporary Help Services Pre-Consultation Report

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The Conference Board of Canada

**Prepared for:**

PWGSC

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## Section A – Overview

Procurement change is an important initiative for the Government of Canada. Plans for change to federal procurement processes began to be developed several years ago, under the previous government. The current government's stated goals for change are to achieve significant cost savings by reducing the cost of purchases and streamlining procurement processes, and to enhance the quality of goods and services procured. The Government of Canada believes that modernizing its procurement practices is one of the most significant changes in public administration in the last twenty-five years.

Procurement transformation is about more than saving money and getting better prices. It is about getting the best possible value for Canadians. Success will mean savings averaging in the order of more than \$500 million annually. (Some of these gains have already been achieved). Success will also mean significant improvements in procurement times and greater satisfaction among client departments and agencies of government. At the same time, government seeks to achieve these gains while minimizing negative impacts on suppliers and helping SMEs, Aboriginal businesses and others to succeed in the new environment.

The big picture of government-wide benefits and the strategic value of the changes to the government's performance is not the primary focus of suppliers who are understandably more concerned about the success of their own operations, and the potential risks they themselves face as a result of procurement change.

Suppliers' views are important to government which recognizes its suppliers' collective importance to its supply system and the future success of procurement. Supplier engagement and cooperation is also important to government, as the basis for building effective and efficient procurement to achieve government performance goals while supporting business success. To gain an enhanced understanding of suppliers' current views, and to deepen shared understanding, PWGSC has engaged The Conference Board of Canada to host and facilitate a series of ten dialogue sessions with industry associations and supplier communities in three procurement categories: Informatics Professional Services, Temporary Help Services, and Office Furniture.

The objective of these sessions is to obtain industry and supplier perspectives and ideas on the procurement changes, the change process itself, and how the federal government can realize efficiency gains while minimizing disruptions to the supplier network.<sup>1</sup>

The Conference Board is an independent, non-partisan, not-for-profit organization recognized for its research and its expertise in meeting design and facilitation. During this project, the Conference Board has:

- Analyzed the nature of market share and market power of the federal government as a purchaser of goods and services.
- Analyzed the nature of market dependence of individual suppliers on government procurement.
- Organized consultations to engage suppliers in open dialogue around the government's procurement change process, policy and strategies and record their issues, concerns and insights.

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<sup>1</sup> The three procurement categories (IPS, THS and Furniture) accounted for nearly 10 per cent of government procurement spending in the last fiscal year.

### About The Conference Board of Canada

- A not-for-profit Canadian organization that takes a business-like approach to its operations.
- Objective and non-partisan. We do not lobby for specific interests.
- Experts in running conferences but also at conducting, publishing and disseminating research, helping people network, developing individual leadership skills and building organizational capacity.
- Specialists in economic trends, as well as organizational performance and public policy issues.
- Not a government department or agency, although we are often hired to provide services for all levels of government.
- Independent from, but affiliated with, The Conference Board, Inc. of New York, which serves some 2,500 companies in 60 nations and has offices in Brussels and Hong Kong.

After the ten consultations are complete, The Conference Board of Canada will prepare three independent reports summarizing the session discussions for each of the procurement categories and present them to PWGSC.

### Purpose

This paper provides suppliers, industry associations and government officials with a common base of knowledge and understanding within the Temporary Help Services procurement category necessary for fruitful discussion. It includes a macro and micro market analysis of the category in order to understand the adjustment risks facing suppliers; an overview of the government's current and intended procurement policy, practices and strategy; and a summary of supplier and government perspectives, issues and challenges.

### Procurement

Procurement is the process of acquiring goods, services and construction from third parties. It typically follows four phases:<sup>2</sup>

1. The *pre-contractual* phase—including activities related to requirement definition and procurement planning (e.g., the spend analysis; business requirements; supply market analysis; commodity sourcing strategy; and transition/change management and human resource planning).
2. The *contracting* phase—including all activities from bid solicitation to contract award.
3. The *contract administration and management* phase—including activities such as issuing contract amendments, monitoring progress, following up on delivery, payment action, etc.
4. The *post-contractual* phase—including final action activities (e.g., client satisfaction, contractor agreement to final claim, final contract amendment, completion of financial audits, proof of delivery, return on performance bonds) and close-out activities (e.g.,

<sup>2</sup> The definition for procurement was taken from a survey developed on behalf of the Honourable Walt Lastewka, Parliamentary Secretary to the Minister of Public Works and Government Services Canada published in September 2004. The survey was used to gather information from government departments and agencies on areas for improvement in federal government procurement. *Procurement and Contracting* [online]. Ottawa: Treasury Board of Canada Secretariat. From: [www.tbs-sct.gc.ca/emis-sigd/procurement\\_contracting\\_e.asp](http://www.tbs-sct.gc.ca/emis-sigd/procurement_contracting_e.asp)

completeness and accuracy of file documentation and adherence to file presentation standards).

### **Federal Government Procurement**

The Government of Canada buys approximately \$20 billion worth of goods and services every year. For PWGSC, in 2005, active government suppliers numbered 16,399, the majority of which (84 per cent) were Canadian or Canadian-based firms. Of these government supplier firms 11,695 (85 per cent) were classified as either self-employed suppliers or small suppliers; 1,283 of them (9 per cent) were medium-sized suppliers; and 1,438 (6 per cent) were large-sized suppliers.<sup>3</sup> The number of suppliers currently doing business with the federal government is much higher than the total for PWGSC. Departments may contract directly with suppliers – about 90 per cent of the 400,000 annual procurement transactions of the federal government are done by departments themselves.<sup>4</sup> Clearly, the federal government is a significant buyer of goods and services and plays a part in shaping the Canadian supplier business landscape.

The federal government's procurement and contracting policies, established by the Treasury Board, are designed and intended to result in best value to the Canadian government and to the Canadian public. Specifically, government policy requires that contracting be conducted in a manner that will enhance access, encourage competition, reflect fairness, and comply with Canada's trade obligations.<sup>5</sup>

### **Public Works and Government Services Canada**

PWGSC supports the daily operations of nearly 140 federal departments and agencies by providing a range of services, including:<sup>6</sup>

- purchasing goods and services on behalf of the government;
- providing office accommodations for public servants across Canada;
- managing national heritage properties; and
- offering services such as information technology, telecommunications, banking, translation, and auditing to the government.

PWGSC is the central acquisition department of the Government of Canada, and is its largest purchasing organization, buying over \$20 billion in goods and services—incorporating over 17,000 types of products and upwards of 60,000 contractual transactions—from thousands of suppliers each year.<sup>7</sup> Many purchases, however, are currently done on a department by department basis, and from the standpoint of government, opportunities to leverage its purchasing power to obtain better prices is either mitigated or lost.

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<sup>3</sup> From: PWGSC, 2006. Figures represent all suppliers, regardless of Standing Offer. Small firms: <100; Medium-sized firms: 100 - <499; Large firms: >500.

<sup>4</sup> The government is enhancing the capability to capture data on the numbers and composition of its supplier base.

<sup>5</sup> Trade obligations include: North American Free Trade Agreement (NAFTA), the World Trade Organization Agreement on Government Procurement (WTO-AGP), and the Agreement on Internal Trade (AIT). From: [www.pwgsc.gc.ca/acquisitions/text/sm/chapter04-e.html](http://www.pwgsc.gc.ca/acquisitions/text/sm/chapter04-e.html)

<sup>6</sup> From: [www.tpsgc-pwgsc.gc.ca/text/generic/about-e.html](http://www.tpsgc-pwgsc.gc.ca/text/generic/about-e.html)

<sup>7</sup> From: [www.tpsgc-pwgsc.gc.ca/text/factsheets/government\\_buys-e.html](http://www.tpsgc-pwgsc.gc.ca/text/factsheets/government_buys-e.html) and [www.tpsgc-pwgsc.gc.ca/prtf/text/concept\\_doc-e.html](http://www.tpsgc-pwgsc.gc.ca/prtf/text/concept_doc-e.html)

## Procurement Reform at PWGSC

PWGSC has a strong interest in providing Canadian citizens with excellent services at the lowest feasible cost. Currently, PWGSC is looking at ways to improve its efficiency and effectiveness by reforming its procurement processes and practices, and by securing optimal value from suppliers through the products and services purchased.<sup>8</sup> Bringing better value to government and taxpayers is at the stated heart of PWGSC's procurement reform efforts.

**For an overview of the Temporary Help Services category, from the perspective of the Government of Canada, prepared by PWGSC, please see Section C, below.**

### *The Way Forward*

PWGSC wants to deliver services smarter, faster and at a reduced cost. *The Way Forward*, which includes a new approach to procurement, is a government-wide system based on principles of accountability, integrity, and transparency.<sup>9</sup> Its goal is to assist federal governments departments, crown corporations and agencies make their procurement activities more efficient and effective. To that end, it will provide government with a series of tools to use in selecting suppliers and choosing products and services in a more transparent and accountable manner.<sup>10</sup> Key points of focus include:

- Emphasize both price and value.
- Provide flexibility to federal government departments, crown corporations and agencies.
- Take into account the circumstances of SMEs and other special supplier groups.
- Incorporate a 'customer satisfaction' component in the evaluation of supplier performance as the basis for continued supplier standing.

### ***Expectations of Improved Efficiencies and Effectiveness***

By streamlining the procurement process, using tools to make purchasing easier and quicker, being more disciplined in the way procurement is managed, consolidating what the government buys, and leveraging the government's purchasing power, PWGSC expects to achieve three major milestones:<sup>11</sup>

1. Save \$2.5 billion over five years—while maintaining full and fair access to government business by small, medium and large suppliers across Canada, and without compromising the government's commitments to sustainable development and aboriginal economic development.<sup>12</sup>
2. Cut the time it takes to conduct procurement by up to 50 per cent.

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<sup>8</sup> In June of 2005, Bill C-43 came into effect giving the Minister of PWGSC responsibility for procurement of goods and services for the federal government, to enter into contracts on behalf of the government, and to guarantee volume purchases.

<sup>9</sup> *The Way Forward* is a wide-ranging strategy, led by PWGSC, and focuses on increasing efficiencies in three key areas: procurement, property management, and information technology.

