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PWGSC
33 City Centre Drive
Suite 480
Mississauga
Ontario
L5B 2N5

LETTER OF INTEREST
LETTRE D'INTÉRÊT

Title - Sujet Food and Beverage National Strategy	
Solicitation No. - N° de l'invitation E6TOR-09FOOD/A	Date 2009-11-30
Client Reference No. - N° de référence du client E6TOR-09FOOD	GETS Ref. No. - N° de réf. de SEAG PW-\$TOR-004-5161
File No. - N° de dossier TOR-9-30166 (004)	CCC No./N° CCC - FMS No./N° VME
Solicitation Closes - L'invitation prend fin at - à 02:00 PM on - le 2010-01-20	
Time Zone Fuseau horaire Eastern Standard Time EST	
F.O.B. - F.A.B. Plant-Usine: <input type="checkbox"/> Destination: <input checked="" type="checkbox"/> Other-Autre: <input type="checkbox"/>	
Address Enquiries to: - Adresser toutes questions à: Alimentation, Food	Buyer Id - Id de l'acheteur tor004
Telephone No. - N° de téléphone (905) 615-2078 ()	FAX No. - N° de FAX (905) 615-2060
Destination - of Goods, Services, and Construction: Destination - des biens, services et construction: For Federal Government Department food and beverages purchased by all PWGSC offices nationwide Pour les produits alimentaires et des boissons achetés pour des entreprises publiques fédérales par des bureaux TPSGC nationales	

Comments - Commentaires
A Request for Information (RFI) or Letter of Interest is not open for bidding. The buyer is interested in receiving feedback from suppliers.

Instructions: See Herein

Instructions: Voir aux présentes

Vendor/Firm Name and Address
Raison sociale et adresse du
fournisseur/de l'entrepreneur

Delivery Required - Livraison exigée	Delivery Offered - Livraison proposée
Vendor/Firm Name and Address Raison sociale et adresse du fournisseur/de l'entrepreneur	
Telephone No. - N° de téléphone Facsimile No. - N° de télécopieur	
Name and title of person authorized to sign on behalf of Vendor/Firm (type or print) Nom et titre de la personne autorisée à signer au nom du fournisseur/ de l'entrepreneur (taper ou écrire en caractères d'imprimerie)	
Signature	Date

Issuing Office - Bureau de distribution
Public Works and Government Services Canada
Ontario Region
33 City Centre Drive
Suite 480
Mississauga
Ontario
L5B 2N5

Food & Beverage National Strategy

Public Works and Government Services Canada (PWGSC) annually purchases through its various regional offices approximately \$100M of food and beverages for individual Federal Departments with offices located across Canada. PWGSC is undertaking a review to improve the overall performance of the procurement of this commodity, including value for money spent, serving clients' operational needs, facilitating reasonable access to suppliers while efficiently using government resources to meet those requirements.

The summary of our proposed National Strategy for the purchase of food and beverages is being published on MERX for an eight week period, in order to receive feedback on the approach. This allows an opportunity for industry to make suggestions that will improve the overall value of the purchases of Food and Beverages made by the Government of Canada. Note: This strategy applies to most purchases made by the Federal Government, for consumption by persons, employees or persons under federal care.

Comments and recommendations are appreciated in all areas of the proposed strategy and review. Please note that there is no specific requirement associated with this posting. All comments received may be subject to Access to Information Requests. This is not a bid solicitation and will not result in a contract.

The Department undertook a review of the current processes used to purchase food and beverages to meet the following goals:

- 1) Better consistency for client departments while satisfying their operational needs;
- 2) Clearer, more consistent procurement processes for the purchase of these items;
- 3) Enhanced transparency on how food and beverage purchases are managed;
- 4) Improved access to business for suppliers;
- 5) Increased value to taxpayers; and
- 6) More consistent purchasing activities across Canada.

These documents do not impact any current food and beverage requirements currently posted on MERX.

The Food and Beverage Background National Commodity Review identifies the guiding principles, the objectives, the analyses, current processes and the specific challenges whereas the Food and Beverage Proposed National Strategy is the approach currently being considered by PWGSC.

PWGSC is requesting your comments on the ability of the strategy to meet the above goals, the following questions, and any other recommended improvements.

In your reply, please identify if your company is a current or prospective supplier to the federal government, naming the specific group(s) of food and/or beverages that you intend to provide, the geographical area that you service, whether your company is a small to medium enterprise, and if you are an aboriginal business.

Responses and questions should be sent to **alimentation.food@pwgsc-tpsgc.gc.ca**.

Questions:

1. PWGSC is proposing to post annual notifications starting in April 2010 with periodic rebidding, in order to put in place Standing Offers, by client or groups of client offices, using the following groupings and bidding intervals:

Meat, Fish and Poultry - 3 month rebid
 Milk or Ice Cream or Dairy- Annual rebid
 Cheese - 6 month rebid
 Eggs - annual rebid
 Fresh Fruit and Vegetables - Monthly rebid
 Frozen Fruit and Vegetables or Various Frozen Products- 6 month
 Beverage or juice concentrate - Annual Rebid
 Beverage or juice concentrate with dispensers - 1 year and option year
 Individual beverages - Annual Rebid
 Prepared salads - 6 month
 Bakery or Bread & Rolls - Annual Rebid
 Grocery, Miscellaneous - 6 month
 Specialty Dietary Food - Annual Rebid
 Canteen items or Potato chips - Annual Rebid
 Edible Oils - Annual Rebid
 Nutritional Supplements - Annual Rebid

QUESTION 1A:

Would this grouping of products provide optimal value for Canada by having a sufficiently competitive field?

QUESTION 1B:

With this frequency of bidding, would you be able to submit prices competitively?

2. PWGSC is proposing to consistently evaluate on the basis of low price per item when more than one standing offer will be awarded (per category / per client).

QUESTION 2A:

Is this an appropriate approach for these groups of products?

QUESTION 2B:

If it is not, what alternative method of evaluation and award do you propose?

3. PWGSC food and beverage requirements do not currently routinely assess environmental criteria as part of the evaluation.

QUESTION 3A:

If we were to do this, how could this be evaluated fairly and efficiently within a high-frequency repetitive buy activity?

4. If grouping clients into geographic zones, suppliers may have to travel outside their normal delivery area.

QUESTION 4A:

Should there be a minimum order charge for a separate delivery below a certain value?

QUESTION 4B:

If so, what is your recommendation to that charge and how should it be included into the overall selection / evaluation process?

5. In some circumstances, product delivery must coincide with other logistical factors such as loading a ship.

QUESTION 5:

If a delivery vehicle must wait for an extended period of time, what would a reasonable constant rate be and after how long of a wait would this additional fee become applicable?

6. **QUESTION 6A:**

For your segment of the food industry, what are potential options that the Government may use for repetitive poor performance from food suppliers?

QUESTION 6B:

Are there industry practices that the Government should consider adopting?

Thank you in advance for reviewing and commenting on the proposed National Commodity Strategy for Food and Beverages. When complete, this document may be modified to reflect comments received. The intended result is to formalize and approve a National Commodity Strategy that will delineate how the government will purchase these products over a multi-year period.



Food and Beverage National Commodity Review

Prepared in cooperation between
Ontario Region
&
Performance and Spend Management Directorate
of Acquisitions Branch

Draft Food and Beverage Review Strategy Paper



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

Canada



Executive Summary

In Canada, the Food and Beverage industry is a \$78 Billion marketplace employing approximately 268,000 people. Food and Beverages are governed by a complicated legal and regulatory framework at the federal, provincial and municipal levels addressing food safety, labeling, and agriculture monitoring, inspection and marketing boards. The breadth and depth of the supply chain is incredibly complex and interwoven. Food and Beverages as a total is very complex, even before taking into account esoteric elements such as “taste”. Public Works and Government Services Canada (PWGSC), the department primarily responsible for purchasing food and beverages within the Federal Government is undertaking a complete review to develop a new draft National Commodity Strategy for food and beverages that will be published on MERX for 8 weeks.

For the Federal Government, Food and Beverages’ purchases represent approximately \$100 million of expenditures annually, for food purchased and consumed by persons under federal care. These purchases are made in all regions of Canada, by clients using PWGSC procurement instruments of all types, for a wide variety of products, at varying quality and quantities, storage life and points of the supply chain.

