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ARTICLE IX:6(b) NEGOTIATIONS STUDY OF CERTAIN TYPES OF SERVICE CONTRACTS

MANAGEMENT CONSULTING SERVICES

At its meeting on 13 February 1985 the Committee agreed to launch a third pilot study covering management consulting with 1 June 1985 as the target date for submissions to the secretariat. (GPR/M/15, paragraph 76)

The present working document compiles contributions from Canada and the United States. Further contributions will be issued as addenda to this document.

I. Commercial implications for Code coverage of the service

A. Definition of the Service Sector

CANADA

The definition of "management consulting services" used by the Bureau of Management Consulting, an agency of the Department of Supply and Services, has been used to gather the most current information on the number and value of such services procured by the Canadian Government in fiscal year 1984/85. For the purposes of this statistical information the definition is as follows: "Management Consulting is an advisory service contracted for and provided to organizations by specially trained and qualified persons who assist in an objective and independent manner client organizations to identify management problems, analyse such problems, recommend solutions to these problems, and help when requested in the implementation of solutions.

UNITED STATES

The management consulting service industry consists of establishments furnishing a wide variety of general or specialized services on a contract or fee basis. Management consulting involves independent and objective study, analysis, counsel and advice to the management of private and public organizations regarding the organization and activities of the entity, and providing assistance to the entity in implementing the advice. The diverse services offered by the industry include strategic planning, systems research and development, personnel development.

Description of activities - The industry is highly competitive, consisting of small, entrepreneurial firms, although there are a number of very large firms with a network of domestic and international offices. The majority of employees and owners come from professional, technical and managerial occupations. Among them are accountants, financial and management analysts and economists. The skills and expertise of these people form the service products of the industry.

The demand for this industry's services responds to changes in business cycles, technology, management practices, market competition, government regulation, government procurement policies and other forces. As markets grow and business becomes more complex, managers look to specialists outside their organization to advise and assist in the management of the entity. Changes in technology, especially information and communications technology, are spurring this trend and have been a major factor in the growth of management consulting services. Companies facing a slow market or financial difficulties will often cut their overhead considerably, including any outside consulting or managerial services. However, during a business slow-down many companies will use these services to assist in managing cut-backs and allocating resources.

B. Current number and value of contracts awarded

CANADA

Using the Bureau of Management Consulting definition aforementioned, the total value of purchases by covered entities as well as the Departments of Communications, Transport, Fisheries and Oceans for fiscal year 1984/85 was \$73,000,000.

The majority (78 per cent) of these contracts were awarded directly to outside consultants. The rest (22 per cent) were awarded to the Bureau of Management Consulting (BMC); 11 per cent by the BMC itself and 11 per cent by the use of private sector consultants, hired through the BMC. BMC is an agency of Supply and Services Canada that has been set up to serve the special needs of government managers. BMC services are available on a cost-recovery fee-for-service basis to all federal government departments and institutions, as well as provincial governments. The total number of management consultant contracts awarded in Canadian fiscal year 1984-85 is not available.

UNITED STATES

For calendar year 1982:

Estimated USG procurement of management consulting services

(For contract values greater than \$150,000)

Number of contracts: 53

Value: \$48.7 million

Source: Federal Procurement Data System

Estimated United States exports

Billings: \$1.2 billion

Source: International Trade Commission

United States imports

Billings: Not available.

II. Questions regarding the procurement of this service by government entities

- A. What are the procedures used to procure the services including the criteria used in evaluating and closing bids?

CANADA

- The general policy which applies to all federal government contracting is contained in Chapters 310 and 312 of the Treasury Board Administrative Policy Manual, previously submitted to the secretariat. For consulting and professional services (includes Management Consulting Services), this policy is amplified and interpreted in the attached Chapter 315 of the manual.

UNITED STATES

- Once the requirement of the agency has been identified and approvals and funds are obtained, the requirement is submitted to a procuring entity to buy. The procedures used to procure management consulting services are consistent with those required by the Government Procurement Code.
- The two methods of procurement are: (1) full and open competition, which involves the publication of an announcement in the Commerce Business Daily; and (2) sole source, a procedure which is used when the services required by the agency are available from only one responsible source and no other type of service will satisfy agency requirements.

Evaluation of criteria process

- The proposals received will be evaluated independently by a panel consisting of a minimum of three technical personnel using the evaluation factors set forth in the RFP. Value of each factor is established prior to release of RFP although actual points are not made available to offerers.
- The factors that will be considered in evaluating proposals should be tailored to each acquisition. The evaluation factors that apply to an acquisition and the relative importance of those factors are within the broad discretion of agency acquisition

officials. While the lowest costs may be the deciding factor in many source selections, greatest value, in terms of performance and other factors, may also be the deciding factor. In awarding cost-reimbursement contracts, the cost proposal should not be controlling. The primary consideration should be which offerer can perform the contract in a manner most advantageous to the acquiring agency.