<sup>10</sup> In April 2006 the government introduced the Federal Accountability Act and Action Plan in the House of Commons. The legislation is intended to bring forward measures to help strengthen accountability and increase transparency and oversight in government operations, including procurement. From: [www.pwgsc.gc.ca/text/transparency-e.html](http://www.pwgsc.gc.ca/text/transparency-e.html)

<sup>11</sup> From: [www.pwgsc.gc.ca/transformation/text/faq-e.html](http://www.pwgsc.gc.ca/transformation/text/faq-e.html)

<sup>12</sup> From: [www.pwgsc.gc.ca/transformation/text/nfo-fct/fs-2-e.html](http://www.pwgsc.gc.ca/transformation/text/nfo-fct/fs-2-e.html)

### 3. Reduce internal procurement costs by 10 per cent.

PWGSC is working with departments and agencies to improve the way they plan, how they buy, who is authorized to buy and when they buy goods and services. Implementing a more balanced and strategic approach to buying, having better mechanisms and tools in place to monitor departmental and government-wide procurement and to better understand and track the nature of procurement is central to the reform process.

#### ***Implications for Suppliers***

Overall, government is guided by its stated primary obligation to obtain benefits for the Canadian taxpayer by such means as improving efficiency and effectiveness of its procurement system.

Changes in the way government purchases goods and services may affect suppliers, including:

- Changes in the processes through which suppliers compete for federal government business.
- Changes to the structure and organization of supplier bidding (e.g., through mergers, consortia, etc.).
- Changes to the number of suppliers who choose to, or who are able to compete for government business.

The impact on suppliers is likely to be mixed: some suppliers may be positively affected while others may be adversely affected. In the end, the actual impact will be a product of specific changes in procurement policy and practices, and the ability and willingness of suppliers to adjust.

#### ***Broad Policy and Socio-Economic Implications***

PWGSC is focusing its effort and attention on government procurement policy and reform. However, adjustments to the procurement system may have implications on other government initiatives and strategies (for example, industrial policy, SMEs, sustainable development). In an effort to address these related initiatives PWGSC has created:

- The Office of Greening Government Operations to advise the government on issues such as green procurement.
- The Office of Small and Medium Enterprises (OSME) to address the need for open and transparent access for small and medium enterprises. OSME works within the government to ensure the procurement system recognizes and addresses the needs of small and medium enterprises, Aboriginal businesses, and the supplier base in the regions where government procures goods and services.
- Tools such as standing offers to facilitate various government departments achieve their targets and commitments. The Aboriginal Business Set-Aside Program, for example, is an Indian and Northern Affairs Canada (INAC) program designed to address Aboriginal business participation through a program of mandatory and selective set-asides and supplier development activities.

## Developments during the Procurement Transformation Process

While the planned procurement changes are important, the procurement reform process has resulted in a mix of *positive* and *negative reactions* within the supplier community and among some government departments.

- Industry associations representing suppliers in several procurement categories have called for new consultations.
- Groups of suppliers have registered strong concerns with the approach now being taken to reform procurement and have focused their attention on the potential negative impact on individual suppliers.

Since January, 2005, PWGSC has involved suppliers, industry associations, and government departments in the government-wide review of procurement including through: interviews and consultation meetings with suppliers and industry associations; receiving letters from suppliers and industry associations; issuing Requests for Standing Offers (RFSOs) and Requests for Information (RFSIs); and holding bidders' conferences to seek industry input and feedback.

In response to suppliers' and industry associations' continued expressions of concern, PWGSC has now implemented a new series of consultation meetings, hosted by The Conference Board of Canada. These consultation meetings are another step in the process to obtain feedback and better understand the impact of the proposed procurement changes on businesses within the Temporary Help Services industry where there are potential major impacts on Canadian businesses. Continuation of the consultative process is necessary because suppliers have strong ideas about efficiencies and ways to achieve them; as well as insights around how they and the government can and should adjust to new practices and rules of engagement.

## The Nature of Goods and Services Markets

Two factors have an important influence on the nature of change to government procurement: market power and market dependence. Both factors are relevant to understanding how procurement changes may affect or influence suppliers. These factors are defined below in relation to the context of the federal government.

*Market power* is the ability of the government to alter the market price of a good or service and other market conditions. It is an indication of how important government procurement is in the overall market for each category (i.e. the demand side).

*Market dependence* considers the issue of market structure from the suppliers' view (i.e. the supply side). In this context, it can be simply represented by the percent of a firm's sales attributable to the Government of Canada.

## Change Management

Many firms today, operating in the procurement categories of temporary help services, informatics professional services, and furniture, count on the federal government for a high percentage of their sales. Firms that make a high proportion of their sales to the federal government are likely to be disproportionately affected, *regardless of their size*, as dependence on one large customer is ultimately reflected in the way a firm is organized (geographically, in its

business processes etc.). As a result, they face an important change management challenge as the government changes its procurement policies and practices.

The government, too, faces a change management challenge since it seeks to significantly alter its procurement system while substantially maintaining its supplier base and ensuring that the well-being of SMEs and Aboriginal businesses are taken into account in the refinement of the particulars of change.

## A Model of Change Management

The proposed changes to the way the federal government procures goods and services are designed to improve the efficiency and effectiveness of those expenditures, not eliminate them. It may be able to achieve its goals through several mechanisms:

- Using its market power and the market dependence of some suppliers to engineer price reductions.
- Improving economies of scale in purchases. This may save on procurement administration costs and create situations of discounting for volume.
- Changing the market structure through its purchasing practices to change economies of scale (through, for instance, consortia).
- Streamlining the purchasing process and thereby reduce transaction costs.

These savings have different effects on the overall market and the individual firms. It is possible to categorize some of the effects as follows:

- *Changes in market structure* that lead to a different structure of suppliers (in terms of size) and organization of suppliers. The risk here is that some suppliers will no longer be competitive within the new structure, especially in areas where market power and market dependence are high.
- *Changes in sales processes*. This may require that firms approach bidding with the government in new ways. This may involve restructuring sales processes, making greater use of consortia etc. The risk here is that bidding firms may incur costs to change their sales processes that they cannot afford or that act as a barrier to their future participation in the procurement system.
- *Lower profitability from individual sales*: To the extent that firms are induced to reduce prices for the same quality of sale, firms may find that the profit margin on their government business is reduced.

Recognizing these market dynamics, and the fact that the government is changing the way it procures goods and services, the federal government has essentially three options to act on:

1. *Let the marketplace manage the transformation*: make changes and let the marketplace sort through the implications. No firm is required to bid on government business. After the change in policies, the market will eventually find a new equilibrium. But the search for this equilibrium may impose costs on individual suppliers which hope to continue to sell into the federal government market.

2. *Actively manage the transformation:* in this approach, the federal government would explicitly put in place mechanisms to limit the impact of change on parts of the supplier community that are at greatest risk.
3. *Help the marketplace manage the transformation:* by virtue of entering into a dialogue with suppliers, the federal government is currently taking this route. If suppliers have enough advanced warning, and if their concerns about the efficiency of the bidding process is taken into consideration, it may be possible to achieve most of the savings through efficiency gains with a fairly minimal impact on individual firms.

## **Section B – Principles and Processes of Procurement Transformation at PWGSC**

PWGSC's main goals for procurement change are to standardize what they buy and how they buy it, get better value for money, and simplify the way the federal government buys goods and services. The adjustments being implemented to achieve these goals will affect virtually all aspects of PWGSC's procurement process. These adjustments will also affect the way PWGSC's client departments do business with goods and services suppliers, and the way suppliers do business with departments throughout the government.

PWGSC is very clear in its intentions. It is going to be a more demanding customer. It wants better value and prices for the goods and services it acquires. Currently, the government spends in excess of \$1 billion a month on goods and services needed for its day-to-day operations.

### ***A Purchaser of Goods and Services***

As a central arm of the government, PWGSC is mandated to assist departments in the purchase of goods and services. PWGSC is not in a position, on its own, to invest in or support any particular group, sector or segment of the economy. Industrial policy and competitiveness strategies, for example, are overseen by other government departments and agencies with defined mandates in these areas. Thus, when the Government decides to take action (e.g., Aboriginal economic development), it chooses a department (such as Indian and Northern Affairs Canada (INAC)) to develop policy and run programs to help reach particular economic and social objectives. PWGSC then supports these departmentally-created policies and programs in its role as the Government's major purchaser of goods and services. Specifically, PWGSC:

- Helps client departments define their requirements and select effective procurement approaches. The Aboriginal Business Set-Aside Program is an example of such an approach.
- Manages the bidding process to find the best possible solution for sourcing client departmental needs to meet its policy and program goals.
- Supports client departments by overseeing supplier relationships after a contract is awarded to ensure accountability until close-out of the contract.<sup>13</sup>

### ***PWGSC's Procurement Goals***

Through its procurement changes, PWGSC plans to:

1. Achieve better value by improving the way government buys goods and services.
2. Offer fair, simple and open access to businesses interested in providing goods and services to government.

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<sup>13</sup> The Acquisitions Branch at PWGSC also provides other services, including: market research to identify what products are available from suppliers; product planning; method-of-supply studies; the maintenance of a statistical data base and reporting capability; policy framework development; policy review and promulgation; and the technological infrastructure to support electronic procurement.

## **The Procurement Practices of PWGSC**

To achieve these goals, PWGSC has established a set of twelve procurement practices that it will adhere to throughout the procurement change process:

1. **Functionality Focus.** A focus on functionality (technical and supplier-based specifications) rather than brand specification for goods and services. This will allow suppliers to propose innovative products and solutions that meet the functional needs described
2. **Fewer Models and Configurations.** Reduce the range of goods purchased—fewer models and configurations—while maintaining a reasonable amount of choice. For example, the choice in chairs will be reduced from approximately 2000 configurations to fewer than 100; and, temporary help services will no longer use hundreds of job codes but will align with standard government job codes.
3. **More Bidding Opportunities.** Give suppliers more opportunities to bid on Standing Offers by establishing sub-groups of goods and services within each procurement category. This will give interested suppliers an opportunity to compete for business in their area of expertise.
4. **Value Factored into Evaluations.** Integrate quality-based criteria into the evaluation process and customer satisfaction reports into the bid-evaluation process (e.g., in professional services it is proposed that attributes such as a suppliers' experience, capabilities, and customer satisfaction scores will account for 70 per cent of total points awarded, whereas price will count for only 30 per cent).
5. **More Active and Systematic Price Competitions.** Take a more active and systematic approach to price competitions, tailored to the specific nature of goods or services (e.g., price competitions for notebooks will continue on a quarterly basis).
6. **Ensure Supply Continuity.** To insure that an appropriate and adequate supply of qualified suppliers is available, the government will always seek to select the optimal number of suppliers possible. For example, informatics professional services business will be awarded to several firms on a regional basis.
7. **Local and Operational Support Requirements.** A mandatory provision to ensure government operations in every region have access to adequate local support networks, tailored to each good or service. For example, temporary help services and informatics professional services business will be awarded by region, with multiple firms in each region.
8. **Open and Fair Competitions.** A more open and fair competition system that makes it easier and less costly for suppliers to bid will ensure a more level playing field. For example, simplified language in bid documents and contracts will make it easier to bid; and testing of furniture will be performed after successful award of business rather than as a requirement to bid.
9. **Easier Access to Government Business.** To make it easier to compete and conduct business with the Government, small firms will be given tools and advice to help them

construct consortia to make joint bids. Bids from these consortia of small firms will be treated equally to bids from large firms.

