Standing Committee on Government Operations and Estimates

Submission to the Committee

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BC Tech Association

The BC Tech Association is guided by our mission to make BC the best place to grow a tech company. For more than 20 years, BC Tech has been providing opportunities for the tech industry to collaborate, learn and grow together. We are dedicated to connecting companies, developing talent, sharing stories and advocating on behalf of tech companies to keep our industry thriving. Since our founding in 1993, the tech industry has quintupled to $28 billion in revenue. In that time, we have played a privileged role in supporting the growth of the tech community that now includes nearly 10,000 companies, employs more than 100,000 people and that has been one of the strongest contributors to BC's economic growth over the past decade.

Background on the BC Tech Sector

Technology has become a transformative force in the BC economy. Spanning the complementary sectors of digital media, life sciences, wireless, information and communications technology and cleantech, the BC technology industry is integral to virtually every sector and is essential in our province's future economic prosperity and competitiveness.

British Columbia is well positioned to capitalize on the importance of the technology trend, with a wealth of talent, a diverse base of companies, world-class universities and experienced entrepreneurs capable of building and growing globally competitive companies.

In the British Columbia Technology Report Card 2016, KPMG assessed the performance of the tech industry in BC in comparison to other industry sectors and to peer regions in other jurisdictions. The data clearly shows that BC's technology sector continues to outperform other sectors in the province, growing substantially in GDP, industry revenues, and wages. There have been a healthy number of new companies formed, as well as an increase in the number growing number of mid-sized companies. Specifically:

- **106,000 employees** - more than forestry, mining, oil & gas combined
- **3rd fastest private sector job creator** over the previous decade
- **3rd largest contributor to GDP** – at $16B
- **$28 Billion in revenue** – annual growth rate of 6.2% which is triple that of BC's overall growth
- **$9 Billion in wages –** with jobs earning 75% more than BC average

The BC technology industry has grown an average of 6.2 percent per year since 2001. If the industry were to continue to grow at this rate, by 2030, the industry would grow to $60 billion in revenue. In other words, it would be a sizeable industry, growing at more than twice the rate of the province overall.

The opportunity, however, is much bigger. BC's tech sector is proportionately smaller in terms of the share of GDP, investments in R&D and employment and trails many US states in terms of the share of the technology industry as a percentage of the economy as a whole[1]. As an $9 trillion market for technology globally, and growing at nearly ten percent per year, BC stands to realize a much more significant share of the technology market – provided that it takes decisive and deliberate action in fostering the growth of the industry. It's an opportunity that offers the unique combination of fast-paced growth, the creation of clean, knowledge-based jobs and significant export opportunities based on the Elaincreative and innovation resources indigenUpdate ous to British Columbia.

Importance of Scale

As published in the BC Tech Association's 4-Point Plan, one of the principle barriers to faster growth in the tech industry is the relative size and scale of companies. Currently the vast majority of BC tech companies are small businesses, with over 80% of companies employing fewer than 10 people and 96% of all companies employing fewer than 50 people. While there has been progress in growing the number of mid-sized companies with greater than 50 employees in recent years (growing from 348 companies in 2009 to 435 companies in 2016), there remains a significant opportunity to scale considerably more companies to mid and large sized anchors.

[1] KPMG British Columbia Technology Report Card 2016

BC TECH association

BC Tech Ecosystem 2009, 2012-2016

	Stage 0 Pre-Revenue 1-4 Emp	Stage 1 <$250K 5-9 Emp	Stage 2 $250K - 2MM 10-19 Emp	Stage 3 $2 - 5MM 20-49 Emp	Stage 4 $5 - 25MM 50-99 Emp	Stage 5 $25 - 50MM 100-199 Emp	Stage 6 $50 - 100MM 200-499 Emp	Stage 7 $100MM+ 500+ Emp
					←	435		→
2016	6931	1291	865	702	**260**	**98**	**68**	**9**
2015	6689	1272	869	634	263	93	67	9
2014	6553	1293	837	590	281	88	63	15
2013	6254	1240	805	524	251	108	52	12
2012	6254	1146	718	501	221	113	42	15
2009	6109	1164	765	517	←	348		→

Source: BCStats

Successfully growing more small companies into medium-sized companies is essential the long-term competitiveness of the industry. Medium sized companies form a pool from which large anchor companies will emerge and support a growing ecosystem. Medium and large firms create more jobs, attract larger investments, create new spin-offs and elevate the ecosystem. Hence, we must position BC and Canada as an attractive location to locate high-tech business and employ a strategy that encourages the growth of small companies to become medium and large anchor companies.

