



Submission to the Standing Committee on Government Operations and Estimates

SSC's Plan to Eliminate Competition

Industry concerns over Federal plan to eliminate competition when the government buys printers, copiers and related support services

February 2018

REQUEST OF THE COMMITTEE

Canon Canada Inc. (Canon) and Sharp Electronics of Canada Ltd. (Sharp) request that the Standing Committee on Government Operations and Estimates Department make the following recommendations in the report on its study of federal procurement in relation to small and medium enterprises (SME) and how the federal government could improve access to federal procurement opportunities for those businesses:

- 1) That the Minister of Public Services and Procurement cancel Shared Services Canada's Workplace Technology Devices Printer Procurement.**
- 2) That the Minister of Public Services and Procurement direct Shared Services Canada in their future procurements to achieve efficiency and cost-savings without reducing competition and hurting small and medium-sized businesses.**

ISSUE

The Workplace Technology Devices Printing Products Procurement¹ (WTD Printer Procurement) being carried out by Shared Services Canada (SSC) is at risk of undermining,

¹ The WTD Procurement includes the following phases: Industry Engagement (including 'Wrap-Up Webinar' held on March 21, 2016); Invitation to Qualify (ITQ) (No. 10047402/A, issued on July 6 2016), Review and Refine Requirements (RRR); Request for Proposal (RFP).

rather than achieving, the goals of greater efficiency, innovation and lower costs in Federal procurement.

- It will dramatically reduce from the current 12 companies to three or fewer the number of qualified printer and copier suppliers that compete for Federal Government business.
- It will shut-out from any future business dozens of small dealer companies across Canada that currently sell and service printers and copiers for the Federal Government, putting at risk these businesses and the jobs they support in their communities.
- It will create a small group of very large suppliers leading to less competition and inevitably, to higher prices and diminished service for the Federal Government.
- It will lock-in this uncompetitive arrangement for a minimum of 6 to 8 years, limiting access for the Federal Government to new and innovative technologies constantly emerging in a dynamic industry.

SUMMARY OF CONCERNS

1. SSC's plan to eliminate competition for office printers and copiers will create an uncompetitive oligopoly of suppliers with less competition, higher prices and limited access to new and innovative technologies for the Federal Government over the next seven years.

Currently, 12 qualified companies compete to sell printers, copiers and related services to Canadian federal departments and agencies. When implemented, ***SSC's plan to eliminate competition*** will reduce the number of competitors to just three or fewer companies or partnerships.

It is unclear why SSC believes limiting the number of printer and copier suppliers to just three very large qualified companies or partnerships will provide Federal departments and agencies with SSC's stated goal of "access to the right printer with the right features in the right place at the right time". Nor is it clear how reducing price competition will balance "cost versus convenience".

What is clear is that the ***SSC's plan to eliminate competition*** will result in more limited competition, a more limited number of devices and technology options, and more limited access

to technological development and innovation - all from a process that was supposed to ensure the Federal Government gets the best equipment at the best price.

While the stated objective of *SSC's plan to eliminate competition* is to create cost-savings with increased efficiencies government-wide, this same consolidation will stifle supplier competition, increase prices and lower rates of innovation within the government.

Currently, Canadian Federal departments and agencies can choose between 12 high-quality workplace device suppliers. With transparent pricing and a large number of competing companies, aggressive price competition has become the norm with the result that the Federal Government has and continues to enjoy the advantage of low competitive pricing.

This healthy price competition is virtually eliminated by the creation of a small group of large players that will be more, not less, inclined to act in parallel.² This group will have at least 6-8 years of control (and likely much longer) of Federal Government procurement for printers, copiers and related support services.

2. SSC's plan to eliminate competition for office printers and copiers favours only the largest multi-national companies, and makes it virtually impossible for most printer and copier companies and their dealers networks to compete for Government of Canada business.

The Government of Canada is by far the largest single buyer of printers, copiers and related support services in the country. *SSC's plan to eliminate competition* for office printers and copiers hurts many dealers in smaller communities across Canada, including in more remote parts of Canada, who rely on Federal Government contracts to support thousands of jobs, to validate the quality of products and services they provide to other customers, and to qualify for procurement opportunities with other levels of government and other businesses.