10. **Higher Probability of Business to Winners of Competitions.** Suppliers who win competitions will be guaranteed business. The Government will channel purchases and business to qualified suppliers and ensure that they benefit from their successful Standing Offer bids. For example, currently there are more than 40 furniture suppliers holding standing offers, yet nearly half of the government's furniture purchases are made outside of the Standing Offers.
11. **Faster Execution of Orders.** Using standing offers will result in procurements being done in 1-4 days rather than the current 30-60 days.
12. **More Informed Decisions.** Using electronic tools to give detailed information on who buys what, when, at what price, and from whom will assist the government in understanding how it procures better and help it negotiate better value for Canadians.

## Strategies for Promoting Open and Transparent Access for SMEs

PWGSC intends to give SMEs equal opportunity to compete for government business, and has taken a number of steps to address this:<sup>14</sup>

- Where small businesses are too small to bid on government business on their own, PWGSC has made it easier for them to form partnerships and joint ventures.
- Where appropriate, within each category of goods and services, PWGSC has divided the total requirement into a number of sub-categories, allowing firms to bid on these individual categories rather than on the whole requirement. Where appropriate, PWGSC has divided the requirement into regional categories giving regionally-based firms an opportunity to bid on smaller portions of business.
- Where practicable, PWGSC insists that local installation and support be provided. This ensures that a national supplier will provide adequate levels of service to meet the full range of needs of clients in a timely fashion. It also helps to ensure that small local businesses that provide local distribution and support are able to win their share of contracts.

### Office of Small and Medium Enterprise (OSME)

Created in 2005, the OSME held consultations across the country to hear the concerns of SMEs. Directors have been appointed across the country to help SMEs access government business. To date, the OSME has already had an impact in how new procurement contracts are worded and how requirements are stated.

### Regional Impacts

PWGSC is competing approximately 30 separate standing offers, the majority of which have sub-categories, thereby multiplying the number of opportunities for suppliers to compete. PWGSC is also ensuring that government operations in every region have access to proper support networks—tailored to each good and service. For example, printer manufacturers must have local service and installation offices (usually performed by local SME resellers and service firms) within 100 kilometers of every urban centre having a population of more than 30,000 people.

### Focus on Industry Sectors

Procurement teams are now organized into industry sectors giving them a better understanding of the sector from which they are buying (e.g., who the major suppliers are, and the role of distributors and sub-contractors—typically SMEs—within the supply chain network).

<sup>14</sup> To date, this approach has produced a number of positive results. For example: as part of a relocation services contract with a major real estate agent, some \$57 million was spent on small and medium enterprises (SMEs) who provided specific relocation services under the contract. From: PWGSC – Way Forward Procurement: Strategies for promoting open transparent access for Small and Medium Enterprises.

## **Strategies for Promoting Open and Transparent Access for Small and Medium Enterprises (SMEs) (continued)**

### **Specification of Needs**

By adopting an outcome-based or functional-based specification approach to what it needs, SMEs are given the opportunity to propose new and innovative products that may not have been tried before.

### **Simple Language**

PWGSC is working on a major language simplification program that will simplify the clauses required to understand what the government is looking for. This will be of particular benefit to many SMEs.

### **Easier Access**

PWSGC is working with the Treasury Board Secretariat to overhaul the policies governing procurement. In the meantime, it is free for SMEs to access MERX—the government's on-line system for publishing bids. Small professional service providers can also register on an on-line system and gain access to client department assignments.

### **Making Standing Offers Meaningful**

Standing Offers have been made mandatory to use for the ten most commonly purchased goods and services. This ensures that a firm that wins a Standing Offer can expect to get business.

### **Industrial strategy**

PWGSC serves Canadians within the limits of its mandate. PWGSC does not have the mandate to act as a venture capital firm, an investment banker, or in picking and choosing which industries to invest in. The government as a whole has specialized departments that look after the health of the economy (e.g., Finance, Industry Canada, International Trade, and the Export Development Bank) and these departments have specific programs that help Canada reach its economic objectives.

## **Section C – Overview of Temporary Help Services – Prepared by PWGSC**

### **Overview**

This section presents the proposed procurement strategy for temporary help services (THS).

The Government of Canada is streamlining and transforming the way it contracts for temporary help services. This will provide better value and accountability for Canadian taxpayers.

Temporary help firms supply the Government with personnel when the Government needs to replace employees or increase capacity for a limited time. Temporary help is specifically designed to supplement the normal public service workforce during periods of absence such as parental leave, extended training or short-term requirements. Businesses have been helping the Government meet its temporary help requirements through Standing Offers for over 30 years.

It is important to note that PWGSC is not seeking to reduce the use of temporary help services. As such, temporary help workers will find that the demand for their services will remain at current levels unless there is an overall change in the need of departments and agencies.

In 2005/2006, 144 firms held Standing Offers with the federal government for the provision of THS in the National Capital Area, with 35 firms receiving 80 per cent of business. The requirement for these services is approximately 6.5 million hours per year. The value of this work is approximately \$200 million per year.

### **Current Context**

THS currently consists of a broad range of classifications. These classifications are outdated and lead to confusion and misunderstanding about the Government's use of the temporary help industry. It includes classifications that are highly specialized (such as engineering) or overlap with other methods of supply (such as information technology).

At present, companies with a Standing Offer are free to set the hourly rate of their choice and are free to change their hourly rates, at their leisure, 24 hours a day, 7 days a week (i.e. dynamic pricing) resulting in an inconsistent system.

PWGSC's data shows that THS prices are very volatile—sometimes more than doubling over a short period of time. However, Statistics Canada data suggests that the market itself is not as volatile as the erratic pricing may suggest. Between August 2005 and August 2006, the unemployment rate for Ontario dropped 2.3 per cent.

In addition, PWGSC regional offices across Canada do not use dynamic pricing for THS. Most PWGSC regional offices use locked-in rates or have a periodic refresh of rates (e.g., a quarterly refresh).

Finally, with the current Standing Offers, departments and agencies are expected to use the "First Right of Refusal" allocation process when they want to call-up on a Standing Offer. They must first seek resources from the firm showing the lowest price for the classification. Research shows that a significant number of the call-ups are going to suppliers that are charging higher

prices. This demonstrates that the first right of refusal policy is not effectively working to ensure the lowest cost supplier is being used.

**The government is introducing the following improvements to the procurement process for THS:**

- ✓ We are standardizing our categories of personnel.
- ✓ We are seeking efficient firms that pay fair wages to employees.<sup>15</sup>
- ✓ We are eliminating the “Right of First Refusal”.
- ✓ We are lowering the process cost for suppliers to support competitive pricing by eliminating dynamic pricing.
- ✓ We are offering opportunities for bidders by awarding Standing Offers based on 200 per cent of our projected annual requirements.
- ✓ We are streamlining the call-up process and reducing procurement cost for departments and agencies by allowing the ability to call-up directly with any of the pre-qualified firms.
- ✓ We are measuring vendor performance through client satisfaction surveys.

Throughout this process, extensive effort has been invested to ensure:

- That the government receives value for money for THS.
- Fair, simple and open access for suppliers across Canada.
- Opportunities for small and medium enterprises (SMEs).

**The New Procurement Approach for Temporary Help Services**

The new procurement strategy will involve standardizing services into **fewer, functional** streams:

Stream 1: Temporary Administrative, Clerical and Secretarial Services

Stream 2: Temporary Professional Services

Stream 3: Temporary Technical and Operational Services

Each stream will each include a standard set of categories and classifications divided in logical groupings, reducing the confusion for departments and agencies as well as for suppliers. THS will no longer use hundreds of random job codes, but will be aligned with standard job codes. We are removing highly specialized classifications such as Engineers and classifications that are covered in other methods of supply such as Computer Applications Specialists, which belong in Informatics Professional Services. Please refer to Table 1, below, for a complete list of categories and classifications.

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<sup>15</sup> See Table 2, Technical Evaluation Criteria

**Table 1: Categories and classification of Personnel**

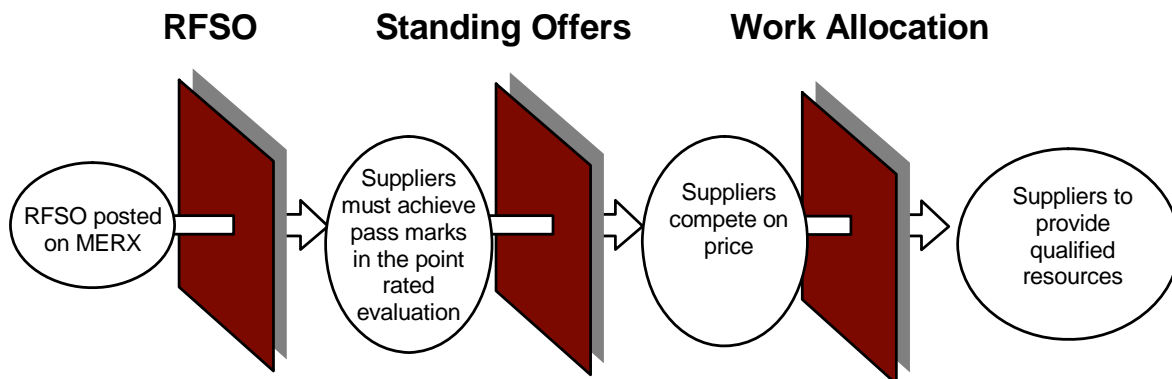
<b>Stream 1: Clerical, Admin, Secretarial</b>	<b>Stream 2: Professional Services</b>	<b>Stream 3: Technical/Operational Services</b>
Clerk (Junior)	Auditor (Junior)	Drafting & Illustrating (Junior)
Clerk (Intermediate)	Auditor (Intermediate)	Drafting & Illustrating (Intermediate)
Clerk (Senior)	Auditor (Senior)	Drafting & Illustrating (Senior)
Admin. Services (Junior)	Commerce Officer (Junior)	Eng. & Scientific Support (Level A)
Admin. Services (Intermediate)	Commerce Officer (Intermediate)	Eng. & Scientific Support (Level B)
Admin. Services (Senior)	Commerce Officer (Senior)	Eng. & Scientific Support (Level C)
Secretary (Junior)	Economics, Sociology, Stats (Junior)	Eng. & Scientific Support (Level D)
Secretary (Intermediate)	Economics, Sociology, Stats (Intermediate)	Labour and Trade Helper (Level A)
Secretary (Senior)	Economics, Sociology, Stats (Senior)	Labour and Trade Helper (Level B)
	Information Services (Junior)	Library Technician (Level I)
	Information Services (Intermediate)	Library Technician (Level II)
	Information Services (Senior)	Stores Services (Junior)
	Financial & Admin Personnel (Junior)	Stores Services (Intermediate)
	Financial & Admin Personnel (Intermediate)	Stores Services (Senior)
	Financial & Admin Personnel (Senior)	
	Librarian and Archival (Junior)	
	Librarian and Archival (Intermediate)	
	Librarian and Archival (Senior)	
	Personnel Consultant (Junior)	
	Personnel Consultant (Intermediate)	
	Personnel Consultant (Senior)	
	Purchasing Personnel (Junior)	
	Purchasing Personnel (Intermediate)	
	Purchasing Personnel (Senior)	
	Program Administration Personnel (Junior)	
	Program Administration Personnel (Intermediate)	
	Program Administration Personnel (Senior)	

In order to **increase bidding opportunities**, suppliers will only be required to meet 36 of the 50 total standard classifications and skill levels. PWGSC analysis shows that the majority of firms holding Standing Offers for similar classifications would be able to meet this requirement. Joint ventures will be permitted, giving SMEs opportunity to bid on an equal footing as larger firms.