PWGSC has completed a review, with Ontario Region having the Commodity Team Leadership and Performance and Spend Management Directorate (PSMD) providing advanced analytical support, including market, supply, spend and demand analysis of how Food and Beverages is currently being procured and purchased nationally for all federal clients. This was supported by regions checking with clients and suppliers to assess their concerns and priorities. This review identified that the procurement of food and beverages was generally being well managed to respond to different client requirements, and was appropriately divided between national buys (military combat rations) being managed at PWGSC headquarters and regional support (military bases, prisons, ship replenishment and other institutions large and small) managed regionally.

Within the overall result of good management, the review revealed that there was a variation between regional support models. These variations included basic elements, such as how the products were divided up for bidding, how bids were evaluated and awarded, the duration and types of agreements, how prices were adjusted to reflect market changes over time and the roles and responsibilities of clients and PWGSC.

As the existing processes for low annual expenditures and bulk buys were well-developed, most of the effort was devoted to resolving regional variations, while maintaining appropriate flexibility and responsiveness to client needs and supplier capacities. A preliminary sampling consultation framework with clients and suppliers was developed and implemented by regional offices and



included questions concerning access, length of agreements, division of products to bid, ordering capacity amongst other items.

These analyses and consultations were the basis for an intensive 3 day Strategy Working Group, led by Ontario Region and representing all regions, Office of Small and Medium Enterprises (OSME) and PSMD economic analysts.

The primary goal of this working group was to develop a consistent national approach for Food and Beverage procurement that would be clear, consistent from coast-to-coast, improve accountability, flexibility and have clear processes and decision points. The group achieved a clear consensus on the most desirable practice, which, when implemented, will improve access for businesses, have clearer accountability, while responding to regional and local variations.

These elements are clearly outlined in the Draft Strategy and will be refined based on input received from the 8 week public consultation process, when the strategy is posted on MERX, the government electronic tendering system.

Client departments will also be consulted during this 8 week period, locally at military bases and institutions as well as at the national level at headquarters.

The resulting refined strategy will then be approved and posted on MERX, with each region transitioning to the new approach.

The published National Commodity Strategy will be reviewed and modified periodically to ensure that it maintains relevant. It will be completely reviewed after 5 years.



Commodity Review and Strategic Plan – Food and Beverage Procurement 2009

Introduction

Overview:

This Commodity Review is an in-depth analysis of the food and beverages expenditures and procurements by the Government of Canada, with the objective of developing a national commodity strategy that is clear and concise. The resulting strategy is based on factual analysis of existing markets, clients, supply and procurement activities as they currently exist and what opportunities exist to better manage the procurement of food and beverages for government departments and agencies from coast to coast, for all clients and for all levels of transaction.

Methodology

This Commodity Review and Strategy follows a discrete series of steps, designed to develop and validate strategic options about how the government can improve or better manage the procurement, management, maintenance, cost, benefits or outcomes achieved from purchasing this commodity.

1. Identify Commodity for Commodity Management
 - Define what is included, excluded.
 - Would the Government of Canada benefit from managing this spend?
2. Conduct analysis
3. Develop Strategy for Preliminary Consultation
 - Client Feedback
 - Supply and Market Analysis
 - Identify elements for consultation - structured
4. Conduct Preliminary Consultations
5. Develop Strategic Options
6. Validate
7. Implement

Once developed, a strategic direction will be identified which will then be validated publicly, and subject to modifications from that validation, be implemented for a specified period of time.

Guiding Principles

The following Guiding Principles form the basis for the following review, including the assessment and analysis sections.

Draft Food and Beverage Review Strategy Paper

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Guiding Principles

Client Operational Requirements

- PWGSC will make every reasonable effort to satisfy the operational requirements of its clients, while obtaining best value in each procurement process. PWGSC's actions must provide intrinsic value to stakeholders.

Competitive Procurement

- PWGSC procurement will be competitive, with specific exceptions. Where a competitive marketplace exists, competition is expected to be the selected method of supply. Where a competitive marketplace is not available, a properly justified sole-source process can be used. The sole-source option is to be used on an exceptional basis.

Access for Businesses

- PWGSC will ensure that all potential suppliers of a particular requirement are subject to the same conditions and are treated equally. Government business opportunities should be reasonably accessible to all Canadian companies and trade partners, to the extent that it meets obligations and represents a positive value to Canadians. Access is not to be unduly limited and is to be based on government operational requirements and the market capacity to satisfy those requirements

Accountability

- PWGSC is accountable for the integrity of the contracting process. Clients are responsible to ensure that all information relating to their requirements, which is provided to PWGSC, is complete and accurate. PWGSC will ensure that the commodity management process is open, fair and honest.

National Objectives

- PWGSC supply activities will advance established government national socio-economic policies, within the limits imposed by international trade obligations.
- As of June 2009, the national objectives to be considered as part of the commodity management process include: green procurement, small and medium enterprises, aboriginal procurement and commodity specific socio-economic objectives that the procurement may advance.

Standardized and Simplified Procurement

- PWGSC will endeavour to apply standardized and easy to use procurement practices, procedures, instruments and tools. Client departments and government suppliers will benefit from a consistent, standard, client-friendly procurement approach. National procurement strategies will be adopted to promote horizontality in the PWGSC procurement process.

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Reasoned and Rational (Justifiable/Defensible)

- PWGSC will ensure that procurement decisions are based on sound, rational and well-reasoned foundations. The outcomes of procurement activities must be logical, justifiable and able to withstand critical scrutiny.

Defining the Commodity under review.

The Food and Beverage Commodity is one of the most basic commodities procured by PWGSC and is also a commodity procured on a routine basis by most Canadians, institutions and businesses. The essential description of the commodity is straightforward: the food and beverage products, similar in nature to that used in households and restaurants, to be prepared, used and served to persons in federal care, including employees. For the government, this represents roughly \$100 million per year of routine expenses.

Most products such as breads, milk, various types and cuts of meat and poultry, frozen and fresh vegetables, eggs and other staples would be equally familiar to most people whereas other products such as combat rations or bulk buys of products to last an entire year or lengthy ocean-going voyage might be less familiar for many people. Unlike other commodities, there is a direct impact on human health and well being, if goods are inappropriate, are not delivered in sufficient quantity or are not delivered on time.

Some of the Food and Beverages purchased would be:

- o to support Correctional Services institutions; military bases; similar institutions and cafeterias;
- o Coast Guard and Navy ships;
- o Centrally purchased combat rations;
- o Some boxed lunch products; and
- o Correctional Services canteens (to be sold to inmates using their own funds.)

This review does not include: Tobacco; Alcoholic beverages; Distilled Water; Hospitality Services; Meals for Persons travelling on government business, Food for Humanitarian Aid or Disaster Relief Emergency Supplies.

Is this an appropriate commodity for Commodity Management?

Preliminary Analysis

For this commodity to be appropriate for management as part of a national strategy, it must meet the following criteria:

- Is it of significant size to manage as a commodity?
 - o Sufficient spend available for management – yes

Draft Food and Beverage Review Strategy Paper



- Is it important spend for the government – yes
- Is it important for PWGSC – Yes
 - Is PWGSC managing the spend comprehensively - No
- Is the marketplace able to deliver – yes

- Is there potential opportunities to improve the management of this commodity in terms of:
 - Client Operational Requirements - Yes
 - Price / cost - Possible
 - Access for businesses - Yes
 - Competition - Yes
 - Accountability – Yes

- Availability of PWGSC resources - Yes

Decision Point: Yes, this is a suitable commodity for management as part of a national strategy, as it is of sufficient value (\$100 million annually), is critical to client departments and the clients they are serving and represents an accessible market for many local suppliers.



Food and Beverage Commodity Management Review

Objectives of Commodity Management Review Process

As the Commodity meets the criteria for implementation of a Commodity Management strategy, the objective of this process is to improve the overall performance of the procurement of this commodity, including value for money spent, serving clients' operational needs, facilitating reasonable access to the various supplier communities, while efficiently using PWGSC and client resources to meet those requirements.

The review process will identify and where necessary, specify the key practices to purchasing Food and Beverage procurement in a consistent fashion across all regions, and for the whole range of transactions.

The resulting draft strategy will then be published and made available publicly for comment from interested parties.

Where improvements in value can be achieved, the strategy will be modified based on stakeholder input. The approved strategy will then be published and implemented over a period of 5 years, with interim targets for implementation.

At the end of this five year period, or earlier if there is a significant change in either the Government's demand for Food and Beverage or a significant change in the supply market place, PWGSC will revalidate the analysis and outcomes of the National Commodity Strategy.