² The likelihood that a small number of companies will bring about price increases through coordinated efforts increases the more there is concentration in the marketplace. By way of analogy, if, through a merger, we had a proposed industry consolidation down to just three suppliers, the Competition Bureau would likely feel compelled to review such a transaction.

In addition, *SSC's plan to eliminate competition* will likely cause significant harm to the commercial market for printers and copiers as dealers are being forced to reconsider and possibly eliminate lines of business and related jobs to reflect the new Federal Government procurement reality.

3. SSC's plan to eliminate competition undermines the Liberal approach for making government procurement more "open, agile and innovative".

SSC's plan to eliminate competition will dismantle a robust, transparent, open and highly-competitive National Master Standing Offer (NMSO) system that currently allows the government to buy printers, copiers and related services from all major Canadian equipment-suppliers, including Canon and Sharp. These suppliers are supported by hundreds of small and medium-sized dealer-businesses across Canada.

In its place SSC wants to create a closed and anti-competitive system that will be dominated for decades by a small 'oligopoly' of 2 or 3 of the largest equipment-suppliers. SSC's plan runs entirely counter to the Liberal plan for more open, agile and innovative Federal procurement.

This Liberal plan for procurement has been aptly described by the President of the Treasury Board, the Honourable Scott Brison in a speech delivered at the Blueprint 2020 Innovation Fair:

No more blind marriages with big IT providers, instead constant dating. ...more show and less tell, more focus on working prototypes [so] that we really see what a company or provider can do, more competition and more agile providers³

This approach to Federal procurement aligns with the views of suppliers as confirmed by SSC's own industry consultation on printing products and services conducted in October 2015.⁴ Many

³ https://www.canada.ca/en/treasury-board-secretariat/news/2017/06/speaking_notes_forthehonourablescottbrisonpresidentofthetreasury.html?wbdisable=true

⁴ Printing Products and Bulk Printing Products Second Industry Engagement Day, Shared Services Canada, October 30, 2015.

in the industry warned SSC against reducing competition and the number of qualified vendors for a ‘one-size-fits-all’ approach for all Federal departments and agencies.

According to SSC’s own summary:

“***Most*** respondents supported a model with multiple vendors, with business divided “by department” or “cluster of departments”” rather than across the whole government.”

According to the industry this would:

1. address industry capacity risks associated with planning, optimization and transformation;
2. mitigate service delivery risks to the Government of Canada by distributing workload amongst suppliers; and,
3. increase/enhance competitiveness when combined with a performance-based contract.

The current procurement approach provides value-for-money and allows individual government departments and agencies to select the technology that best fits their requirements; in other words, “don’t fix what isn’t broken”.

a. Innovation and Accessibility

The WTD Printer Procurement does not require and does not value a supplier’s ability to or track-record in innovation. There were no requirements that companies innovate. And bidders were not scored on the innovative qualities of their technology. This has far reaching implications.

For example, the WTD Printer Procurement did not assess supplier bids for the availability and quality of printer and copier accessibility technologies. This technology is essential to assist government employees who are visually impaired. In the process of reducing to just three suppliers from twelve, Shared Services Canada never asked any questions or imposed

requirements related to the accessibility of the printers and copiers they would be buying for the next decade or more.

For example, Canon Canada is a market leader in printer and copier innovation related to accessibility. Some of these innovations include operation panels that are easy to see in any light, have large text and take into account colour blindness. Large, bright, full-colour touch panels improve readability, and distinct colours and bumps on common buttons make them understood by touch. Transparent peel-and-stick Braille labels attached to the operation panel identify hard keys and common areas on the device. Audible instructions and notifications help users perform key functions. On certain models, users can perform key functions through voice input.

Canon's remote operator software lets users emulate the operation panel and touch screen on a computer screen. This allows users with limited mobility to access and operate all system functions from anywhere via a network-connected computer. Certain Canon models also include volume adjustment and other innovations for those with hearing difficulties.