**Value will be factored into evaluation.** In THS, Standing Offers will be awarded on a combination of technical merit and price competition. Suppliers that achieve the minimum pass marks in the point rated evaluation criteria (please refer to Table 2, below) and offer competitive prices will be considered for a standing offer. The selection of suppliers will be based technical merit, cost and capacity. The financial evaluation is described in detail in the section below entitled Financial Evaluation. The Standing Offers will be valid for two years, with a possibility of two, one-year extensions (maximum of four years).

### **Qualification Process**

**Diagram 1: Supplier Screening Process**



A Customer Satisfaction scorecard will be used to measure supplier performance. Suppliers who repeatedly do not offer resources when requested or propose non-qualified resources will be subject to having their Standing Offer reviewed.

It is important to note that PWGSC foresees that the requirement for skilled temporary help services labor will continue at the current level. In order to **ensure supply continuity** and ensure the government's needs are always met, the government is planning to put enough firms on Standing Offers to meet 200per cent of projected needs. This strategy will ensure a broad base of qualified suppliers.

In order to **ensure a level playing field and open, fair competitions**, the requirement will be published on MERX inviting suppliers to participate in the sourcing process through a Request for Standing Offer (RFSO). The procurement process will be less costly and complex for suppliers, as they will no longer need to be constantly changing their rates. The new Standing Offers will include firm hourly rates which will be subject to annual adjustments based on the Consumer Price Index. This will eliminate the uncertainty of dynamic pricing for departments and agencies as well as reduce bid frequency for suppliers.

**Table 2: Technical Evaluation Criteria**

Code	Evaluation Criteria	Total Points	Point Allocation	Minimum Pass Mark
R1	Years in business	15	<ul style="list-style-type: none"> <li>• 15 points if 6+ years;</li> <li>• 10 points if more than 3 years up to 6 years;</li> <li>• 5 points if 2 years up to 3 years;</li> <li>• 0 points if less than 2 years.</li> </ul>	
R2	2004 Temporary Help Hours Provided	25	<ul style="list-style-type: none"> <li>• 25 points if 175,000 hours or more;</li> <li>• 20 points if more than 140,000 but less than 175,000 hours;</li> <li>• 15 points if 105,000 up to 140,000;</li> <li>• 10 points if more than 70,000 but less than 105,000;</li> <li>• 5 points if more than 35,000 hours up to 70,000 hours;</li> <li>• 0 points if less than 35,000</li> </ul>	Must have a minimum of 25 points for R2 and R3 combined
R3	2005 Temporary Help Hours Provided	25	<ul style="list-style-type: none"> <li>• 25 points if 175,000 hours or more;</li> <li>• 20 points if more than 140,000 but less than 175,000 hours;</li> <li>• 15 points if 105,000 up to 140,000;</li> <li>• 10 points if more than 70,000 but less than 105,000;</li> <li>• 5 points if more than 35,000 hours up to 70,000 hours;</li> <li>• 0 points if less than 35,000</li> </ul>	
R4	Capacity	100	<p>Administrative, Clerical and Secretarial Support</p> <ul style="list-style-type: none"> <li>• 60 points if 15%+;</li> <li>• 45 points if 10-14.9%;</li> <li>• 30 if 5-9.9%;</li> <li>• 0 if &lt; 5%</li> </ul> <p>Professional Services</p> <ul style="list-style-type: none"> <li>• 20 points if 15%+;</li> <li>• 15 points if 10-14.9%;</li> <li>• 10 if 5-9.9%;</li> <li>• 0 if &lt; 5%</li> </ul> <p>Technical/Operational Services</p> <ul style="list-style-type: none"> <li>• 20 points if 15%+;</li> <li>• 15 points if 10-14.9%;</li> <li>• 10 if 5-9.9%;</li> <li>• 0 if &lt; 5%</li> </ul>	Must have a minimum of 50 points total
R5	Screening New Hires	10	if Yes	
R6	Evaluation Methods	10	<ul style="list-style-type: none"> <li>• 5 or more different recruiting techniques=10 points;</li> <li>• 3-5 different techniques=6 points;</li> <li>• 2 or more techniques=3 points</li> </ul>	Must have a minimum of 100 points from R1-R6
R7	Account Management	75	Narrative Scoring	
R8	Validation of Capacity	75	Narrative Scoring	Must have a minimum of 50% pass

**The government is taking steps to make it easier to compete.** Departments and agencies will now have the flexibility to call-up any of the Standing Offer firms. The call-up period will be extended to 52 consecutive weeks. This feature will allow suppliers to plan more effectively. Call-up limits will be increased to \$400,000. (Please refer to page 32 for an explanation). Joint ventures will be treated on an equal basis. This will give SMEs opportunity to bid on an equal footing as larger firms.

Departments and agencies will also benefit from a **faster execution of orders**, as the call-up process will be simpler and more efficient.

### ***Financial Evaluation***

Based on the feedback we have received from the RFSI process, we have modified some of the features of the financial evaluation to address some of the concerns. Firstly, we have removed the on-line price competition from the strategy. Secondly, we are now asking for wage rate data only to establish a benchmark for comparing offers; the wage rate data will be used for evaluation purposes only. In return, the Government will expect firms to provide qualified resources at the agreed-upon rates.

#### **Step 1:**

- a. The first part of the financial evaluation will consist of determining average wage rates for each of the 50 classifications by using the wage rate data submitted by each technically- qualified firm. The average wage rates will be used for evaluation purposes only.
- b. For each classification, a median and an adjusted mean will be calculated. The higher of the two figures will be retained as the average wage rate for each classification. In order to be compliant, a bidder's proposed wage rates will need to be no more than 50 per cent higher than the average wage rate, in a **minimum** number of classifications. PWGSC will also reserve its right to ask suppliers to validate their wage rates.
- c. The average wage rate of each classification will then be announced by PWGSC to all compliant bidders. The average wage rates will be used strictly to establish a common basis of comparison between bidders for the next phase of the financial evaluation.

#### **Step 2:**

- a. Each compliant bidder will be requested to submit their proposed mark-ups by stream, based on their knowledge of the average wage rates.
- b. PWGSC will use a weighted average to calculate a bidder's mark-up using the following formula
  - Mark-up for Stream 1:60per cent weight
  - Mark-up for Stream 2:20 per cent weight
  - Mark-up for Stream 3:20 per cent weight
- c. PWGSC will then rank each bidder from the lowest weighted average mark-up to the highest.
- d. PWGSC will then incorporate each bidder's "capacity" figures.

### Basis of Selection:

Using the two ranking figures detailed above, a list of suppliers will be established. Standing Offers will be issued to more suppliers than we need; the total number of Standing Offers will be based on doubling the Government's projected needs. Please refer to Table 3, for an illustration.

**Table 3: Illustration of Basis Selection**

Supplier	Weighted Mark-up Rate ranked from lowest to highest	Capacity	Cumulative Capacity	Receive Standing Offer (Y/N)
Supplier A	28.25%	5%	5%	Y
Supplier B	28.67%	5%	10%	Y
Supplier C	28.75%	7%	17%	Y
Supplier D	29.02%	5%	22%	Y
Supplier E	29.33%	8%	30%	Y
Supplier F	29.52%	12%	42%	Y
Supplier G	29.67%	9%	51%	Y
Supplier H	30.01%	8%	59%	Y
Supplier I	30.47%	8%	67%	Y
Supplier J	30.55%	15%	82%	Y
Supplier L	30.89%	6%	88%	Y
Supplier M	31.12%	10%	98%	Y
Supplier N	31.22%	21%	119%	Y
Supplier O	32.48%	7%	126%	Y
Supplier P	32.55%	20%	146%	Y
Supplier Q	33.67%	25%	171%	Y
Supplier R	34.56%	5%	176%	Y
Supplier S	35.89%	25%	201%	Y
Supplier T	39.44%	15%	216%	N
Supplier U	42.43%	10%	236%	N
Supplier V	55.00%	22%	258%	N
Supplier W	67.00%	5%	263%	N
Supplier X	74.00%	7%	270%	N

### Resulting Standing Offers:

The Standing Offers will list only the supplier's firm, all inclusive, hourly billing rates. The Standing Offer billing rates will be a combination of the average wage rate of each category and the mark-up of the bidder. The Standing Offers will not be broken down by wage rate and mark-up.

Example: Assuming a hypothetical average wage rate of \$10.50 was calculated for the Junior Clerk classification during the RFSO process and assuming that Supplier A successfully quoted a mark-up of 32 per cent for Stream A. The Standing Offer with Supplier A would list the Junior Clerk classification at a firm, all-inclusive, hourly rate of \$13.86 (i.e. \$10.50 X 1.32). Supplier A would be required to supply Junior Clerks to the Government at the firm, all inclusive, hourly rate of \$13.86. While the Government of Canada will be charged \$13.86 for all of Supplier's A

Junior Clerks, the Government of Canada is not expecting Supplier A to pay his/her Junior Clerks the \$10.50 wage rate.

