

August 4, 2010

The Honourable Dwight Duncan
Minister of Finance
7th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario M7A 1Y7

RE: OntarioBuys Program

Dear Minister:

The Ontario Chamber of Commerce (OCC) is a federation of 160 local chambers of commerce and boards of trade in the Province of Ontario, representing 60,000 businesses of all sizes, in all economic sectors covering every area of the province. The OCC's mandate is to advocate strong and effective policies on issues that affect its membership throughout Ontario's business community.

The government-sponsored OntarioBuys Program was created to rationalize supply chain management in the Broader Public Service (BPS) through enabling more cost-effective government-to-business procurement transactions in the health, education, and social service sectors. Striving for greater efficiency in the delivery of government services through streamlining supply chain management demonstrates innovation and leadership on the part of the government. The OCC supports the government's efforts to find solutions to the rising cost of public services. As you are well aware, if such innovative ideas are not supported with carefully planned and systematically implemented programs and regulations, they may not achieve the desired goals.

One of the shortcomings of government practice in initiating new programs and regulations, is a lack of initiative to incorporate broad-based participation at the preparatory stages to ensure that the ensuing programs are responsive to stakeholders and economically sustainable. Recently the government has taken steps to address this shortcoming across the public service through the Open for Business (OFB) program and its various initiatives. OFB is the government's enterprise-wide response to a flawed regulatory framework that places impractical expectations and an excessive compliance burden on businesses across the province, undermining the competitiveness of the Ontario economy.

Small and medium-sized enterprises are particularly vulnerable to the operational constraints imposed by government regulations due to their smaller economies of scale and the price sensitivity of their industries. At the same time, small and medium-sized businesses account for a vast proportion of the Ontario economy. According to the most recent Ontario government statistics, this group represents 99.7% of employer businesses in the province and employs over half of the provincial workforce¹. Given the important role of small and medium enterprises in generating jobs and driving innovation, it is vital that government regulations do not place this segment of the economy at an unfair disadvantage.

As it stands, the OntarioBuys program is not structured to meet the needs of small and mid-size suppliers. This concern has been raised repeatedly by the business community, and was echoed by the Auditor General (AG) in

¹ Ministry of Economic Development and Trade. 2010. Snapshot of Ontario's Small and Medium Enterprises. http://www.ontariocanada.com/ontcan/1medt/downloads/SME_snapshot_may2010_en.pdf.

a 2009 review of the OntarioBuys program. This report revealed that insufficient accountability and oversight on the part of ministry officials undermined the performance and credibility of OntarioBuys-funded proposals.

Purchasing arrangements under OntarioBuys are managed by sector-specific, shared-service organizations (SSOs), comprising multiple BPS institutions from the same sector. As one of the earliest and most ambitious SSOs, the Ontario Education Collaborative Marketplace (OECM) is illustrative of the problems that have arisen due to incongruence between the organization of the OntarioBuys program and the realities of the marketplace.

According to the AG, the OECM proposal posed a number of serious risks from the outset. One of the risks flagged in the AG's report was low supplier and institutional participation. The report attributed this both to the heavy investment of resources required to participate in the new system and the extensive collaborative purchasing initiatives already in place between the private sector and educational institutions from across the gamut. The government's own external consultant recommended that supplier readiness be assessed to mitigate this risk. However, the government has yet to act on this recommendation.

Ontario businesses have presented a number of specific concerns with the existing OECM Request for Proposal (RFP) process that have the effect of excluding small and medium-sized businesses from bidding on public sector contracts. The concerns are as follows:

- The terms of the RFP do not stipulate a minimum order size, despite the request for departmental delivery of orders and the dispersal of educational delivery sites throughout the province.
- The RFP guidelines include a three percent administrative fee, volume escalation and prompt payment discounts, which amount to an indirect tax on production.
- The RFP provisions do not incorporate any of the value-added services that companies currently offer to their clients in order to help them differentiate themselves from their competition and contain costs for their customers.
- The current RFP framework does not specify whether OECM is attempting to select a single-source vendor, which would weaken competition and lead to a rise in prices and reduction in standards.
- Modifications to the RFP process have been made sporadically and with no advance warning, preventing companies from adjusting on time to take advantage of them.
- All aspects of the program appear to have been established without any consultation with the private sector or with companies with specific experience dealing with the RFP process.
- The government has issued a directive for educational institutions to exclusively use OECM for procurement of office products, while showing no inclination of finding ways to accommodate the companies that are at a disadvantage under the existing system.

In maintaining the status quo, it is clear that achieving greater efficiency in public sector procurement through the OntarioBuys program will be realized at the expense of the economic competitiveness of Ontario's small and medium businesses. This is assuming that the procurement models proposed by the OntarioBuys program in fact have a competitive advantage over the informal industry-institution relationships that it seeks to dismantle, which, according to the Auditor General, has yet to be reasonably demonstrated. As currently structured, the OntarioBuys program goes against the spirit of the government's enterprise-wide push to achieve a more competitive regulatory environment through the Open for Business program. In order to reconcile the worthy objective of eliminating inefficiency in supply chain management with that of creating an open marketplace which fosters dynamism and growth, it is essential that the government commit to the following actions:

- Follow up on the AG's recommendations to develop monitoring guidelines to assist OntarioBuys staff with conducting oversight of project funding.
- Introduce mandatory performance metrics to enable OntarioBuys and its shared-service organizations to measure the return on investment for approved projects.
- Strengthen the legitimacy of OntarioBuys by initiating immediate consultations with the private sector to develop proper guidelines that address the concerns raised by the AG and the business community.
- Formalize business participation in the decision-making process through adding business representation to the boards of shared-service organizations.

We know that it is only by taking action at the top levels that the culture change required to make OntarioBuys more accountable and relevant to all stakeholders can be achieved. As a means of expediting this process, we are requesting a meeting at your earliest convenience to convey our concerns and recommendations. Should you have any questions or feedback, you may direct your staff to contact Stuart Johnston, Vice President Policy and Government Relations at (416)-482-5222, extension 232, or stuartjohnston@occ.on.ca.

Thank you for taking the time to review our concerns.

Yours sincerely,



Len Crispino
President & CEO

cc: The Hon. Dalton McGuinty, Premier of Ontario
 The Hon. Harinder Takhar, Minister of Government Services
 The Hon. Sandra Pupatello, Minister of Economic Development and Trade
 Tim Hudak, MPP, PC Leader, Leader of the Official Opposition
 Andrea Horwath, MPP, NDP Leader
 Norm Miller, MPP, PC Critic, Finance
 Peter Tabuns, MPP, NDP Critic, Finance
 John O'Toole, MPP, PC Critic, Government Services
 Paul Miller, MPP, NDP Critic, Government Services
 Peter Shurman, MPP, PC Critic, Economic Development and Trade
 Howard Hampton, MPP, NDP Critic, Economic Development and Trade
 Small Business Agency of Ontario
 OCC members