Canon is proud of its innovation related to accessibility. But none of this innovation matters in the WTD Printer Procurement. Without explanation, accessibility technologies have not been considered by Shared Services Canada during WTD Printer Procurement. Accessibility has not played a role in this procurement or been a requirement whatsoever.

Given the importance that the federal government places on accommodation and accessibility for federal public servants in the workplace, we cannot understand why Shared Services Canada would implement a new procurement system to cover more than 60 thousand devices at work in federal departments and agencies across Canada, without making accessibility a mandatory requirement of the WTD Printer Procurement.

SSC's plan to eliminate competition also ignores key findings of its 2016 industry consultation, in which stakeholders expressed concern that procurement processes developed by SSC similar to the concerns expressed above:

- Fail to recognize and utilize the expertise and value of small and medium enterprises, and instead “favour[s] larger conglomerates”;
- Fail to leverage the innovation and commitment to service of smaller companies; and,
- Decrease, rather than expands, collaborations with industry players.

These key findings are consistent with the federal government’s own policy objectives in support of innovation and SMEs.

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BACKGROUND

The Current Procurement Process - National Master Standing Offer

Under current procurement rules, Federal Departments, Agencies, and Crown Corporations have available to them a series of easy-to-use procurement options through the use of *National Master Standing Offers* (“NMSO”) and certain supply arrangements to simplify the acquisition of information technology products and services, which includes imaging print hardware and related services. The NMSO is well established, easy to use and ensures the lowest price and highest quality of service for government buyers. Until 2015 this procurement process was managed by Public Works and Government Services Canada (PWGSC). Effective September 1, 2015, this responsibility was transferred to Shared Services Canada (SSC).

NMSO’s Qualified Vendors

The Request for Proposals (RFP) for the current NMSO was issued March 27, 2013. Bids for the RFP were submitted and vendors were listed as “qualified” vendors on the NMSO that was activated effective November 1, 2013. The term for the NMSO qualified vendor list was to be one year, with an option to extend by two (2) one-year periods. This NMSO has been extended four times, taking it to March 31, 2018.

Under the NMSO there are 25 categories for imaging printing equipment, ranging from single function desk top to 60 pages per minute floor standing colour multi-function printers. These categories are in place to service a full range of requirements, for everything from a warehouse to print shop. Currently 12 suppliers supply and service these 25 categories of equipment.

Call-up process and “lowest price guarantee”

Federal departments, agencies and Crown Corporations have the ability to acquire any of these products and related services through a “call up” process, based on their particular requirements and policies. Only suppliers with an “active” standing can fulfill these requirements, and thereby take a “call up”. Standings range from “No NMSO” to “\$400,000.00 Call up limit”. In order for

a supplier to be considered “active”, its pricing must be within 20% of the pricing of the supplier with the lowest price (which is also referred to as “best value offeror”). In addition, each supplier must provide its “most favoured nation” pricing at all times.

There is a “refresh” of the NMSO every two months where suppliers can adjust pricing downwards as well as substitute hardware that offers equal or better value to the Federal Government (referred to as “Canada” in the NMSO). Suppliers have continuously lowered pricing in pursuit of “Best Value” position, and to ensure that they stay “active” for call-ups. This is a highly transparent process, as each supplier can readily see the prices which were offered for each product and service by all of the other suppliers.

Demonstrable savings for government

This NMSO with the refresh model has allowed Canada to benefit from lower pricing because of this highly competitive model. It is estimated that prices have dropped by as much as 25% on average since the issuance of the last RFP. Below is an example of a call up value in Dec 2013 versus Nov 2017, as provided by Canon. Calculations are using Cat 4.5 product and estimated copy use. This is a very popular equipment requirement.

Dec 2013	Nov 2017
60 mth lease \$171.00/mth	60 mth lease \$147.00/mth
Cost per copy Black \$0.0073	Cost per copy Black \$0.0062
Cost per copy Colour \$0.058	Cost per copy Colour \$0.04
Total Contract Value	Total Contract Value
\$42,090.00	\$32,520.00

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