Facts and Analysis

Spend Analysis

The federal government spends approximately \$100 million on food and beverages annually as part of ongoing operations and support to departments and agencies.

Table 1. Annual Food & Beverage Spend

Fiscal Year	Sub Category	Total
FY05-06	Beverage Products	\$4,264,646
	Food	\$95,565,110
FY05-06 Total		\$99,829,756
FY06-07	Beverage Products	\$4,136,486
	Food	\$93,080,254
FY06-07 Total		\$97,216,739
FY07-08	Beverage Products	\$4,323,637
	Food	\$103,868,120
FY07-08 Total		\$108,191,757

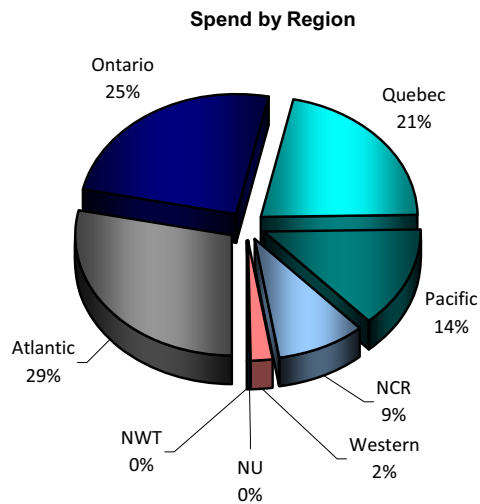
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Source: Spend Cube based on 3yr. avg. Spend Cube Data (FY05-06 to FY07-08)

Atlantic and Ontario regions were consistently the top two regions in terms of business volume.

Graph 1. Annual Food & Beverage Spend by Region



Source: Spend Cube based on 3yr. avg. Spend Cube Data (FY05-06 to FY07-08)

Table 2. Annual Food & Beverage Spend by Region

Region Code	Average Spend
Atlantic	\$28,938,734.76
Ontario	\$25,395,640.14
Quebec	\$21,653,197.46
Pacific	\$13,822,479.92
NCR	\$9,389,883.36
Western	\$2,366,323.56
NU	\$98,099.06
NWT	\$81,725.78
TOTAL	\$ 101,746,084.04

Source: Spend Cube based on 3yr. avg. Spend Cube Data (FY05-06 to FY07-08)

A significant portion of spend is destined for military bases and correctional facilities which are primarily located in the Ontario and Atlantic regions.



The top departments in terms of value are the Department of National Defence (DND), Correctional Services Canada (CSC) and the Department of Fisheries and Oceans (DFO) (of which the Canadian Coast Guard Services accounts for a large portion of expenditures).

Table 3. Annual Food & Beverage Spend by Customer

Customer	Average
DND	\$ 62,984,685.63
CSC	\$ 22,399,502.04
DFO	\$ 7,620,610.20
RCMP	\$ 3,357,564.84
VAC	\$ 1,606,660.07
PCA	\$ 691,274.04
PWGSC	\$ 668,057.29
EC	\$ 530,764.29
AAFC	\$ 469,069.51
HEALTH	\$ 376,155.08
Other	\$ 1,041,741.06
Grand Total	\$ 101,746,084.04

Source: Spend Cube based on 3yr. avg. Spend Cube Data (FY05-06 to FY07-08)

Table 4 and Table 5. Average Annual Food & Beverage Spend by Customer Broken Down by Sub-Category.

Food

Beverage Products

Customer	Average Spend
DND	\$62,404,923
CSC	\$20,272,687
DFO	\$7,304,392
RCMP	\$3,312,806
VAC	\$1,538,543
PCA	\$651,965
AAFC	\$452,127
EC	\$450,388
HEALTH	\$355,321
PWGSC	\$263,849
Other	\$497,495
TOTAL	\$97,504,495

Customer	Average Spend
CSC	\$2,126,815
DND	\$579,763
PWGSC	\$404,209
DFO	\$316,219
TC	\$107,984
EC	\$80,376
HC	\$73,947
HRSD-SC	\$73,509
VAC	\$68,117
IC	\$64,657
Other	\$345,994
TOTAL	\$4,241,589

Source: Spend Cube based on 3yr. avg. Spend Cube Data (FY05-06 to FY07-08)

Although the Spend Cube data include values from sub-categories such as distilled water, combat rations, etc., the focus of this analysis is normal food items that one would find in grocery stores or restaurants.



The spend for this commodity is comprised largely of pure goods (meats, produce, dry goods, staples, etc.), with some services driven components, notably rental of beverage dispensers with the associated beverages, such as coffee or juices that might be found in cafeterias.

Market Review

The Canadian food and beverage market is part of a large integrated North American and increasingly international industry with the capacity to supply all major industrial centres, households and restaurants.

There is a complex supply chain that supports Canadian consumption of food and beverages, large parts of which are regulated and subject to routine scrutiny. Safety and maintenance of the food supply is a core government concern and the functioning of the agricultural and food sectors are significant economic factors for the country.

Consequently, the entire marketplace is not necessarily market driven and does have examples of supply boards managing supply. Overall, the marketplace is dynamic, competitive, consumer driven and well supplied.

The federal government spend on this commodity represents roughly 1/780th of the size of the marketplace (average annual spend of ~\$100 million in a marketplace with sales of \$78 billion in 2006.) The federal government is neither a dominant participant nor geographically or product concentrated enough to require a separate delivery chain, with the possible exception of certain military rations.

The Canadian food and beverage processing industry supplies approximately 80% of processed food and beverage products available in Canada. Food processing is the second largest manufacturing industry in Canada after transportation equipment. The food industry employs approximately 268,000 people. Beverage processing includes soft drinks and bottled water manufacturing, wineries, breweries and distilleries employs approximately 32,000 people and in 2006, sales were valued at \$10B.

The balance of trade in processed food and beverage products has been positive since 1995, even though exports of processed food and beverage products stood at \$17.7 billion in 2006, down 5% from 2005. The food processing industry is the largest manufacturing industry in most provinces. Although food processing is important to the economies of all provinces, Ontario and Quebec account for most of the production with approximately 63% of sales, the western provinces account for 27% and the Atlantic Provinces for the remaining 10%.

In 2005, Meat was the most significant food industry in Ontario, Manitoba, Saskatchewan, Alberta and British Columbia; Dairy was the largest food industry in Quebec; while seafood was the most important in New-Brunswick, Nova-Scotia and Newfoundland.

Demand Analysis

Government of Canada demand for Food and Beverages is comprised largely of supply to existing institutions and is similar in form to comparable existing commercial demand. Three principle clients represent the majority of existing spend, which corresponds to their departmental operations.

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The largest single client is DND, which is 61% of the total spend for 30 bases. DND purchases the full range of potential products available under this category, including boxed lunches, prepared and unprepared foods, combat rations and all forms of beverages. DND operates food preparation and related services for service personnel in many bases as part of its core functioning. Storage capacity and demand vary from base to base, resulting in varying delivery requirements. Each base may have one or more food service facilities that may have somewhat varying requirements. Additionally, food is required for field operations as well as aboard ships for long voyages.

Military bases may fluctuate in demand over the course of a year, as the base accommodates different populations, due to training, maneuvers or other activities. This demand shift may also include food service products (boxed lunches, for example) as well as significant shifts in the requirements of fresh and frozen food products.

Military operations also require high-quality and durable rations for exercises and operations. This demand differs from most of the requirements for Food and Beverages, in that it is a non-commercial supply market to specific requirements. This product needs to be stable, storable, and portable. This demand is managed centrally by the client, with distribution managed by the department.

Correctional Services Canada operates a number of institutions across the country and provides food and beverage services as part of the basic operations of incarceration of offenders. In addition, Correctional Services Canada also operates forms of canteens, where the department is not the final consumer but a reseller to the institution's inhabitants.

The Department of Fisheries and Oceans (primarily the Coast Guard) requires replenishment of ships, sometimes distant from regular supply points.

In all cases, the ongoing determination and forward planning for what specifically is required lies with the client departments.

There is a variation in demand that is evident from discussions with clients and the regional procurement experts, and is specific to this commodity that is the aspect of menu and meal preparation. The specific list of particular products required will vary over a period of time, reflective of seasonal changes in availability as well as demand. This volatility differs between sub-categories and is lowest in staples and highest in seasonal or event specific requirements. These cyclical variations need to be accounted for over the course of the yearly cycle.