***Feedback Sought***

PWGSC seeks feedback on the new Standing Offers for THS, more specifically:

- Structure of the proposed Standing Offers for THS
- Proposed evaluation criteria
- Standardization of the proposed resource categories
- Other ideas to reduce cost to suppliers and the Government of Canada

## Section D – Temporary Help Services (THS) Data Analysis

### *Macro Analysis of Market Power*

#### *Defining the Industry*

The temporary help services industry provides non-permanent full and part time employees to thousands of employers across Canada. The advantage of temporary help services is that the industry organizes a pool of temporary workers which can be drawn on by employers, often at short notice. This helps employers lower their fixed and variable costs of replacement labour.

Temporary help services allow for flexibility in the workforce. Typical instances include cases where an organization needs a temporary employee due to a short term unforeseen rise in workload, or to replace a worker who has gone on temporary leave—maternity leave, for instance. This service is in such constant demand that many individuals have grown the practice of contracting out some employees to other organizations on a temporary basis into a specialized business that provides them with the core or entirety of their income.

Several NAICS industry codes combine to define the temporary help services market. The Employment Services Industry (NAICS code 5613) provides a varied range of human resources and related services to employers. Many companies are included in the Temporary Help Services (56132) classification, which are those firms that fill positions for an organization on a non-permanent basis. Other firms are part of the Professional Employer Organizations (NAICS 56133) classification where some human resource and personnel management functions are leased to client businesses. In addition, some firms primarily act as Recruiting and Placement Agencies (NAICS 56131) that find the right person to fill a permanent position.

While the Temporary Help Services NAICS (56132) classification relates to the temporary help services procurement category, there are some data limitations with that *specific* NAICS code. These are avoided, in some instances, by moving up a level in the classification system, from a five digit to a four digit level of classification: Employment Services (5613). Moving to the four digit level does not significantly impede our market analysis because temporary help services accounts for four-fifths of the output of employment services.<sup>16</sup> In other instances, the data for temporary help services classification (56132) are available in a usable form. In those cases, such data are incorporated into the analysis. Appendix A provides a detailed description of the Data Analysis Methodology used.

#### *Defining the Market I: Revenues and Employees*

The employment services industry generated \$6.1 billion in operating revenues in 2004. This was the third year of growth in excess of 5 per cent. The operating profit margin for the industry had gone up from 3.5 per cent to 4 per cent, resulting in \$244 million in profits in that year.<sup>17</sup>

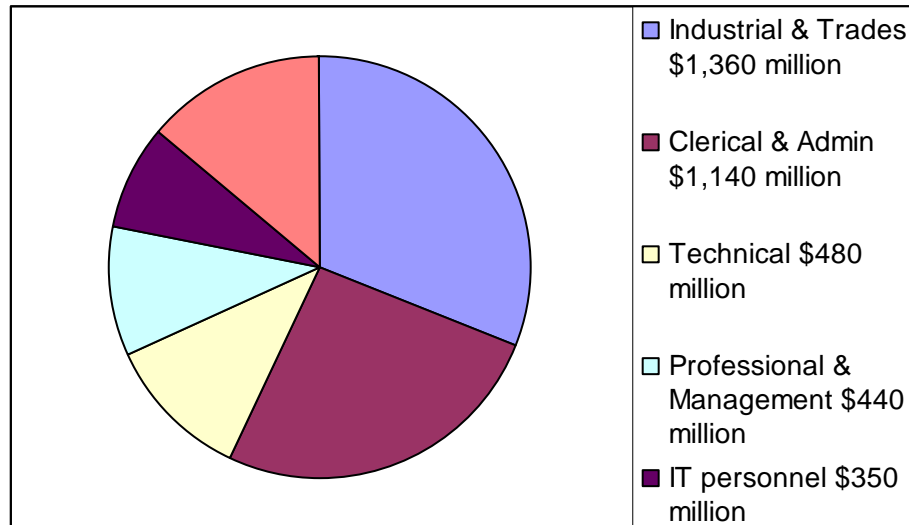
Temporary help services constituted 79 per cent of the overall employment services industry with operating revenues of \$4.4 billion in 2004. Businesses were by far the largest customers of

<sup>16</sup> Preston, Nancy & Savard, Michel; *Report on the 2004 Survey of Employment Services* (Statistics Canada, 2004)

<sup>17</sup> Ibid.

temporary help services, accounting for nearly 90 per cent of all revenues. Taken together, *all levels* of government in Canada accounted for only 8.4 per cent of temporary help services revenues.<sup>18</sup> The largest share of revenues was generated by staffing industrial and trades positions, followed by clerical and administrative positions and technical positions. (See Chart 1)

**Chart 1: Revenue Generated by Temporary Help Position Filled**



Source: Preston, Nancy & Savard, Michel; *Report on the 2004 Survey of Employment Services* (Statistics Canada, 2004)

In 2004, 213 million hours of temporary staffing were billed nationally for the temporary help services industry as a whole. The average charge rate across the whole industry, as calculated by The Conference Board of Canada, is \$20.66 per hour (total billings/total hours billed).

These millions of hours of temporary help services were filled by over 460,000 temporary employees. The Conference Board of Canada calculates that, in 2004, each temporary employee, on average:

- filled 460 hours of work;
- generated \$9,500 in revenues for the THS industry; and
- worked the equivalent of 12.3 weeks of full time work, or about 3 months (based on a 37.5 hour work week).

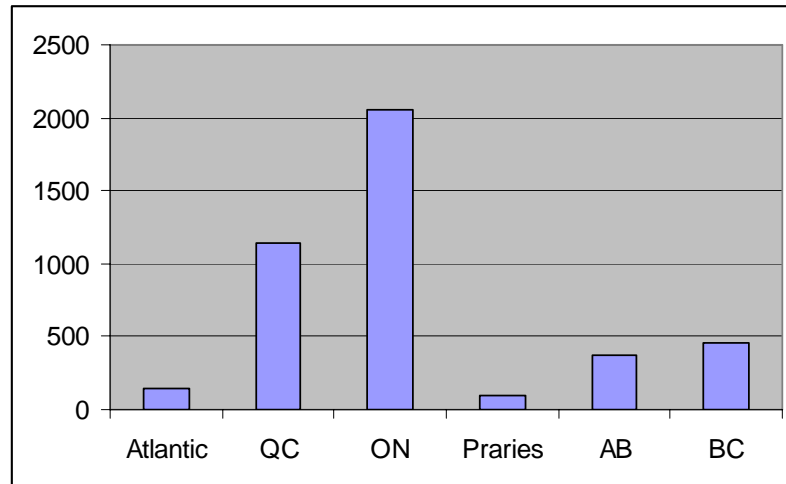
### ***Defining the Market II: Make-up of Establishments and Revenues***

Temporary Help Services is the ultimate “high touch” sector. The relatively low hourly price of the service and the highly sporadic nature of demand mean that these services are rarely transported, (or transportable), from other locales. Rather, there is a tendency for the services to locate close to the customer. The largest temporary help firms operate by maintaining a presence in each of the larger urban areas as the best way of serving those local markets.

<sup>18</sup> Preston, Nancy & Savard, Michel; *Report on the 2004 Survey of Employment Services* (Statistics Canada, 2004)

The employment services industry is heavily concentrated in Ontario and Quebec. Of the 4,269 active establishments operating in the industry in 2004, 48 per cent were in Ontario. Quebec was home to 1,141 establishments, accounting for 27 per cent of the total.<sup>19</sup> (See Chart 2)

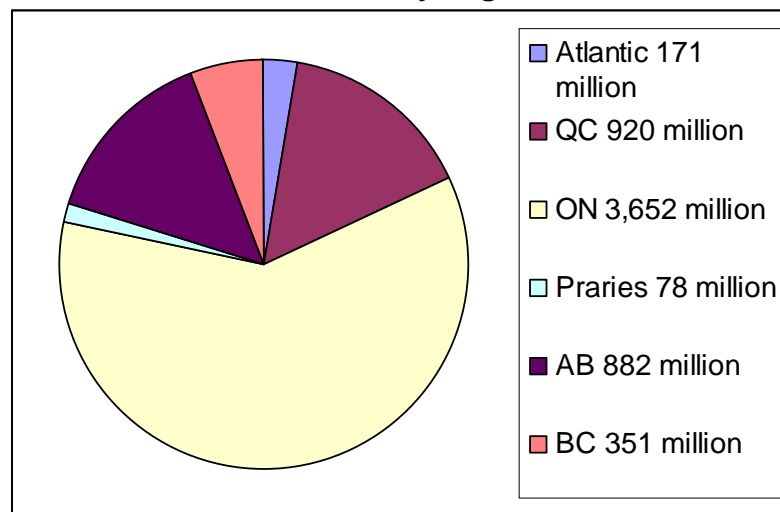
**Chart 2: Number of Employment Services Firms by Region**



Source: Preston, Nancy & Savard, Michel; *Report on the 2004 Survey of Employment Services* (Statistics Canada, 2004). A very small number of establishments in PEI, Yukon, and NWT are excluded.

When considering the *revenues* of the employment services industry, Ontario becomes even more important. Ontario's employment services companies generated \$3.65 billion in 2004, accounting for 60 per cent of the national market. The Quebec market generated \$920 million in revenues, or some 15 per cent of the market. Perhaps as a result of the labour shortage in Alberta's surging economy, Alberta's employment services market was not far behind, generating \$882 million.<sup>20</sup> (See Chart 3)

**Chart 3: Employment Services - \$ Revenues by Region**



Source: Preston, Nancy & Savard, Michel; *Report on the 2004 Survey of Employment Services* (Statistics Canada, 2004). Revenues for a very few establishments in PEI, Yukon, and NWT are excluded.

<sup>19</sup> Ibid.

<sup>20</sup> Preston, Nancy & Savard, Michel; *Report on the 2004 Survey of Employment Services* (Statistics Canada, 2004)

Average operating profit margins for employment services varied from 2.2 per cent in New Brunswick, to 5.5 per cent in Manitoba. The competitive Ontario and Quebec markets were in the middle with 3.8 per cent and 3.7 per cent respectively. Among the major revenue-generating provinces, Alberta firms realized a more substantial 4.9 per cent operating profit margin, giving an operating profit of \$43 million dollars.

The vast majority of companies are SMEs. Thus, of the over 2,000 firms operating in Ontario, only twenty firms had 500 or more employees.<sup>21</sup> This supply structure is not dissimilar to informatics professional services, another “high touch” industry.

Despite the presence of over 4,000 employment services firms operating in the country, the twenty largest firms generated 38 per cent of the industry’s revenues in 2004.<sup>22</sup> These twenty realized an average profit margin of 3.4 per cent in 2004. All the remaining firms averaged a profit margin of 4.3 per cent. Although the smaller firms have considerably less market share, they realized a somewhat higher profit margin, perhaps because of lower overhead costs relative to revenue.

