



Buying local: The case for reform

Are Kiwi ICT innovation and jobs being stifled by an unwillingness from government departments to look more seriously at local vendors with smart solutions? Labour MP Clare Curran thinks so, and so she is lobbying for the introduction of the Kiwi Jobs Bill to take a closer look at the issue across not only ICT, but all of government...

by Jess Meyer

With government IT contracts - particularly software licensing - worth up to \$1 billion annually, much is on the line.

Does discrimination and lack of clear policy prevent local firms from reaping the rewards of these contracts?

A Kiwi Jobs Bill being promoted by Labour's Dunedin South MP Clare Curran, if passed by parliament, would see local New Zealand firms gaining preference over larger multinationals. But what is 'local' and can preference be given to Kiwi companies without breaching international trade agreements? Furthermore, is a policy such as this necessary?

A look at the bill

The proposed private members parliamentary bill applies to all areas of procurement, not just IT. It would establish a Commission of Inquiry designed to compare current New Zealand government procurement policies with those in Australia and other comparable economies (unspecified in the bill).

This would aim to assess the likelihood and practicality of an official government policy that gives preference to local New Zealand firms through the tendering and procurement process, without breaching international trade agreements. Further, it "aims to maximise opportunities for competitive local businesses when tendering for large government projects", according to a statement released by

Curran's office.

With a deadline of 12 months after its appointment, the Commission of Inquiry would be required to report to Parliament in 2011 on its findings, with the Minister for Economic Development expected to decide how its recommendations could be implemented within 30 days of receiving the report.

Clare Curran said that the bill is intended to boost New Zealand employment by enabling New Zealand industries to be aware of and fairly compete for government tenders. "The Kiwi Jobs Bill is timely and important to provide encouragement and certainty to New Zealand industries that their skills and capabilities are important to our nation and our economic future," she said.

While uncommon in New Zealand, many other countries utilise clauses in tender release documents that specify preference for local solutions, such as part of the Canadian First Nation Tendering Policy, for instance, and policies adopted by the Governments of Western Australia, Tasmania, New South Wales and Queensland. "These government procurement policies recognise that value for money is about a broader economic benefit and not just about lowest price," says Curran. "Many New Zealand industries would receive a boost from such a policy, including manufacturing, engineering and ICT."

For the New Zealand Open Source Society, 'local' is not at all ambiguous, and the society's president Rachel Hamilton-Williams sees the bill simply calling for a commission to investigate what other countries do in this area, >



and whether there are good economic reasons for New Zealand to take similar actions.

The intent of the bill has received a mainly positive reaction in New Zealand, though the NZICT Group comments that immediate short-term focus needs to be on developing less costly and complex procurement policies for the government. "One of the immediate ideas we have proposed is pre-qualification for vendors modeled on the Western Australia State Government procurement model, which has successfully streamlined procurement and made it easier for local companies," says NZICT Group CEO Brett O'Riley.

The WA policy has also encouraged industry collaboration by clearly identifying the requirements and costs of doing business with the government, which has enabled local businesses to determine whether to sell directly or collaborate with pre-qualified panel members, a model that may work well in New Zealand should it be replicated in some form.

Is 'local' at a disadvantage?

Dr Mark Rees of Microsoft New Zealand's National Technology Office says that New Zealand governments have a long tradition of "utilising merit-based, technology-neutral, open, transparent, competitive and non-discriminatory procurement practices."

However, earlier this year, both the Ministry of Education and the Ministry of Health renewed software licensing contracts with Microsoft, despite price increases, with no evidence they'd gone to tender or looked for local, more affordable alternatives, according to Curran.

Many local firms find responding to government tenders prohibitive and costly, and therefore not worth the time, when so frequently the result is the status quo: a

NZ companies should feel they are encouraged to develop innovative solutions for government and have a clear path and process to be able to get these procured.

Brett O'Riley, NZICT Group

rolled-over contract with an international vendor.

In response, Dr Rees quoted research conducted by IDC in 2009 that found that employees of companies in the Microsoft ecosystem, account for 41 percent of the IT-related workforce in New Zealand, and a substantial 45 percent of IT-related taxes in the country. "For every dollar spent licensing our products, companies in the local ecosystem make over 12 dollars," he said.

NZICT Group board member and local business owner Andrew Hunt told iStart that his firm does not respond to government tenders due to the high level of effort and administration required, so choose instead to focus efforts elsewhere where the experience and relationships held by the firm can be better leveraged.

But for Sam Tuineau, Information Group Services Manager at KiwiRail, the level of perceived discrimination relates to the differing approach to procurement that comes with each distinct area of the IT sector - hardware, software, services and niche.

"With hardware, the penetration the big players such as HP, IBM and Dell have into the local market, their ability to release cutting edge technology into their products and get it out to the masses as soon as it's rolled off the conveyor belt and provide the necessary skills to support it, make it near-on impossible for the local companies to compete," Tuineau explains. However, "in the other three areas - software, services and niche - New Zealand holds its own and competes based on its merits: support, flexibility, cost and, like anything else out there, marketing and representing its products.