Non-standard demand also arises, where a specific product or ingredient is purchased or required occasionally but sufficiently infrequently to be identified as a specific biddable product. Examples of this might be a spice that is needed for a specific planned meal that is infrequently prepared. This demand needs to be accounted for within the strategy in a manner that is consistent with the overall principles.

Demand for this product is ongoing and is correlated with the storage capacity and the freshness requirement from clients. It varies from specialized, packaged and prepared meal sets that can be stored for long periods and ordered in bulk, well in advance to fresh fruits and vegetables that are ordered for immediate delivery and consumption, in quantities that are small.



The Commodity Management Strategy must recognize and accommodate these issues.

Supplier Analysis

Supplier analysis shows that there are some consistencies among suppliers, from region to region. There are approximately 450 total suppliers, based on spend data.

There are no known cases of suppliers which supply solely to the federal government. Suppliers range from large, multinationals to small, independent producers. With the inconsistent grouping of requirements (how the total buy is divided up for competition) combined with different selection methodologies (complete or partial list of items to be bid upon, selection by all goods required (basket) or by item) makes assessment of the current supplier base difficult.

Current Procurement Analysis

Each region was reviewed to determine existing procurement practices and the management of the commodity in the region, including use of competition, types of agreements used, length of agreements, how and how often prices were set, how prices were managed and verified over time amongst other elements. Regions were also requested to consult with clients about Food and Beverage commodity. An informal consultation was also conducted with the supplier community, to support strategies that may impact suppliers.

A review of how the Food and Beverage commodity is currently managed shows that the procurement of food and beverage varies significantly across the country, across regions and sometimes within regions. Client department activities also vary, but it is unclear if the variation is a cause or an effect of the supply practices of PWGSC. As noted in the demand analysis, there is a degree of variation of demand, but that variation seems to be much smaller among regions than the variation of procurement strategies.

Currently, the procurement process is managed regionally or in regional sub-offices, on behalf of geographically close clients. The nature of the commodity suggests regional delivery, for supply and demand that tends to be local. For certain subcomponents of the commodity, the management is centralized both from the client and PWGSC sides. An example of that would be the combat rations.

Below is a high level summary of purchasing volume by contracts awarded and contract value over a five-year period. Please note that all figures have been rolled up to the highest level GSIN.



Table 1. Food and Beverage Sector Summary FY 03 / 04 to FY 07/08

Sector	Awards	Contract Value (5 yrs)
Atlantic	732	\$96,419,829
Quebec	2,334	\$69,407,831
Ontario	803	\$84,124,155
Western	384	\$73,036,617
Pacific	56	\$25,809,703
NCA	24	\$42,858,593
Totals	4,333	\$391,656,728

Despite the fact that there are differences in the management of the commodity, there exists underlining similarities that can form the backbone for a consistent National Strategy.

Preliminary analysis showed that there are multiple different approaches, across the country for purchasing the same basic basket of goods for the same clients. Key areas of difference have been identified and summarized in the Table 2 – Comparison of Procurement Process Elements within Regions and further explained in the text that follows.



Table 2 – Comparison of Procurement Process Elements within Regions.

General Management of Commodity						
Element	Atlantic	Quebec	Ontario	Western	Pacific	HQ
Centralized Regional Approach ¹	No	Yes	No	No	Yes	Yes
Supplier breakdown by category	Regional 1 supplier /client /category	Regional 1 supplier /client site /category	Regional 1 supplier /client /category	Regional Generally 2 suppliers with some right of first refusal	Regional 3 Suppliers Master / 8 categories	National 1 supplier /category
Call-Up	Up to 40K	Up to \$40K	Up to \$40K	Up to \$53K	Up to \$40K	Up to \$40K
Utilization of Standards ²	Some - CGSB	None	Some – CGSB	CGSB	None	None
Green Procurement Provisions	No	No	No	No	No	No
SME accessible	Yes	Yes	Yes	Yes	Yes	Yes
Sourcing Strategies						
Element	Atlantic	Quebec	Ontario	Western	Pacific	HQ
Method of Supply ³ - RISO v RMSO	RISO	RISO	RMSO and RISO	Primarily RISO	Primary RMSO	Primarily Contract
Business Cycle	1 year	1 year	1 year	1 year	2 years	1 year
Fully Competitive Process	Initially	Competitive throughout	Initially	Initially	Initially	Initially
Barriers to Entry (after initial award)	Yes	No	Yes	Yes	Yes	Yes
Posting of Solicitations	Merx	Merx	Merx	Merx	Merx	Merx
Setting and Managing Prices						
Element	Atlantic	Quebec	Ontario	Western	Pacific	HQ
Price Management	Yes	No	Yes	Yes	Yes	Yes
Re-compete price Management	No	Yes	No	No	No	No
Price Validation	Clients	PWGSC	Client	Client	Clients	PWGSC



Supplier Selection/Bid Evaluation						
Element	Atlantic	Quebec	Ontario	Western	Pacific	HQ
Supplier Bid Frequency	Initial Offer	Designated intervals	Initial Offer	Initial Offer	Initial Offer	Initial Offer
Barriers to Entry after initial selection	Yes	No	Yes	Yes	Yes	Yes
Price Evaluation	Lowest price on a per item basis	Lowest Aggregate Price	Lowest Aggregate Price	Lowest Aggregate Price	Lowest Aggregate Price	Lowest Aggregate Price
Evaluation Basis	Basket of Goods	Individual Items	Basket of Goods	Basket of Goods	Basket of Goods	Basket of Goods
Mandatory % of items to be quoted	Yes. minimum % threshold to be met to be compliant			Yes. Minimum % threshold to be met to be compliant		
Client Departments						
Element	Atlantic	Quebec	Ontario	Western	Pacific	HQ
DND	Yes	Yes	Yes	Yes	Yes	Yes
CSC	Yes	Yes	Yes	Yes	Yes	No
DFO	Yes	Yes	Yes – Expected to diminish	No	Yes	No
EC	No	No	No	Yes	No	No
VA	No	Yes	No	No	No	No
RCMP	No	No	No	Yes	No	No
Miscellaneous Requirements						
Element	Atlantic	Quebec	Ontario	Western	Pacific	HQ
Bulk Buys				Yes		
Minimum Order Quantities	Yes – Preference to avoid reference	Yes – Preference to avoid reference	Yes – Preference to avoid reference	Yes – Preference to avoid reference	Yes – Preference to avoid reference	Yes – Preference to avoid reference
CLCAs ⁴	Yes – as applicable	Yes – as applicable	Yes – as applicable	Yes – as applicable	Yes – as applicable	Yes – as applicable

Notes:

¹ Contracting Offices doing Procurement Atlantic = St. John's, Halifax and Moncton. Quebec = Quebec City. Ontario = Kingston, Petawawa, Borden, London, North Bay). Western = (Edmonton, Calgary, Regina & Winnipeg) Pacific = (1 Mainland BC & 2 zones on Vancouver Island). HQ = Gatineau



² CGSB = Canadian General Standards Board. CFIA = Canadian Food Inspection Agency

³ RISO = Regional Individual Standing Offer. RMSO = Regional Master Standing Offer.

⁴ CLCAs = Comprehensive Land Claims Agreements

* DND = Department of National Defense, CSC = Correctional Services Canada, DFO = Department of Fisheries and Oceans, EC = Environment Canada, VA = Veteran Affairs, RCMP – Royal Canadian Mounted Police

General Management of the Commodity

Currently, the procurement process is managed regionally or in regional sub-offices, on behalf of geographically close clients. The nature of the commodity suggests regional delivery, for supply and demand that tends to be local. For certain subcomponents of the commodity, the management is centralized both from the client and PWGSC sides. An example of that would be the combat rations.

The number of offices that are responsible to procure the commodity varies across the regions. Only Quebec Region and Pacific Region have centralized the procurement of food and beverage. All other regions have divided up the varying requirements and clients in differing manners. This basic difference reflects that these regions have different internal processes and practices.

The current procurement processes respect the Government of Canada (GoC) procurement policies and practices, despite differing practices. Small and Medium enterprises play a fundamental role in the supply chains of all regions and are also represented in the government's supply community.

Each region or contracting office has divided the sub-categories down into different packages for contracting purposes. These divisions may or may not be as well aligned to the supply market to generate access and competition as possible. Certainly, there should be a consistent basis for the grouping and bidding of sub-commodities, in order to support comparison, competition and improved access for suppliers to government business opportunities.

Some specific management practices that impact the ability to manage the procurement of this sub-commodity have been assessed for compatibility with the guiding principles.