Many service providers have developed a general brand to fill all positions. Other firms, on the other hand, have developed specialization in certain job types. This is prevalent in high skill, advanced qualification professions such as engineering and financial auditing. Upwards of two-fifths of temporary help service providers have specialized their service to offer only a single type of temporary help.<sup>23</sup>

### **The Market Power of the Government of Canada**

The Government of Canada is one of the largest employers in Canada. Not surprisingly, it is a very important customer for temporary help services. The government spends around \$220 million annually to fill positions on a temporary basis.<sup>24</sup> With the national market for temporary helps services being valued at \$4.4 billion, spending by the Government of Canada represents some 5 per cent of the national market. As with other procurement categories, the government is not large enough to significantly alter the national market: even without it, temporary help services would still be an industry generating over \$4 billion in the marketplace.

The impact of the government on the temporary help services category is much more significant in regional and local markets than it is overall nationally. This impact can be estimated fairly easily. For instance, if we assume that the temporary help services industry is distributed in line with the labour market, then we would expect the NCR (also known as Ottawa-Gatineau) to have about 4.5 per cent of the national temporary help services market.<sup>25</sup>

This level of expenditure is roughly equivalent to the \$200 million that the Government of Canada spends just in the NCR. (About 90 per cent of the government’s needs for temporary help services are in the NCR). So a market power calculation which focuses on the national market somewhat misses the point. The effective market for temporary help services is, for all

<sup>21</sup> Data obtained from PWGSC.

<sup>22</sup> Preston, Nancy & Savard, Michel; *Report on the 2004 Survey of Employment Services* (Statistics Canada, 2004)

<sup>23</sup> *Temporary Help Service Industry: Its Role, Structure and Growth* (Statistics Canada, 1997)

<sup>24</sup> Data obtained from PWGSC

<sup>25</sup> Based on Statistics Canada *Labour Force Survey* data for 2005. <http://www40.statcan.ca/101/cst01/labor35.htm>

intents and purposes, a *local* market centred in the NCR and, in that market, the Government of Canada is a virtual monopsonist with the ability to dominate.

Standing offers are used to fill most of these expenditures. It is unclear how much is spent on temporary help services other than by the formal standing offer call-up procedure, due to a shortage of reliable information. Our analysis reports on total government expenditure as far as possible. However, the analysis utilizes data on the standing offer expenditures alone when it is the most reliable data available. Sometimes, the only data available is for the NCR alone but since the NCR makes up 90 per cent of government spending on THS, the analysis is considered relevant to the overall category.

**Micro Analysis of Market Dependence**

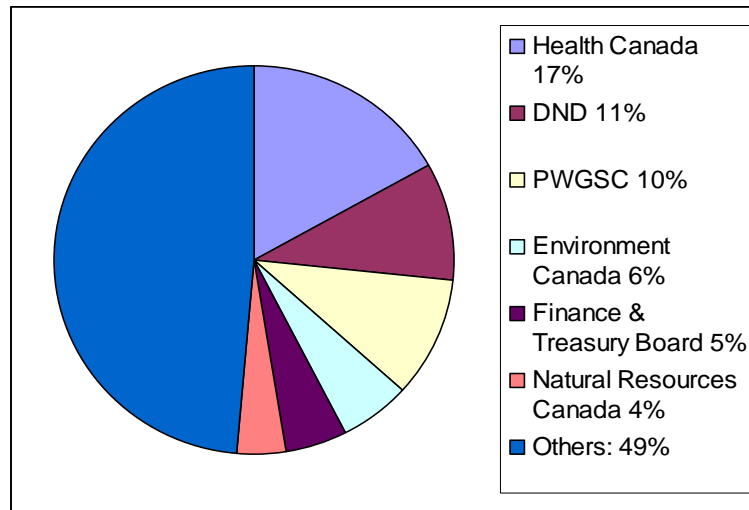
**Types of Services Purchased by the Government of Canada**

The government purchases three streams of services. The largest of these is clerical/secretarial and administrative which accounts for about 60 per cent of temporary help expenditures. The next stream, professional services, with a wide array of job types from auditor to librarian, accounts for 20 per cent of expenditures. The final stream, technical/operational, covers such trades as drafting personnel to scientific support, and accounts for the remaining 20 per cent.<sup>26</sup>

**Purchasing Departments**

In the NCR, over 100 departments and agencies purchased temporary help services in 2005-2006. Thirty-one departments or agencies spent \$1 million or more on temporary placements. Of these, Health Canada had the greatest need, totaling nearly \$34 million. Next came the Department of National Defence (DND) at \$22 million and PWGSC at \$20 million. The top eight departments and agencies spent \$111 million in the NCR, or 57 per cent of the total.<sup>27</sup> (See Chart 4)

**Chart 4: Spending on Temporary Help Services in the NCR, by Department**



Source: The Conference Board of Canada, using PWGSC data.

<sup>26</sup> Based on estimates obtained from PWGSC

<sup>27</sup> Based on data obtained from PWGSC

## Structure of Suppliers

The Government of Canada purchases temporary help services from a wide selection of providers. In 2005, 144 suppliers held standing offers, although not all of these were used by the Government in that year. In 2005, around 120 suppliers received call-ups from the Government of Canada. 47 received call-ups from PWGSC. Many other temporary agencies also receive contracts from the government. Perhaps thousands of suppliers are currently being utilized from time to time by means other than the standing offer process, though usually for relatively small amounts.

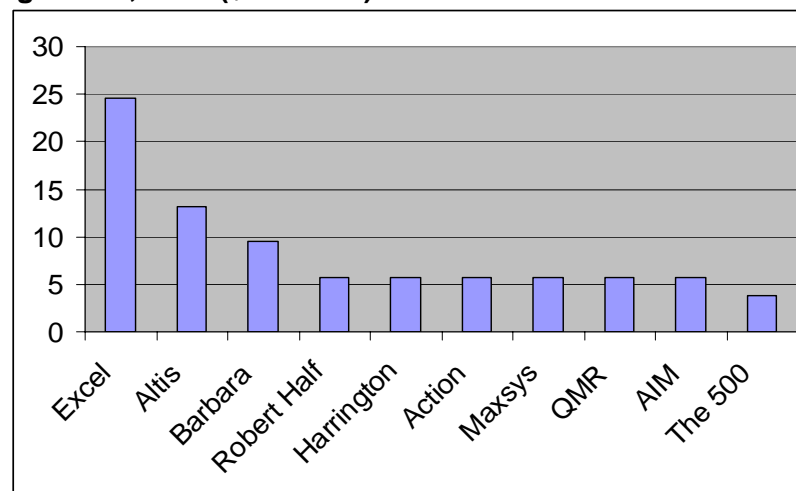
## Top Suppliers

The top 35 suppliers of temporary help services accounted for 80 per cent of standing offer expenditure.

SMEs are strongly represented even among the largest suppliers in terms of financial value of services delivered. Of the top ten suppliers through standing offers, six firms have less than 100 employees, and two have between 100 and 200 employees. Only two firms are large: one firm has between 500 and 1000, the other has between 2,500 and 5000 employees.<sup>28</sup>

The top ten suppliers make up 45 per cent of the government's standing offer expenditures. The two largest suppliers, Excel Human Resources with 13 per cent and Altis Human Resources with 7 per cent, are sister companies. Together they attain a fifth of government standing offer expenditures.<sup>29</sup> (See Chart 6)

**Chart 6: Revenues Generated by the Top 10 Suppliers of Temp Help Services through Standing Offers, 2005 (\$ millions)**



Source: The Conference Board of Canada, using data obtained from PWGSC.

<sup>28</sup> Data from Contracts Canada obtained from PWGSC. These numbers are based on self-identified data, however, and are open to some questioning. For instance, it is unclear how formal the relationship is between the supplier and the employee. It might be that many of the claimed employees are merely “drawable” employees, i.e. people they can call upon. Such people may have similar relationships with more than one temporary placement agency. This multiple counting would tend to over-estimate the size of these firms in terms of the number of employees.

<sup>29</sup> Data obtained from PWGSC.

### **Importance of Government of Canada Expenditures**

The top suppliers are mostly Ottawa-based companies. Five are focused almost exclusively on the NCR market. Even for those that have offices elsewhere it appears that the Ottawa market is still an important market. Only two of these suppliers do not *appear* to be so reliant on the Ottawa-Gatineau market. (See Table 4) Robert Half is an American based company with offices in many parts of the world. With annual revenues in the range \$3.3 billion, the Government of Canada's business does not constitute a significant portion of their annual revenue.<sup>30</sup> Another, AIM Personnel Services Inc., is a subsidiary of The AIM Group, a large US based multi-national providing personnel to work in more than 15 countries.<sup>31</sup>

**Table 4: Top 10 Suppliers and their Geographic Base, 2005**

<b>Supplier</b>	<b>Geographic Base</b>
Excel/Altis	Ottawa and Toronto
Barbara	NCR - Ottawa
Robert Half	American International
Harrington	NCR - Ottawa
Action	NCR - Ottawa
Maxsys	NCR - Ottawa
QMR	NCR - Ottawa
AIM Personnel Services	Ottawa (Houston)
The 500	Ottawa and Toronto

The top two suppliers, the sister companies Excel and Altis, received a combined total of about \$38 million dollars from the government in 2005. According to their website, their combined annual revenues are over \$30 million.<sup>32</sup> Although the exact extent of their revenues is unclear, this indicates that government business is a very important component of their revenue stream. Clearly, the combined firm is highly dependent on Government of Canada contracts. The other Ottawa-based suppliers are likely in the same situation. This is unsurprising given the tendency of the industry to locate close to the customer and the extremely important role that the Government of Canada plays as an employer in the local NCR market.

It is less clear how *dependent* the smaller providers are on government contracts. One might conclude, however, that if the large firms are locally run and operated, due to the importance of geographical proximity to the market, so would be the smaller ones. And if the larger companies are dependent on the largest client in the local market, so would be the smaller ones.

It is clear from this analysis that most suppliers operating in the NCR are highly dependent on the Government of Canada. Any changes to the procurement process would therefore have important implications for the large number of temporary help service firms located in the NCR who are serving the Government of Canada.

<sup>30</sup> Robert Half Website < <http://www.rhi.com/portal/site/rhi-us/menuitem.a92d4b453ee82d15edb82f90448fbfa0/>>

<sup>31</sup> AIM website <<http://www.theaimgroup.ca/aimcalgary/international.htm>.