Supporting the Growth of SMEs through Government Procurement

The key to success for every tech company is to establish a strong base of reference customers to propel their early growth. Often this starts with local customers and in the case of BC, would necessarily include government and crown agencies as customers. Most BC tech companies, particularly small and mid-sized companies, have encountered significant challenges in trying to sell to government. The challenges tend to arise from several key factors:

1. Procurement practices geared to larger vendors. Government procurements typically demand a level of sophistication on the part of vendors and suppliers in order to participate in the procurement process. This often involves experienced account teams, proposal development expertise, legal and administrative support - all of which represent time-intensive, complex and costly resources. This challenge is further exacerbated by the reality that procurements tend to favour larger awards for reasons of economies of scale and scope, which further disadvantages small and mid-sized companies from participating in the bid opportunity.

2. Process favours incumbents. In many cases, it is easier to renew and/or extend existing vendor arrangements than it is to engage in a competitive process. While there is a formal Notice of Intent provision for such instances, the timeliness and the limited duration of such notices make it challenging for potential new vendors to respond. Incumbent vendors also have a distinct advantage on new opportunities, given their detailed understanding of the needs/ requirements and therefore are better positioned to influence the specifications that favour their position.

3. Benefits to Canada. Though evolving, the current process for most procurements is primarily based on the principle of value for money. Recent changes to defense procurement has led to policies that account for economic benefits to Canada in a more holistic way. Expanding these policies to more procurements would help to further differentiate purely international vendors from those who have a substantial presence in Canada.

Recommendations

The government has already recognized the importance of procurement in fostering the growth of SMEs in Canada. We propose the following recommendations to improve access to government procurement for BC tech companies:

1. Introduce value-proposition across all technology procurements.

The current process for most technology procurements is primarily based on the principle of value for money. In contrast, a value proposition, as defined in the Canadian Defense Procurement Strategy, recognizes the importance of economic benefit, supplier development, R&D investment and export potential.

A value proposition would provide a more fulsome assessment of procurements and should be applied to all procurements of technology products and services across all ministries and public sector agencies.

A value-proposition based procurement can be designed in compliance with existing trade agreements. The weighting framework of a value proposition score relative to other attributes such as cost and performance a can also be flexible and be determined on a procurement-by-procurement basis. We would recommend higher weightings for value proposition being appropriate in situations where there is:

a) Higher potential for Canadian-developed content
b) Opportunity to incorporate smaller Canadian tech companies as part of the proposed solution
c) Activity that supports sectors that align with Canada's economic priorities
d) Intention to expand operations in Canada

2. Expand access to co-developed RFPs and joint solution proposal submissions.

We recommend expanding access to tech companies for a joint solution proposal for smaller bids. A simple short form contract is less work and can be submitted for a regular RFP, whereas a joint solution proposal (NRFP, alternative outsourcing, etc.) is more complex and generally undertaken only for large scale bids. Since there is heavy cost to responding to the joint proposal, this may sideline smaller companies from participating and demonstrating added value. It is important to open up opportunities and applications for smaller product companies as well as larger service companies.

3. Limit modifications/expansions of previously awarded procurements.

The current procurement policies provide existing vendors with continuing agreements to modify and/or expand the scope of the agreement. We would recommend that there be a defined limit on the extent to which existing agreements can be modified or expanded before requiring a new competitive bid process. We further recommend against the use of

a Notice of Intent in such situations and instead require a call for a new bids, that would incorporate a value proposition as part of the evaluation.

4. Improve the transparency and accessibility of procurements.

a) Disclose procurement outcomes. We recommend that the rankings should be proactively disclosed to all of the proponents as part of the notification to unsuccessful bidders. Announcements to companies may also include contracts awarded, evaluation metrics and timelines for successful awards. While respecting business confidentiality, disclosure of scores and bidding companies may further the goal of enabling smaller companies to recognize potential alliances with larger bidding companies.

b) Support procurement officials with enhanced training. We recommend further investment in training and professional development in the areas of value proposition assessments, tech sector engagement and cross-government opportunities. Industry engagement should begin early in the procurement process, with discovery sessions with the broader tech community rather than just existing vendors.

Conclusion

In summary, with strategic actions that build on the strong foundation of Canada and BC's tech industry and incentivize continued growth and scaling of companies, Canada will be well positioned to realize the benefits of a fast growing technology sector – bringing more wealth, stable high-paying jobs and the technology expertise needed to grow all industries in Canada.