Procurement Instrument Type

PWGSC uses different procurement tools and instruments to aid clients in purchasing required goods and services. These include:

- delegation of authority,
- supply arrangements (an arrangement with one or more suppliers, requiring subsequent solicitations, an offer and an acceptance to form a contract)
- standing offers (an offer, including price and what is on offer, that is left in place for a period of time, allowing purchasers to form a contract simply by accepting the pre-existing offer)
- contracts.



The five year snap shot shown in Table 3 illustrates the overwhelming use of Regional Individual Standing Offer (RISO) as the preferred procurement instrument for this commodity within the Government of Canada (GoC), as compared to other potential procurement instruments.

RISOs are intended to be used by a specific client department, within a specific geographic area. Pacific is the only region that does not use the RISO as the primary procurement instrument (in this case it is the Regional Master Standing Offer or RMSO). The difference between a RMSO and a RISO is a RMSO can be used by more than one department, within a specified geographic area.

Supply Arrangements have been used in limited circumstances, with the main difference being that Supply Arrangements require a second offer and acceptance cycle, normally performed directly by clients. In the case of Supply Arrangements, there is no existing offer from a supplier; therefore it is possible that supply may be interrupted.

Alternatively, clients may use their own contracting delegation for managing food and beverages purchases. For bulk purchases, or special requirements that do not fit within existing standing offers, clients can submit requisitions that will result in contracts to meet specific requirements.

Table 3. Breakdown of Individual Awards by Method of Supply (RxSO FY 03 /04 – FY 07/08)

Region	RISO					RMSO				
	03/04	04/05	05/06	06/07	07/08	03/04	04/05	05/06	06/07	07/08
FY										
Atlantic	144	144	142	139	131					6
Quebec	625	427	344	472	451					-
Ontario	155	168	183	146	106					1
Western	77	99	64	57	64					4
Pacific	5	2	2	3	4					8
NCA	5	7	5	4	-					-
Totals ¹	1,011	847	740	821	756	33	15	19	23	19

¹Difference in the totals between Table 1&2 relate to the fact that in this 5 year period, the following instruments were also awarded DISO (4), NISO (3), DMSO (18) and Supply Arrangements (23)

Solicitations, for all types of procurement instruments valued at greater than \$25,000, are posted on MERX. All regions publish a notice to create a standing offer for a set period, typically one year with an option year. Some regions are assessing the possibility to further extend the procurement instrument duration to reduce the frequency of manual price evaluations.

Price Refresh Management

Due to the volatile nature of commodity prices for dairy and wheat, solicitations compete the percentage mark-up from the marketing board price, often on an annual basis..



In other circumstances, there are varying degrees of instrument duration for similar products, including volatile sub-commodities such as fresh fruits and vegetables. The period for holding prices for this sub-commodity varies between 1 week and 3 months. Longer price holding requirements may cause suppliers to transfer price fluctuation risk to the end user in the form of increased prices or reduced availability of stock.

All regions, with the exception of Quebec region, use some form of price refreshes following the initial award of a standing offer or supply arrangement. Price refreshes are used to account for price fluctuations in a commodity over the period of an agreement (standing offer, contract, or other) and can be either competitive or non-competitive in nature. Price refreshes are available only to existing standing offer or supply arrangement holders. The frequency of price refreshes should be a balance between normal market changes for a specific sub-commodity and supplier capacity to manage price changes efficiently. More price sensitive sub-commodities like fresh fruit and vegetables should have more frequent refresh periods versus dry goods, for example.

Some regions have examples of processes where price refreshes clearly affect a client's ability to purchase. For example, lowered prices may not result in changed ranking amongst suppliers or may not require a client to select products from the lowest priced supplier for a specific item. There may be a presumption that clients will select the lowest priced item amongst each of multiple suppliers.

Price refresh, when changing the prices of items set competitively, should use the new prices to change ranking of standing offer holders for standing offers.

Renewal of Standing Offers to Set and Manage Prices

The process of completely renewing the standing offer through open competition, in preference of refreshing prices between a limited set of suppliers, is currently employed exclusively in the Quebec region.

A client provides an annual requisition, for a list of goods, which is compiled into an excel spreadsheet for use by bidders. A Notice of Proposed Procurement is published on MERX, clearly identifying multiple bid closing periods for that particular list of goods. The frequency varies according to the products being sought, with fresh fruits and vegetables being as frequent as every two weeks.

The Quebec region operates through a more open process in which prices (and potentially suppliers) are renewed at pre-set intervals. It provides the same opportunity for the incumbent supplier to re-price (if necessary to respond market considerations), but more importantly, it allows any interested supplier to participate.

Renewals provide all the previously described benefits provided by the refresh process with the added advantage of removing barriers to entry; serving to make the process truly competitive at all stages.

In this process, a solicitation is published on MERX and left there for the entire year, with all required material for bidding, including the closing dates clearly established. At each renewal point, all interested suppliers (not only the incumbents) can submit bids. Unsuccessful suppliers need not wait until the expiry of the whole method of supply, only until the next pre-determined competition date to participate.



This process leverages consistency and planning, which facilitates access and ease of bidding for interested suppliers. All prices set in this matter are always competitive and represent best value.

Groups of sub-commodities to be bid

Regions and offices have varied groups of sub-commodities to be bid, grouping for example all milk-based products together, all cheeses together or all lards and fats together (including cheese, but not milk). All regions procure essentially the same large group of products, with some regional variations due to client requirements or particularities of a supply market, yet there is limited coherence to the groupings of products for bid.

The amount of variation of groupings of products appears to be large.

List of items to be bid

Client operational requirements form the basis of all requests for food and beverages, including standards, specifications and what specifically is required. In all cases, clients are responsible for compiling and validating the list of required items. As each client department and client site may have specific requirements (order size, specifications, items included or not), each site should prepare lists appropriate for their specific circumstances.

Currently, there is a mix of items preparation and selection methodologies across regions. For example, Pacific region provides a list that is used in the Regional Master Standing Offers to be used by the clients in the zone of coverage. Quebec region works with individual client sites to manage lists for each site. Western region prepares RMSOs, with individual lists for each site covered, each as an annex with different pricing for each site for the same products.

Non-standard items are also required for various reasons: health; dietetic; etc. by different end-consumers served by the different agencies or departments. These are currently handled in different manners. For large bulk purchases to support isolated sites that require being shipped annually, these requirements, as would all others, need to be accounted for the original requirement. For ongoing requirements, depending upon the volume and value of the requirement, these supplies may be accessible through an appropriate existing procurement instrument using the miscellaneous category or clients may purchase them directly from industry.

Supplier Selection/Bid Evaluation

All current selection and evaluation methods in use have price as a determining factor in the original selection of contractors, standing offer holders or pre-qualified firms with supply arrangements. Some regions use lowest aggregate pricing to select a set of suppliers for each requirement and others use low price per item.



Bid selection criteria vary considerably across regions. For instance, in Atlantic and Western Canada, for a potential bidder to be considered eligible to bid on solicitations, the bidder has to submit pricing for set percentage on the basket of items required by a client. For example, for DND requirements in Atlantic Region, suppliers must bid a minimum of 95% of the total items requested in order to be compliant, whereas the minimum supplier bid quantity is 90% in Western Region.

Western Region usually seeks two ranked suppliers, based on a given period's prices for RMSOs and awards the complete list, on an aggregate value basis. Each primary bidder is ranked first for the period of the standing offer, as well as having a right of first refusal. Subsequent price refreshes do not change the ranking nor the right of first refusal.

Pacific Region's RMSOs, seek three suppliers, each per sub-commodity and each of 3 zones of competition. These suppliers are ranked, originally as well as with each refresh, but the change in ranking has no impact on how clients access the suppliers.

Ontario Region, (close to a large metropolitan area) had used point-rated and price criteria to address the problems encountered with poor performers and in other areas, suppliers having to bid 80% of the total items to be compliant.

Basket versus Line Item Awards

Quebec Region's solicitations award standing offers on a lowest aggregate price when the client will be unable to manage more than one award. Awards on the basis of lowest price by line item, up to a maximum of three standing offers per requirement occur when 1) there would be significant cost savings or 2) that the entire list cannot be met with one award. A supplier can win business on a portion of a requirement, based on price. There is a reasonable limit to the number of awards based on a reasonable level of efficiency where the cost of adding or using an additional standing offer is exceeded by additional savings. This possibility is outlined in the published solicitation documents.