"My job is to do what's best for the KiwiRail Group in assessing products and services and, as a state-owned enterprise, buying Kiwi-made is a consideration, but it needs to stack up."

The NZICT Group welcomes the intent of the Kiwi Jobs Bill, given that ICT procurement by some government agencies has become highly complex and convoluted, creating long, unpredictable sales cycles, along with the use of third-party consultants to manage perceptions of risk adding additional complexity and cost to the process. "Clearly smaller players - which most Kiwi ICT companies are - are disadvantaged, and this becomes a financial barrier to entry, though these companies are not deliberately discriminated against," says the NZICT Group's O'Riley.

Defining 'local'

Microsoft's Dr Rees says his company understands the bill's intent is to encourage the development of New Zealand businesses. It is designed to start a debate about the best way to use government's 'policy levers' to support local industries that create products and services that can be exported to the world.

Given the current economy, the broader economic benefit the bill most immediately seeks is the creation of Kiwi

jobs, and a pathway for local New Zealand firms to create greater employment opportunities through the securing of lucrative government contracts and major projects.

What then should define 'local'? Is it any firm with a physical presence in New Zealand, thereby including such international powerhouses as Microsoft, IBM and HP? Is it the opposite end of the spectrum - firms that began in New Zealand, founded by residents of the country? Given the size of the NZ ICT industry and the scope of solutions developed in country, local will surely need to include even software that has been built upon that of the large multinationals, such as plug-ins to larger, globally available applications - SAP plug-ins or Microsoft Dynamics connectors, for example.

"My firm, Kinetics, was recently accused of not being local," recalls managing director Andrew Hunt. "It's quite bizarre, but apparently, because we are a Microsoft partner, we're not local, even though all our staff identify as Kiwis (even the ones we've imported from South Africa!). And of course, I'm a Kiwi, and the company is therefore Kiwi-owned. An odd accusation, and by those standards I'm Australian this morning as I have Marmite on my toast and I may well be Japanese at lunchtime when I eat my sushi."

The bill, at this stage, does not define 'local', leaving that potentially difficult task to the Commission. Perhaps a more useful focus would be seeking solutions and firms that can provide ongoing benefit to the New Zealand economy, through jobs, research and development, etc., regardless of where the head office is situated or where the company originated.

"We would define local as companies employing people in New Zealand and contributing to the economic development of the country by improving productivity, increasing employment and driving export earnings," states NZICT's O'Riley.

"Personally, I like the idea of Kiwi jobs," reflects Kinetic's Hunt. "But that doesn't necessarily mean the business has to be Kiwi-owned. In fact, who owns the company has little reflection on the nationalities of the staff. A quick

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I have often
despaired that in
New Zealand we
are very quick to
talk up the innova-
tive abilities of kiwis,
our can do attitude,
but, when it comes
to trusting in those
same people to
deliver, the walk
doesn't often match
the talk. So many
great little New
Zealand companies
are overlooked
because decision
makers feel safer
with the big names
from overseas.

*Ian Taylor, NZ Hi-Tech
Awards Hall of Fame*

wander through the offices of HP, IBM, Cisco, Microsoft, etc., will reveal that most of their staff are Kiwis, much the same way that my local cafe has an Australian lady working there, but is owned by a New Zealander.

While it is unrealistic and impractical to base the definition of 'local' on the nationalities of staff, the notion of onshore jobs is the key - and the Department of Labour says that more than 23% of people living in New Zealand were born overseas, a number that continues to grow. If 'local' is about keeping and creating jobs onshore, the net may still spread wide enough to create the same difficulties for New Zealand's smaller, newer firms.

For KiwiRail's Tuineau, however, 'local' is much simpler: "It's New Zealand made, whether it be manufactured here, software designed and developed here or NZ-owned companies that provide services. It's got to have an element of money going back into the New Zealand economy."

Value and the risk factor

New Zealand businesses have a reputation for their willingness to embrace new technologies earlier than those in other countries, but there is a hesitancy to take on the perceived risk of smaller or newer companies and their less-tested solutions.

"Our biggest issue in getting a go with NZ private and public companies is more to do with the risk profile we present as a newish company in what is a pretty conservative area of decision making," says Unimarket's Craig Burston. "CFOs making decisions around better dealing with their suppliers does not appear to be the number one priority."

The traditional procurement model often follows a template approach, so what sourcing companies are left with is a narrow service level agreement that does not go the step further to obtain unique value that services the required outcomes and allows for growth and flexibility. Value is, of course, more than monetary. While price is key, does the government have an obligation to measure by additional criteria in support of the New Zealand

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The New Zealand Open Source Society sounds off on procurement, the Kiwi Jobs Bill and the NZ ICT industry:

"Whether the New Zealand government accounts for 30 percent of GDP as the Business Round Table would like, or over 40 percent, as the last Labour Government achieved, it is still a massive part of our economy. As such, it has a big effect on our markets whether it wants to or not. The phrase we hear often is 'Let the markets sort it out', but when there is a dominant purchaser in a market place, distortion occurs. This is a challenge for Government. Doing 'nothing' is still having an effect.