<sup>32</sup> Altis Website < <http://www.altishr.com/about/about.htm>>

## **Section E – Temporary Help Services: Planned Changes, Issues and Perceptions**

Suppliers' views have been sought in a variety of ways by PWGSC as it has been going through the process of developing its procurement reform plans. The department has attempted to incorporate some suggestions from individual suppliers and industry associations into its plans. As a result, alterations and refinements to the planned changes in procurement have already been made.

### ***Supplier Consultations***

On June 20 and 22, 2006, PWGSC met with the Association of Canadian Search, Employment and Staffing Services (ACSESS), an association that represents about 300 industry suppliers, to discuss proposed changes to the federal government's procurement model for acquiring temporary help services. ACSESS raised concerns about the elimination of dynamic pricing, low profit margins in the industry, and the notion that there would be 'winners' and 'losers' with many firms going out of business.

A Request for Standing Offer (RFSO) for Temporary Help Services (THS) procurement was released by PWGSC on June 29, 2006 and was followed by a number of negative responses. In July, the RFSO was converted into a Request for Supplier Information (RFSI) giving THS suppliers the opportunity to provide comments on the government's proposed procurement adjustments within the THS category. The subsequent supplier input, along with an internal government evaluation, contributed to a decision to revise the THS strategy. Initial changes included:

- Allowing benefits to be paid to temporary employees (while not penalizing THS firms).
- Distinguishing between Quebec and Ontario—as statutory benefits differ between the two provinces.

### ***Government Issues and Perceptions***

PWGSC believes that changes to temporary help services procurement are warranted because the current system is not as effective or efficient as it should be.

Examples include:

- Higher wage rates are being charged part way through call-ups than at their start.
- Client departments are not using the lowest priced suppliers with regularity—repeatedly skipping over an average of 30 to 40 suppliers before reaching a supplier for a call-up.
- Client departments are using suppliers that are not on the standing offer list.
- Sales and marketing efforts of temporary help agencies are driving volume (being on the standing offer list has meant little to some suppliers' business volume).
- Temporary help workers are being called up for the wrong positions—either due to misunderstandings within the current classifications system, or because of classification switching (for example, replacing a junior clerk at \$17.57 average hourly cost with a higher classification junior financial clerk at \$40.63 average hourly cost).
- Travel expenses for temporary help workers are being reimbursed, and commissions are being charged on the travel costs.

- Agencies post low rates to attract client departments and then offer a higher qualified and higher priced candidate for call-ups.

### **Caveat**

The issues and perceptions presented below provide a snap shot of the views and perceptions of individual suppliers. They are not necessarily reflective of the industry or a government department as a whole. As well, in some instances, the supplier or individual within a client department may not be aware of the most current proposed procurement strategy. Consequently, their issues may have already been addressed by PWGSC through its procurement transformation strategy. For instance, the government has recently announced that Reverse Auctions will no longer be part of its procurement strategy.

### ***The Way Forward and Planned Changes to the THS Procurement System***

For government, The Way Forward strategy is a new approach to procurement that is being implemented category by category. The strategy embodies common features for all procurement as well special features for each procurement category.

The new THS category procurement system is designed to ensure that qualified resources at competitive rates are available to clients across government. One important feature of the new call-up process in THS is that client departments will be able to request resumes directly from the Standing Offer supplier of their choice. As well, supplier quality will be monitored using client satisfaction surveys, as part of an enhanced quality evaluation process to ensure good value from suppliers. The THS system will also be monitored to limit unauthorized THS call-ups.<sup>33</sup>

## **1. Planned Change**

### **Definition of Eligible Temporary Help Services will be Updated**

Standing Offers within the THS category are used to fulfill the staffing requirements of client departments in three situations:

1. When a public servant is absent for a period of time not exceeding 52 consecutive weeks; or
2. When there is a requirement for additional staffing during a temporary workload increase, in which there is an insufficient number of public servants available to meet the requirement; or
3. A position is vacated and staffing action is being completed by a competitive staffing process.

There is also a condition that the call-up is valued below the departmental call-up limit of \$400,000.

<sup>33</sup> Using a 3-star, 3 question approach suppliers will be required to include the customer satisfaction survey to the final invoice.

All other requirements, such as long term staffing, project-related work, staffing or consulting, are not considered to be temporary help and would be fulfilled through other standing offers. Suppliers interested in project-related contracts (e.g., deliverables-based contracts, project work) are required to refer to the Professional Services Online (PSO) and other methods of supply. Plans are for PSO to expand to cover a wider-range of professional services in the near future.<sup>34</sup>

## 2. **Planned Change**

### **Wage Rates will be Fixed at Market Levels and Adjusted Only during Price-Refresh Periods**

Dynamic pricing—where prices are not locked in and suppliers can adjust them from day-to-day—will no longer be in effect.

Wage rates will be set during the up-front competition at the Standing Offer award stage. Suppliers will have the opportunity to increase their standing offer rates annually by no more than the Consumer Price Index. Standing offers will be in place for 2 years with 2 option years, reducing the frequency of the bid process.

### ***Supplier Issues and Perceptions***

- By reducing or fixing wage rates, the supply and quality of temporary help workers will diminish because skilled employees will either migrate to permanent jobs or to temporary help work in the private sector.
- Many temporary help workers will have to accept artificially low pay rates.
- Reducing or freezing wage rates will force THS suppliers to alter previously successful business models (forcing companies to accept “one tier market value” eliminates competition and is not reflective of fair market value).
- Wage rates should fluctuate based on skill, experience and supply-demand variables. In Halifax, Nova Scotia, the socio-economic impacts of “averaging” wage rates was that several temporary help employees turned to Social Assistance and Employment Insurance rather than working, because “it was financially better for them to stay at home with their children and collect from the government, than go to work at a reduced wage”. The same could hold true for the National Capital Region.
- According to Quebec law, those who set salaries create an employer/employee relationship. The government should not have any role in determining wage rates.
- The RFSO does not account for the different costs associated with Workplace Safety and Insurance Board of Ontario (WSIB) and La Commission de la santé et de la sécurité du travail (CSST). Nor does it deal with labourers in Quebec who hold a Quebec union card.
- The highest used category in the THS industry is ‘Clerk’. However, the range of positions in this category is very broad, and the Junior, Intermediate and Senior classification system does not cover the descriptions with any level of accuracy.

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<sup>34</sup> For more information and updates on PSO, go to: [www.pwgsc.gc.ca/acquisitions/text/ps/online-e.html](http://www.pwgsc.gc.ca/acquisitions/text/ps/online-e.html)

- e.g., Junior Data Entry Clerk for \$8.00 an hour, and a Junior Call Centre Clerk for \$12.00 an hour. Agencies must structure bids at top end range (\$12.00 per hour) to fill the “Clerk” position and cover real/possible costs. In a 52 week period: \$12 x \$40 per cent mark-up x 35 hrs. x 52 weeks = \$30,576; whereas a clerk at \$8 x 40 per cent mark-up x 35 hrs. x 52 weeks = \$20,38 (a difference of \$10,192.00 per year)

### 3. Planned Change

#### **Technically Qualified Suppliers Will Compete on Mark-Up Competitiveness, Not on Labour/Wage Rates<sup>35</sup>**

Suppliers that pass the technical evaluation (see below) will then be evaluated on their mark-up competitiveness. Suppliers with the most competitive mark-ups will receive standing offers. Suppliers will not be able to provide employees with lower wage rates to gain a competitive advantage in the RFSO process.

The 1<sup>st</sup> stage of the RFSO process includes an automated technical/quality evaluation that rates suppliers on a number of key indicators, including:

- The number of years in business.
- The number of hours of temporary help services provided to the federal government in a given year.
- The capacity to provide administrative/clerical and secretarial support; professional services; and, technical/operational services.
  - Companies must be able to supply at least 36 of the 50 classifications.
- The number of evaluation/recruiting techniques used.
- Whether or not a supplier screens new hires.
  - Suppliers who achieve 100 out of 185 points<sup>36</sup> of the rated criteria (weighted by category) are required to submit comments on their relationship and capacity management capabilities (e.g. ways to find additional savings, volume discount percentage commitments, sub-contractor management strategies).

Successful suppliers in the 1<sup>st</sup> stage can proceed to the 2<sup>nd</sup> stage, known as the financial evaluation.

- Suppliers must achieve 75 out of 150 points of the manually rated evaluation criteria (relationship management and capacity management) to proceed to the financial evaluation.

Financial evaluation is based on comparing a suppliers wage rates to the average wage rates, for each of the 50 classifications, of all the technically-qualified suppliers. During this stage, PWGSC will use a weighted average to calculate a bidder’s mark-up using a defined formula.

<sup>35</sup> Note: “reverse auctions” as part of the federal government’s procurement strategy for all commonly purchased goods and services has been taken off the table.

<sup>36</sup> 185 points are available in Codes R1 to R6 of the Technical Evaluation Criteria (Table 2)

### ***Supplier Issues and Perceptions***

- Price competitions on supplier mark-ups will force the commoditization of an industry without any review or consideration of the value of proprietary methods and practices (e.g., screening techniques, skills tests, etc.).
- No consideration is being given to the hiring process and associated costs (e.g., conducting security clearances, and other administrative costs) of THS suppliers. The end result will be a loss in quality in favour of suppliers with lower mark-ups who do not provide the same level of diligence in ensuring quality of workers.
- Mark-up is a price that finds equilibrium as supply and demand dictates. THS suppliers compete with one another, thereby keeping mark-ups in check.
- Some taxes are not included in the mark-up, such as the Ontario Health Tax and “Taxe Quebecoise sur la Formation de la main-d’œuvre.”
- There is no way to know the true “mark-up” of a supplier. THS suppliers will find other methods to increase profit, leading to increased costs.
- The lowest mark-ups will come from those THS suppliers with little to lose (e.g., those who are currently “non-suppliers” of THS services to the federal government).
- By proposing that THS suppliers operate on low mark-ups, employees’ salaries and benefits may be at stake, in order to compensate for eroding mark-ups. This will be especially true among SME suppliers.

#### **4. Planned Change**

##### **The Job Category Classification System will be Simplified and Standardized**

PWGSC will simplify the THS job category classifications to align with the Public Service classification system. The new THS classifications will be structured in three streams of service: administrative, clerical and secretarial services; professional services; and technical and operation services.

The old broad range of classifications with many levels will move to 17 categories with a range of only 2-4 levels (typically, junior, intermediate, and senior) for a new total of 50 classifications.

The new, simplified job category classification system will make it easier for the Government to determine if they have obtained the right level of individual for a particular role in government, and whether it has paid a fair market price for the services that the individual performs.