The adoption of a basket selection process would produce some items which would not be offered at the best price, thereby reducing somewhat the overall benefit of the procurement instrument. This factor would be overridden where client operational requirements dictate the need for a single supplier, for reasons such as dockside delivery or delivery between certain hours.

Price Validation

After the initial bid evaluation and subsequent supplier selection, price validation is the means to ensure that the clients continue to receive value for money. A common approach is to seek price lists and use a percentage value off of the price list to validate the proposed refresh. The validations of price refreshes currently may be performed by the contracting authority and subsequently sent to clients, or price refreshes and validations sent from the supplier to the client without intervention of the contracting authority.



In the case of supply arrangements, price evaluations and validations are all handled directly by the client without intervention by PWGSC. There may be some risk that the process will tend to become less competitive and transparent.

Sample variations on price refreshes and price validation.

Pacific: Publishes the price refreshes, clients are expected to choose the supplier with the lowest aggregate price for their specific requirement.

Atlantic: Suppliers provide pricing directly to clients and prices are not published.

Western: Price validation is performed by client.

Ontario: Some published price refreshes and some validations.

Quebec: Prices are set and validated competitively on a frequent basis.

Call-up limits

Individual regions have established call-up limits of \$40,000 per order. This is in accordance with Treasury Board Guidelines and this amount has proven to be effective in meeting routine client needs.

The Quebec region has added an additional call-up caveat that restricts the total value of the call-up to the lowest total amount between either the \$40,000 or 25% of the estimated Standing Offer value (defined at the initial solicitation).

Duration of Agreements

Most regions put in place agreements that last for 1 year, with an option year. Some regions have considered extending this period, using price refreshes as a partial basis for extending. Some sub-commodities, such as beverage services tied to dispensing equipment, are of longer periods to account for additional costs associated with the installation and capital investment.

Standards and Specifications

The use of third party specifications such as the Canadian General Standards Board and the Food Safety Code of Practices of Canada Food Inspection Agency are used on an ad-hoc basis without consistency. The regions manage and more precisely the client departments request which (if any) standards they would like to stipulate for the provision of the food and beverages. The ability to use standards and specifications varies with products and are subject to a number of federal, provincial and municipal laws and regulations. Standards that may apply in one province may not be used in another. There are also challenges with their associated costs.

Clients are expected to use suitable specifications for identifying products for bidding purposes, where possible. When a specific standard or specification is impractical, clients may use a specific brand name and the words "or equivalent" to better communicate the requirement. An example of this is "Trade Mark™ Peanut Butter", which would require the supply of that brand of peanut butter or "Trade Mark™ Peanut Butter or equivalent", which would allow for some substitution from the brand specified.



Clients' acceptance or testing of a product can also be a problem, if they are not trained or knowledgeable enough to ensure food safety or if they are unable to perform these tasks in a timely manner.

Unsatisfactory Product or Short-Shelf Life products

Clients have identified some problems of short shelf-life products. Where problems of performance occur, clients are expected to turn back product, if possible, in accordance with standard industry practice. Clients may or may not notify PWGSC of performance issues, whether or not the supplier adequately and in a timely manner, compensates for non-acceptable product.

PWGSC should be notified promptly of any performance issues to order to better resolve or implement corrective measures.

Supply Marketing Boards

Certain products are supply managed, notably: dairy; eggs and wheat. These prices are generally set for a year and may impact produced food items. Regions manage this price change in two different ways, the first being to allow price changes following the price changes imposed by a marketing board, or secondly, to compete these products following the published price changes.

For direct purchase of these commodities, the existence of marketing boards may make traditional competitive sourcing more difficult.

Client Departments

Each region has essentially the same client departments with requirements that remain fairly consistent. Individual department's requirements may vary greatly within a region. For instance needs may vary by size and timing of delivery (e.g. on board ships), quantity (bulk or container milk) or storage capacity. Furthermore, the two principle clients for this commodity (DND and Corrections Canada) have different basic specifications and client communities.

Regional Variations

The country's geography may also impact certain supply requirements or supply capacity. Not all suppliers can supply to all parts of some regions, nor can remote areas anticipate the same frequency of delivery or costs as urban centres. Nonetheless, the remote areas might be assisted through better communication with the various industry associations or in co-operation with other levels of government.

Regional offices currently manage these variations through the assessment of demand and supply capacity, in comparison with the availability of procurement tools. There is no existing policy requirement forcing a contracting authority to use one procurement instrument to meet all requirements.

Additionally, regions do have legitimate variations in terms of preferred foods, products, dishes and menus. The use of these variations is subject to the operational requirements of client departments.



Off List Items

All regions' existing procurement instruments allow for a proportion of the value to be spent on related but unlisted items. This limit is often between 5-15% and is an administrative efficiency to reduce the overhead associated to listing all potentially useful food items.

Exceptions Management

Due to the dynamic nature of the food and beverage commodity and unique customer requirements, there exist instances whereby the procurement process has been adjusted to accommodate.

Minimal Order Quantities

Regions have tried to avoid instituting minimal order quantities, opting instead to work with the client department as well as the supplier to ensure that call-ups represent a reasonable quantity so as to make delivery cost efficient for the supplier and convenient for the client.

Delivery Charges

When a procurement instrument can be used by different clients in a large geographic zone, delivery is often included as part of the price of the items. Dependent upon the suppliers' familiarity with clients, this bidding component may be difficult to evaluate for potential suppliers. Currently, most regions do not institute a separate charge for delivery, irrespective of the distance for suppliers nor the value of specific orders.

Delivery Wait Time Charges

Some clients have specific delivery requirements, notably for shipboard delivery. Suppliers are required to deliver precise amounts of product to docks, but may be required to wait prior to loading. This may risk spoilage or some hardship for suppliers, if delays are unforeseen and lengthy. There is no consistent approach to minimize this cost or risk to suppliers, while maintaining reasonable delivery schedules for ships.

Bulk Purchases – Isolated Locations

Bulk Purchases are normally treated separately. In Western Region for example, deliveries to Environment Canada's Eureka site are handled through a separate RFP process as opposed to using existing procurement instruments.

Small Regular or Irregular Requirements

Some institutions or other sites may be below a reasonable threshold for use of specific PWGSC procurement instruments. Also, some temporary requirements may be below reasonable limits to engage PWGSC. Current practice would be to encourage clients in these situations to leverage local purchasing authority and seek local suppliers.



National Requirements

Combat rations are an example of a sub-commodity within Food and Beverages that is managed centrally from the National Capital Area both at the client and at PWGSC. These types of requirement are handled nationally and in accordance with all procurement requirements by Acquisitions Branch.

Emergency Response

Existing emergency response authorities have been used to respond to any crisis situations. These emergency contracting authorities are available whenever needed to access what sources of material that are required, including food and beverages.

Issues Arising from Analysis:

No National Approach for Regional procurement

There is no clear direction on the core procurement elements for this commodity, such as type of procurement instrument, how it should be awarded, how clients should use it once it is awarded, nor what is expected from suppliers. This has also limited the ability of the government to make develop and leverage this part of the spend for green procurement improvements.

Differing Procurement Tools, Selection Methods and Product Groupings

The different procurement tools, methods and groupings make it difficult to plan and measure activity consistently across the country. Each region demonstrates a different balance in the methods put in place to serve this commodity's users. More consistent product groupings should support more competition from existing and potential suppliers.

Price Setting, Management and Validation

From an accountability perspective, there are concerns about price management over time that may not have a robust price validation component. Price setting, both initially and ongoing should be equally robust, with a preference being for competition as the price setting and management standard. There is a strong competitive marketplace for the majority of products and this should be leveraged.

Client Responsibility for Consistent Requirements

Clients should be encouraged to more clearly define requirements, as these support better quality products as well as more competition. Unclear or inconsistent requirements will produce uneven results for different bases or institutions, resulting in uneven value for money.

Access to the Government Marketplace



The ability of the market to respond to short term demands is high for this commodity. Government demand is small compared to the overall supply and there is significant competition across the large range of products. If the government uses a more consistent and robust price management structure, there would be limited or no additional effort to replace price refreshes with complete competitive renewals, increasing the overall level of access to more than triple the current levels.

Standards, Specifications and “Or Equivalent”

Client departments may choose to develop additional standards and specifications to improve cost/quality of products received and to have more standardized food and beverage products at their various sites. As a complementary activity, the process for suppliers to request to have products identified as “equivalent” should be consistent. The degree that clients choose to normalize ‘or equivalent’ products across their sites would remain a client responsibility.