- The solicitation shall clearly state the evaluation factors that will be considered in making the source selection and their relative importance. Listed below, in declining order of importance, are factors generally used in evaluating proposals:
 - (1) Understanding of and responsiveness to the requirements:
 - (a) understanding of the objectives of the activity,
 - (b) responsiveness to scope, concept and time for performance;
 - (2) Technical adequacy of proposed approach:
 - (a) well organized, clean, concise proposal,
 - (b) logical, efficient scheduling of activities and events,
 - (c) knowledge of research techniques, data collection procedure and analyses;
 - (3) Technical personnel:
 - (a) experience in activity operations, maintenance and support,
 - (b) expertise in functional areas to be evaluated,
 - (c) educational background in related academic fields;
 - (4) Organization and management:
 - (a) prior and on-going experience in related areas of activity,
 - (b) soundness of organizational structure and management support for this effort,
 - (c) prior and on-going experience in specific areas of activity.
- B. In the procurement of this service by government, are there problems in defining the origin?

CANADA

- Rules of origin for goods do not apply to purchases of services. Residence of the supplier would appear to be appropriate in defining the origin.

UNITED STATES

- Since management consulting services do not involve physical end-products, the rules of origin applicable for goods under the Government Procurement Agreement do not apply. Place of registration could be used as a rule of origin.
- C. Does the procurement of these services typically involve subcontracting?

CANADA

- Subcontracting is not likely to be involved in the procurement of Management Consulting Services.

UNITED STATES

- Procurement of management consulting services can involve subcontractors. However, primary contractors must identify their subcontractors at the time of bidding. These subcontractors must have appropriate licences and qualifications. The subcontractor must submit technical and cost proposals that will be analysed the same as the primary contractor. If during the contract period the primary contractor wishes to change subcontractors, United States Government approval is required. Contractors awarded contracts exceeding US\$500,000 are required to submit a subcontracting plan, reflecting the portion of work being subcontracted to small businesses.
- D. Are these issues or ambiguities concerning the valuation of the service procurement contract, including, inter alia:
1. Is the procurement of the service in some cases not the purchase of a discrete service, but rather a contract for ongoing, possibly open-ended work?

CANADA

- Under Section 2.1 of Chapter 315 of the Treasury Board Administrative Policy Manual, a contract for consulting or professional services "shall not be for indeterminate work or for an indeterminate period".

UNITED STATES

- In some cases the United States Government will award contracts for open-ended work and multi-year contracts referred to as indefinite quantity contracts. In these cases, the Government may specify a dollar ceiling for any individual work order and a maximum number of hours that can

accumulate under the contract. Before each work order can be completed, however, the contractor must enter into specific negotiations as to the number of hours necessary to complete the work to be carried on.

2. Is the procurement of the service done in some cases through multi-year contracts?

CANADA

- In a limited number of cases, multi-year contracts exist for a determinate period and work job.

UNITED STATES

See item D.1

3. Is there ambiguity as to what would be considered the value of the service contract?

CANADA

- For consulting and professional service contracts, the value of the contract will be determined by the basis specified in the contract on which a consultant or expert is to be paid. See appendix D of Chapter 315 for further details.

UNITED STATES

See item D.1

- E. Further characteristics of government procurement of this service, such as:

1. What is the range of typical values of government contracts in this area? Do the bulk of purchases typically exceed a certain value?

CANADA

- The value of these contracts typically ranges between \$15,000 and \$85,000 with some contracts valued up to approximately \$150,000.

UNITED STATES

- Contract values range from less than US\$50,000 to over US\$1 million. The bulk of government contracts are typically above US\$150,000 in value.

2. What is the typical time necessary in the procurement process of this service between invitation to tender and bid deadline?

CANADA

- The typical time necessary in the procurement process of this service, between invitation to tender and bid deadline, is from three to five weeks.

UNITED STATES

- The time between invitation to tender and the bid deadline can be six months or longer. The average period of time is five months.

- F. Are there practices that affect foreign access to government contracts in this service area?

CANADA

- Under Section 2.3 of Chapter 315 of the Treasury Board Administrative Policy Manual, "when potential sources are being sought, firms that are resident in Canada shall be given first consideration".

UNITED STATES

- Factors that would affect a firm's capability to bid competitively would be: geographic location and the time involved in receiving and transmitting pertinent data; comprehension of the acquisition process; and security clearance and transfer of technology considerations.
- All United States Government civilian agencies provide for a class set aside for small business contracts for management consulting. For example, the Department of Defence sets aside all management consulting contracts under US\$25,000 for small businesses. Conversely, all DOD contracts for management consulting greater than US\$85,000 are open. Other government agencies have similar programmes with different threshold levels. For compliance purposes a small management consulting business is defined as having gross sales of US\$3.5 million and below (average for the three previous years).