### ***Supplier Issues and Perceptions***

- It will be difficult to determine the correct ‘classification’ for THS candidates now that the total number of classifications is being reduced. A minimum of 80 to 90 classifications is needed.
- Presently THS suppliers and government departments are working with two different systems of classifications. PWGSC should implement a standardized classification system between THS suppliers and government departments.

- The federal government has invested time and money to create the “National Occupational Classifications” (NOC) which include skills, descriptions and responsibilities, and experience required to qualify for a position, yet it does not appear that any of the NOC classifications and descriptions are used in the new RFSO.
- Lumping job classifications together to suggest average pay rates is not correct. For example, a skilled PM-05 should not be the equivalent of a PM-03, when civil servants’ wages reflect differing scales of pay.
- Candidates under certain classifications “must” have a degree from a recognized university, and/or certifications. Years of experience of a temporary help worker should also be recognized.

## 5. **Planned Change**

### **Reduce Overlap between THS and Other Staffing Systems**

PWGSC is removing some highly specialized classifications such as engineers from the THS procurement category. It is also removing some classifications such as Computer Applications Specialists that are better situated in other procurement categories such as Informatics Professional Services.

## 6. **Planned Change**

### **The Elimination of Non-Competitive Suppliers and a Reduction in Non-Compliance Spend**

This will have the potential impact of increasing volume for competitive suppliers with standing offers.<sup>37</sup> Currently the federal government has 144 THS standing offers in place, with new suppliers being added to the databank every quarter. The new THS procurement strategy has no ceiling on the number of standing offers and will award up to 200 per cent of the current capacity (to ensure that adequate supplies of qualified temporary help workers are available). At a minimum, several suppliers will receive a Standing Offer. A standing offer is good for two years, with a two year option. This will reduce the frequency of having to submit bids.

Standing Offers will be issued to competitive suppliers who demonstrate that they are offering suitably qualified human resources to the Government. They will be able to demonstrate this during a more rigorous competition at the RFSO stage.

### ***Supplier Issues and Perceptions***

- There will be very few THS suppliers in the National Capital Region, and very few joint ventures that will have either the capacity or the experience to submit a bid on all three classification categories.
- SME THS suppliers will be at a greater disadvantage than larger firms given the requirement to provide a certain number of classifications across all three streams.

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<sup>37</sup> Compliance to the RFSO list is mandatory under the new THS procurement system.

- The classifications requirement puts larger firms in a position to prey on smaller firms for their resources.
- The government should consider relaxing this requirement as it may damage the quality of services offered by THS suppliers, who will be more inclined to provide general services, rather than specialized services.
- There should be three separate Standing Offers issued: one for Clerical, Secretarial and Administrative Services; one for IT Services; and one for Professional Services.
- Currently, bidders are not required to show that they have the necessary capacity in each of the three classifications (CSA) (PS) (T/O). This may lead to unqualified firms providing capacity rates for fields they may not have any experienced resources in (e.g. a THS supplier specializing in Clerical Services providing rates for Professional Services).
- The RFSO does not ask bidders to provide evidence that they have staffed classifications, leading to companies not providing accurate capability rates.
- Merit and capability should be factored into criteria, and there should be an emphasis on past and current capabilities “rather than size, revenue, number of persons days/hours served.”

## 7. **Planned Change**

### **Customer Satisfaction Survey will Track Performance and Inform Resource Selection**

A Customer Satisfaction Survey will be created to track supplier performance in delivering quality services to client departments. The results of the survey will be used in subsequent selection of service providers. Clients will be required to complete the survey at the end of each call-up. PWGSC will track survey responses.

## 8. **Planned Change**

### **Travel Expenses will No Longer be Permitted for Temporary Help Workers**

Temporary help workers should not need to travel since there are qualified workers available in close proximity to job locations. In addition, temporary help workers should not need to travel to meetings or events at distant locations.

## 9. **Planned Change**

### **Volume Discounts**

Volume discounts will be built into the new RFSO process and ultimately the standing offers.

## **10. Planned Change**

### **Joint Ventures among Suppliers will be Encouraged**

PWGSC is encouraging suppliers, especially SME suppliers, to join together in joint ventures that will enable them to offer wider ranges of workers and other features that will make it possible for them to bid more successfully on standing offers.

### ***Supplier Issues and Perceptions***

- THS Suppliers with niche expertise will not be able to bid by themselves, and will be forced into making partnerships or joint ventures which have additional risks associated with them.
- It is difficult for SMEs to form Joint Ventures, as many of them have worked hard and competed against each other to establish themselves. The Government of Canada officials working on the THS RFSO do not understand the nature of the business.
- The RFSO allows for joint ventures, but does not express clearly whether THS suppliers can participate in multiple Joint Ventures.
- The only ones who win with Joint Ventures are the big American and European firms.

## **General Supplier Issues and Perceptions**

### ***1. The Disappearance of SME Suppliers***

- Three to five year standing offers will put many SMEs out of business. It will be financially crippling if suppliers currently offering services to the federal government under a Standing Offer (SO) are not awarded an SO in the future.
- Several SMEs rely on unrestricted free access to the types of opportunities and business provided by the current THS procurement system.
- The trend of procuring services through SOs, will not be served by eliminating SMEs, and the idea that small businesses can subcontract is “unrealistic and untenable.”

### ***2. The Transition Period to a New Procurement System Needs to be Considered***

- Transition expectations to the new THS procurement and Standing Offer system should be outlined.

## Appendix A – Data Analysis Methodology

### Overview

This section presents a summary and analysis of data relating to one of the procurement categories in which the Government of Canada purchases goods and services: temporary help services. It examines data that relates to government requirements and purchasing and to the large, medium and small suppliers who provide goods and services to the Government of Canada.

The methodological approach taken is to analyze the nature and impact of market power and market dependence within this procurement supply category. Market power and market dependence have a major influence on the *impact* of planned changes in procurement processes. Both factors are relevant to understanding how procurement changes may affect or influence suppliers and the Government itself.

The analysis draws attention, where relevant, to difference between actions of large business suppliers versus small and medium enterprise (SME) suppliers.

It is important to clarify the key terms in the context of the Government of Canada's involvement with markets.

**Market power** is the ability of the government to alter the market price of a good or service and to alter other market conditions. It is an indication of how important government procurement is in the overall market for each procurement category (i.e. its importance on the demand side).

The size of the federal government in the market, especially within the National Capital Region (NCR), raises the issue of whether the market is a monopsony, with the Government of Canada being a monopsonist. A monopsony is a market form with only one buyer (the monopsonist) facing many sellers.<sup>38</sup> In purely competitive markets there are many sellers and buyers and this restricts the ability of buyers to determine market clearing conditions (regarding both price and volume). A monopsonist's position allows it to determine market clearing prices and volumes that maximize its welfare at the expense of suppliers.

**Market dependence** considers the issue of market structure from the suppliers' view (i.e. the supply side). In this context, it can be simply represented by the percent of a firm's sales attributable to the Government of Canada. Firms with a large percentage of sales to the Government of Canada are said to be dependent on the government market. Dependence on one large customer is ultimately reflected in the way a firm is organized (geographically, in its business processes etc.). Highly market dependent firms are more likely to be affected by changes in their dominant customer's policies and practices.

This section explores the statistical basis for an analysis of market power and market dependence. In the case of market power, it relies mainly on Statistics Canada's industry and output data. When looking at market dependence, it analyzes Government of Canada

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<sup>38</sup> It is the reverse of monopoly where there is one seller to many buyers in a given market.

expenditure data, provided by Public Works and Government Services Canada (PWGSC). The analysis utilizes both a macro market analysis and a micro market analysis as key methodologies for understanding the change management issues at play as the government changes procurement policy and practices.

## **Methodology**

The following methodology has been used:

### ***Macro Analysis***

- Define the overall market as accurately as possible based on Statistics Canada data.
- Reconcile the industry output with the procurement categories
- Review government expenditures with the industry.
- Provide an initial estimate of market power based on gross market share.
- Discuss other factors that may have a bearing on the effective market share.

### ***Micro Analysis***

- Discuss the industry structure which may have a bearing on market dependence, particularly the size of firms in the industry and their geographic location.
- Consider the current vendor basis and how expenditures relate to vendors.
- Assess the number of firms that may face adjustment risk because of high market dependence.

## **The Definitional Challenges**

A key methodological challenge is to reconcile the various sources of data to construct a “market”. The first challenge is to reconcile the PWGSC definitions of procurement categories with Statistics Canada’s definitions of industries. It is difficult to do this with precision because PWGSC uses a government accounting framework whereas Statistics Canada uses a national accounting framework.

Statistics Canada assesses industry output from its business surveys. The main unit for analysis is the “establishment”. According to Statistics Canada an establishment:

“... is the level at which the accounting data required to measure production is available (principal inputs, revenues, salaries and wages). The establishment, as a statistical unit, is defined as the most homogeneous unit of production for which the business maintains accounting records from which it is possible to assemble all the data elements required to compile the full structure of the gross value of production (total sales or shipments, and inventories), the cost of materials and services, and labour and capital used in production.”<sup>39</sup>

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<sup>39</sup> See: <http://www.statcan.ca/english/concepts/stat-unit-def.htm>

Based on business surveys, Statistics Canada organizes the reporting establishments into industries. Respondents to these surveys first report back by identifying themselves as belonging to one particular industry. Using these reports, Statistics Canada organizes its industry output statistics into an industrial classification system called the North American Industrial Classification System (NAICS).

Two types of statistical issues may arise when attempting to align commodities to specific industries. First, an establishment may not be totally “homogenous”, in which case its output may spill over into other industries. Second, government purchases for a single procurement category may cut across more than one industry.

These are some of the definitional challenges in reconciling the procurement categories (the demand side) with industry output (the supply side). These challenges are further complicated when one considers geography. Statistics Canada provides very good data at a national and provincial level for incorporated businesses. But the availability and quality of business data is less reliable at the regional or local level. If the geography of the marketplace is such that local firms play a relatively large role, then market shares that are calculated based on national or provincial shares may not be portraying an accurate picture of the effective market.

The analysis addresses statistical shortcomings in the following ways:

- It takes a “whole industry/best fit” approach to reconciling procurement categories with industry sectors. We do not attempt to massage the industry data but report those areas where, in our view, there is the greatest fit between the industry and the procurement category.
- It is transparent in reconciling procurement categories with industries.
- It provides cautionary notes on the interpretation of the subsequent market share.
- It considers mitigating factors including the role of geography, its impact on the effective market and the role of exports.
- It undertakes supplemental analyses, specifically on market dependence, to provide a fuller picture than that portrayed only through market shares.

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