Regional Variations - Managing

Within the context of a National Commodity Strategy, there are variations in supply or demand that will occur. The majority of these variations should be accounted for by client bases or institutions having individual product lists and standing offers.



Food and Beverage Proposed National Strategy

Prepared in cooperation between
Ontario Region
&

Performance and Spend Management Directorate
of Acquisitions Branch

Draft Food and Beverage Review Strategy Paper



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

Canada



Food and Beverage Proposed National Strategy

Summary:

Public Works and Government Services Canada (PWGSC) has undertaken a review of how it purchases food and beverage products for and supports client departments. The review has identified issues of consistency of process and outcomes as well as identified areas of opportunity that should produce better outcomes for consumers of the food, client departments, suppliers, potential suppliers and Canadians.

This Proposed National Strategy forms the basis for client and supplier input, to ensure that PWGSC's intended direction meets or exceeds client needs as well as supplier's capacity to compete for government business.

If implemented as proposed, the Government of Canada will achieve:

- significantly increased and easier access to government business for suppliers;
- Better and more consistent products delivered to clients;
- a clear and public explanation of how Food and Beverage procurement is managed;
- more transparency and accountability;
- the ability to work with clients nationally to improve environmental outcomes; and
- more timely and useful data to manage costs and quality for the following period.

Scope:

The scope of this strategy is food and beverage purchases by PWGSC for use by government departments in Canada, for all values of transaction. The scope does not include food purchased for other uses. This review does not include: tobacco; alcoholic beverages; distilled water; hospitality services; meals for persons travelling on government business, food for humanitarian aid or disaster relief emergency supplies.

Summary of Analysis:

In development of this proposal, significant analyses were performed, including market, spend, demand, supplier and current practices analysis. Additional supporting information was developed, including assessing which laws and regulations are applicable. Contracting authorities with the assistance of the Office of Small and Medium Enterprises also communicated with a small sampling of suppliers and clients to further the development of a proposed strategy.

The analysis identified that there was an inconsistent delivery of procurement services for Food and Beverage across the country, for products serving federal regional sites. These variations leave the department open to criticism, as well as opportunities for improvement. Some areas of specific concern identified were: how prices were managed over time; how vendors were selected and ranked; how prices were validated and by whom; what types of procurement instruments were employed; how products were grouped for bidding and clients' responsibility/ability to define the requirement.



There were no identified variations in centrally managed, national requirements run on behalf of a client's overall requirement.

The analysis was used to support regional contracting authorities in assessing and developing recommendations that could be consistently applied across the country. These recommendations include some specific actions that would be applied consistently, while respecting necessary client and regional variations.

The implementation of new processes would be completed over the next 18 months and would be in effect for a period of 5 (five) years from the approval of the recommendations.

Recommendations:

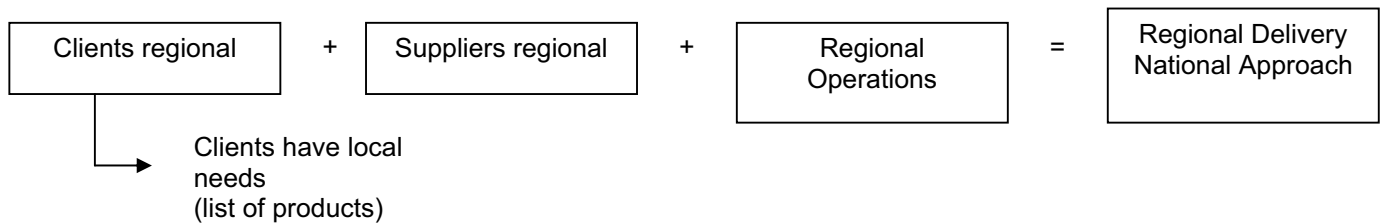
Consistent Regional Delivery of Food and Beverage Procurement Services

Based on the overall analysis of the industry, demand, supply capacity and current practices, PWGSC should implement a national approach to be applied consistently across all regions for the procurement of Food and Beverages.

This approach is developed nationally and will be applied consistently in all regions.

Figure 1 below shows the logic of how this was determined:

National Clients and Suppliers both have regional operations; therefore a regional delivery of a national approach is appropriate.



Use of Regional Individual Standing Offer as principle procurement instrument

The Regional Individual Standing Offer is the optimal choice for regional Food and Beverages purchases. Clients are responsible for the definition of what is required to meet their needs. The nature of the commodity is that each Department of National Defence base or Correctional Services Canada institution may have some differing requirements, including product, quantity required, packaging or specific delivery needs.

Client departments may also develop general requirements for multiple sites that are the same.



In order to reduce complexity for bidders, client sites may coordinate requirements in a geographic zone, where the list of product is the same. The current use of Regional Masters, with multiple different product lists, different specifications and client requirements is not ideal.

Similarly, the use of Supply Arrangements requires clients to perform the competitive process, with no oversight by PWGSC. This reduces the value for clients in terms of efficiency and for PWGSC in terms of accountability. An additional concern with Supply Arrangements is that there is no existing “offer” from a supplier, leaving a potential void in the delivery of this critical commodity.

Client sites may have multiple individual standing offers, for a variety of grouping of products.

Therefore, the preferred instrument for PWGSC to use for the provision of Food and Beverage is the Regional Individual Standing Offer. This provides the correct accountability for client sites, allows client sites to coordinate activities and product lists, while maintaining an easy to manage contracting vehicle. RISOs also facilitate the setting and refreshing of prices repetitively as the number of parties involved is kept to a minimum.

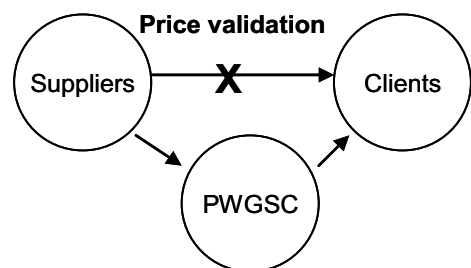
Repetitive Competition is preferred over Price Refresh Mechanisms

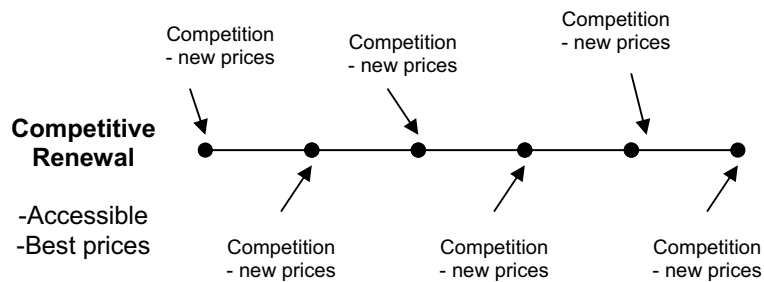
No existing price refresh mechanism currently used provides the highest level of transparency and price validation as does repetitive competition. The Food and Beverage commodity has sub-commodities with high degrees of price volatility at the product level. Having a mechanism to update prices is necessary, otherwise prices bid will not reflect current demand or price levels, but will include risk pricing for prices that will change over the term of an agreement.

All prices not sought competitively should be validated, either against a known standard, (such as is used for fuels) or a valid price list or a sufficiently competitive marketplace. At no time, should the price validation be left solely with clients.

Additionally, price refreshes should form, at least in part, the subsequent selection method by clients.

Given these requirements and the feasibility to repeat the same purchase as easily as performing a price refresh, with a subsequent re-ranking, there is no inherent benefit in the use of price refreshes without a complete competitive renewal of the agreement.





There are several periods and competitions

For example: for fresh fruit and vegetables there are twenty-six periods of two weeks each. The prices are refreshed with each competition.

Use of Annual Posting on MERX, with predetermined bidding periods

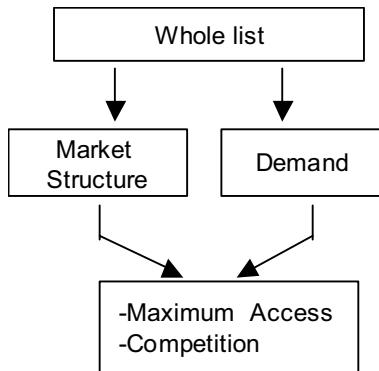
In reviewing existing procurement practices, Quebec Region’s approach of posting an annual requirement for each client’s RISOs, with pre-set bidding periods outlined in advance and with all associated documentation available for any potentially interested vendor provides an optimal solution for setting prices, ensuring access and transparency and meeting client requirements.