"Government has to think quite deeply and clearly about procurement practices. If it gets it wrong, it runs the risk of severely reducing the supply side of the economy. Get it right and it can stimulate a rich, diverse and highly competitive market place.

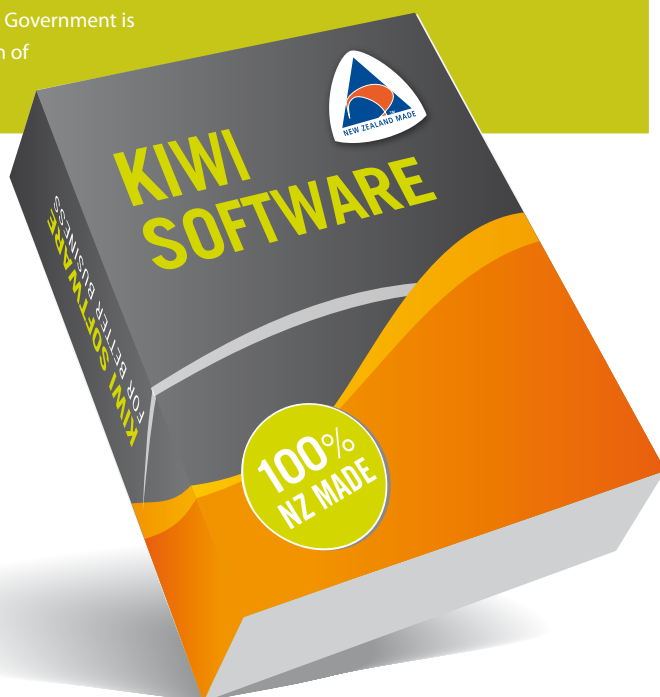
"For example, a government department recently went to tender for a small web development project. At least 17 local companies responded. This is an indication of healthy competition, which leads to competitive pricing and economic efficiency.

"But right now, the Government is looking at aggregation of procurement in the

belief it can make profound savings. This seems to be a false hope. By taking this approach, Government will ensure that very few NZ companies will be able to join the market place, leaving our Government in the hands of large companies running what will inevitably be very inflexible contracts. We have seen corporates go down similar tracks and not only fail to maintain the sought after savings in the long-term, but lose their technical capability and agility as a result.

"So, what we should be thinking about is not local preference, but identifying what policies and practices actually discriminate against local businesses. This is the key issue. In the UK, the government has announced that it will be breaking up large contracts into much smaller components. The idea is that this will allow more competition, more choice and more companies to participate in supplying the government.

"We wish New Zealand was thinking as clearly on these issues."



economy?

Says Kinetics' Hunt: "I do strongly think that government procurement should consider the incubator effect of its investment. Local and central government combined is about 40% of GDP, give or take a point. When they make a purchase, they should consider a number of factors. Does it effectively meet the purchasing need? Is it value for money? Are there any CER or other international free trade obligations? And what is the effect of their purchase to help a local business gain critical mass so it can scale towards global success?"

With cost an important factor, how can government look to reduce spend without losing on technology? It has been proposed that the government look to aggregate procurement in an effort to save money. The New Zealand Open Source Society openly disagrees with this suggestion [see box-out], and predicts that such a policy would have the opposite effect, ultimately not servicing either government departments or the New Zealand economy as a whole.

If aggregation isn't the answer, what is? Gartner recently released a report outlining the need for governments to take "radical steps" to reduce spend. The report includes 10 recommended areas through which to achieve costs savings, three in the sourcing and procurement arena: use of public cloud services; use of community source and the cloud as alternatives to incumbent vendors; and pursuit of crowd sourcing.

"We expect that governments... [are likely to] gradually move toward increasingly consider consolidation, outsourcing, global delivery models and industrialised services as potentially viable options to reduce spending," said Claudio Da Rold, Gartner vice president and distinguished analyst.

Several interlinking issues must be addressed to achieve positive results for both government agencies and the New Zealand ICT companies seeking to service them.

For NZICT's O'Riley, starting by simplifying procurement policies is the answer, as it would lower the cost of sale for local firms, producing the flow-on effect of improved profitability. "This should encourage them to invest with confidence, which should have a positive impact on job creation and innovation," he explains. "New Zealand companies should feel they are encouraged to develop innovative solutions for government and have a clear path and process to be able to get these procured."

Bodies such as the Procurement Reform Strategy Group and the Procurement Business Advisory Group have already made progress in terms of righting government procurement policies to better serve the New Zealand economy. The Kiwi Jobs Bills Commission of Inquiry has an opportunity to continue that progress and take significant steps toward better enabling local firms to respond to tender releases. 