This approach and related documentation and tools should be replicated and used consistently by each region. Client transition may need to be facilitated, but that would be the case for any other consistently applied procurement approach.

Use of Consistent Grouping of products for Bidding

The supply market place and demand are sufficiently consistent across the different regions that the basic grouping of products into biddable standing offers should be consistent from one region to another.

The groupings should be based on the organization of the market place to be able to adequately address completion while balancing the ability of clients to access and use the resulting standing offers.



The resulting list proposed is:

Groups to bid	Recommended Renewal Rate
Meat, Fish & Poultry	3 months
Milk	1 year
Eggs	1 year
Dairy	1 year
Cheese	6 months
Ice cream	1 year
Fruit & Vegetables, Fresh	1 month
Fruit & Vegetables, Frozen	6 months
Juice Concentrate	1 year
Juice with Dispensers	1 year + 1 year option
Beverage, Non-Alcoholic, individual	1 year
Beverage, Non-Alcoholic, with Dispensers	1 year + 1 year option
Salads, Prepared	6 months
Bakery	1 year
Bread & Rolls	1 year
Grocery miscellaneous	6 months
Specialty Dietary Food and food special preparation	1 year
Potato Chips	1 year
Canteen Items	1 year
Various Frozen Products	6 months
Kosher Foods	1 year
Halal Food	3 months
Nutritional Supplements	1 year
Edible Oils	1 year
Boxed Lunches	1 year
Coffee	1 year



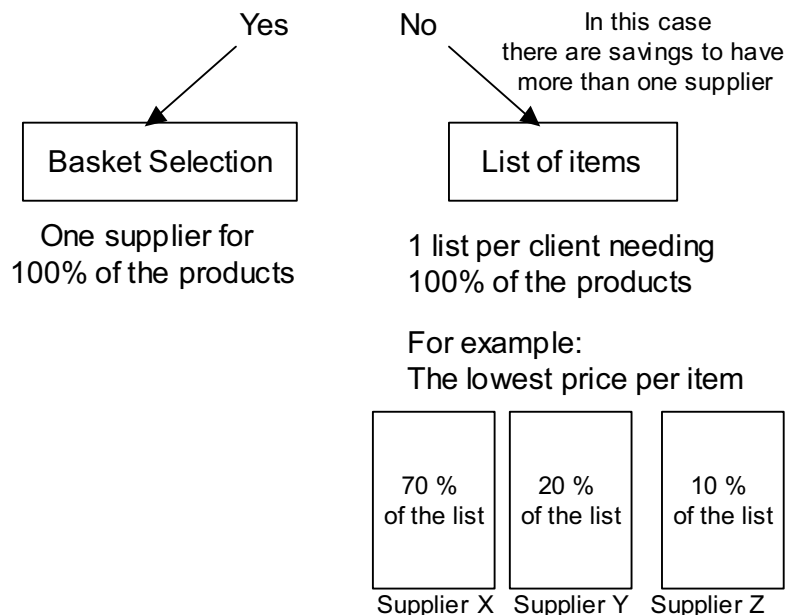
Use of Award by Line Item as principle supplier selection method

For Supplier selection, there are two principle methods available, award by “Basket” (low aggregate) or by Line Item. It is assumed that clients will require access to 100% of the items on their product list. PWGSC should ensure that clients can access the complete list from suppliers.

“Basket” is a winner take all, where the evaluation criteria estimates the relative value of all the required goods and awards to a single supplier, although some prices may be higher than another bidder. Line Item award occurs where each line item (or product) is awarded based on lowest price for that item. On a list of 100 items, some bidders will have lowest prices for some items and not for others.

Line item award is the preferred method, with the specific exception of a client having operational needs requiring a single delivery (for example replenishing a ship). As there is a possibility to have more than one standing offer for a list of goods, there is an opportunity for specialty suppliers to compete against part of a requirement.

The proposed limit for multiple standing offers from one requirement is three (3), with the proviso that the last standing offer is economically viable for the Crown and the supplier. This limit may be as low as \$200 of anticipated business over the life of the standing offer.



No more than 3 S.O./Supplier per client for a category for efficiency. Each item is therefore awarded only once.

Consistent “Or Equivalent” management process

Clients may use brand name for various reasons in their requirements



Concepts:

- Trade Agreements: specify avoidance of using Brand names
- Trade Needs: Brand names provide a “shorthand” quality standard
- Best value: other products should be considered
- Access: the use of Brand names may limit competition
- Clients specifications: “Performance” may have subjective elements
- Clients value: Product not ordered nor used is valueless
- Performance Specifications
 - Costs/Benefits
 - Can be Excessive

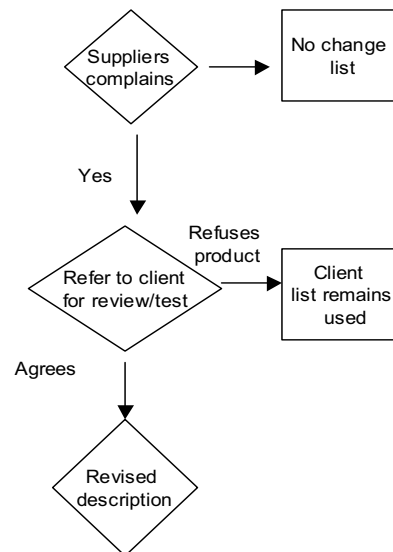
Example:

Trade Mark™ Ketchup
Vs Trade Mark™ Ketchup or equivalent

If Client uses name brand product (no equivalent or “or equivalent”) in list provided:

Clients should avoid use of brand names when defining requirements, however it is often an easy means to describe a requirement where the cost of a performance specification might be prohibitive. Suppliers of comparable products need to have a means to recommend alternatives, while respecting the legitimate need of clients to manage their product lists. There is a cost to the Crown to order product it will not use, and to suppliers to list products on standing offers that will not be ordered.

The following process is intended to manage this issue consistently, while respecting overall roles and responsibilities and obligations.



Enhancement / Development of Improved Specifications

Different clients should have internally consistent product descriptions or specifications, especially for key products. This does not imply that there is a need for detailed specifications between clients or for all potential products.

Currently, various federal and provincial laws and regulations are in place that would support the use of differing descriptions, but there are inconsistencies between provinces.

The government should assess the cost/benefit of producing or updating existing specifications, including working with the largest purchasers to improve existing lists over the near term.



If specifications are prepared to support a department or multiple departments, these specifications should be available at no charge to interested suppliers, as there would otherwise be a new barrier to bidding.

Implementation Plans:

Each Region will conduct enhanced client and supplier consultations, in anticipation of this strategy being approved, should prepare implementation plans to transition to the new processes for Food and Beverages. Transition plans should anticipate regional offices will publish next year's annual Notice of Proposed Procurement plans on MERX, starting February 1, 2010 and transitioning clients to the new processes over the course of FY 2010/11.

Transition plans will be developed in consultation among regions, in an effort to have more consistent application of tools, templates and other communication materials.

Communication Plan:

Objective: Validate the Draft National Strategy and proposed actions with key stakeholders, prior to implementing this strategy as departmental policy.

This draft national commodity strategy will be published on MERX, with the associated Review document, for a period of eight weeks. Ontario Region will be setting up a specific e-mail address to accept questions, comments and input from all interested parties. A description of the consultation process will be published to support input.

There is no plan to have supplier meetings in support of this consultation.

Stakeholders:

Key stakeholders in this proposed strategy are:

Clients (Departmentally) – National Clients are clients that represent entire departments and national requirements. For this strategy, these may be two separate groups in each main department, one representing the department as a whole and the other representing the user or consumer in the field.

For example, in DND, there are large-scale requirements that are not purchased regionally and are not the responsibility of any individual base, i.e. combat rations. This would be National Requirements.

Secondly, there are departmental requirements that cover multiple sites, for example the development of standards and specifications, or the implementation of departmental policies to support the proposed strategy. Additional benefits may arise from the integration of certain elements into client department operational practices, such as providing relevant information to the DND food management training program at CFB Borden.

These two groups will be approached and communicated with through the Acquisition Branch Client Engagement Sector.



Clients (Regionally) – Regional Clients will be engaged by their regional PWGSC counterparts, following the publication of this strategy.

Suppliers: Suppliers will be able to access this strategy and associated review document and provide written comments by means of e-mail.