

## FEEDBACK ON ITPSA REVIEW

Submitted by

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We are a Category A, Group 1 supplier and a Hong Kong company employing around 40 professional staff during the past two years. As of today, Y&A has been awarded 14 assignments from 13 departments. 5 assignments have been completed and 9 are being delivered. In terms of assignment value mix, 21% of our assignments value are HK\$1.3-5.0 M, 14% HK\$0.65–1.30 M, 21% HK\$0.26-0.65 M, and 43% HK\$0.26 M and below.

I am submitting my response on behalf of our company with the objective to improve the design of the arrangement, leading to a continuous upgrade of the professional expertise level demanded in the competition and fulfillment of Government work assignments.

To start with, we would like to supplement the consultation paper with some strong points of ITPSA that we would like the Government to hold on to, or better enforce.

1. We appreciate the effort of the Government to expand the scope of participation by segregating its service business into technological categories and manpower size groups. The compartment effect has enabled the IT industry players to become more specialized than before, and given the opportunity for the suppliers, SMEs in particular, to develop their niches. Fortunately Y&A is one of the beneficiaries of such strategy.
2. By isolating hardware and ready-made software products acquisition from ITPSA, the Government has contributed to shifting the local IT industry into a more software-and-services oriented one. Some suppliers may have been deprived of the advantage of their ability to leverage on product sales business. However this shift should be a healthy alignment with the value shift taking place in our industry globally.
3. The administration and quality assurance frameworks implemented in ITPSA to govern the collaboration among department end users, ITMU, ITSD, and project leaders and programme managers of suppliers, exhausting may they be,

have significantly reduced the risk of projects and hence made the financial risk to our business more containable.

4. With the standardized mechanism on work assignment bidding, ITPSA benefits suppliers by playing down the significance of sales and marketing activities which are usually targeting to gather the bits and pieces of project information. Suppliers' resources can be more productively deployed to the professional activities.

5. The two-stage competition for ITPSA work assignment is a good way to help suppliers stage their resource development and deployment. Again, SME with a strategic direction to IT service business will find this approach advantageous.

6. ITSD, whose roles are perceived by us as facilitator, governor and arbitrator, has given us more confidence in taking on turn-key projects with departments with which, in most cases, we do not have a previous working relationship.

On the other hand, there were weak links in the ITPSA design which has caused disappointment to the industry, amid the gloomy IT business habitat.

7. There was a lack of critical mass to drive the ITPSA mechanism. The amount of business injected into ITPSA has been small, slow and below estimate. To a certain extent, it has caused a chain of undesirable impacts and overshadowed the strategic intention of this arrangement.

From the statistics provided, there are a total of 575.5 man-year of work awarded for the first 19 months, at a total value of HK\$246 M, to 12 companies, under 23 SOAs.

Taking the assumption that the assignments-in-progress are each 50% completed, there should be HK\$156 M [ $HK\$246M \times (92 \text{ Completed Assignments} + 250 \text{ Assignments in Progress} \times 0.5) / 342 \text{ Assignments}$ ] having been earned by the 12 companies, and 365 man-year of resources [ $575.5 \text{ Man-year} \times (92 \text{ Completed Assignments} + 250 \text{ Assignments in Progress} \times 0.5) / 342 \text{ Assignments}$ ] having been deployed respectively.

Dividing these numbers by 12 companies and normalizing them to a year, we are looking at HK\$8.2 M earned by 19 bodies deployed per company per year. Alternatively we can be looking at HK\$4.3 M earned by 10 bodies per SOA per year.

If one average project team in the Government is 10 bodies of strength, the Government outsourced 23 project teams equivalent of business per year under the 23 ITPSA SOA's, or 1 project team per SOA per year.

The estimated value [*HK\$690 M*] at the timing of tendering adjusted to a 19-months period is HK\$437 M. The pace of ITPSA is about 56% of the original estimate.

8. This seemingly shrinkage of business substantially contributed to the “cut-throat price competition” phenomenon as mentioned in the consultation paper. In a situation when most ITPSA suppliers are over-planned with resources and the outsource market are growingly dependent on public spending, it does not take a genius business person to figure out what best to do in a lowest-valid-offer bidding exercise. Without having some understanding from the Government on the future IT service spending level, there is no basis to suggest an increase of contenders to the competition pool.

9. “Cut-throat price competition” is also caused by ITPSA’s hasty attempt to commodify the system development service industry. The current “valid or invalid” checklist approach does not provide sufficient merit for the suppliers to propose the most appropriate individuals, team and approach to meet the requirements of an assignment. As a result, pricing skill overwhelms technical skill to become the major competition among the suppliers. Software development is yet to become a commodity service of which the buyers do not need to technically evaluate the approach, the team and the individuals who are going to perform it. We can expect more problem projects to emerge if we allow the existing trend of making buying decision to continue.

10. “Cut-throat price competition” can be alleviated by a coordinated effort among the government departments to examine, classify and formulate their backlog requirements into projects opportunities; and to appropriately communicate with the suppliers. ITPSA initially provided the suppliers with a planned project list and regular updates. The practice had stopped not long after.

11. We must try harder to bring in the merit of quality of proposal which is constituted by the individuals, the team organization and the approach to an assignment. The arguments in the consultation paper for not providing the contenders with the merit of proposal quality are primarily founded on the lack of delegation to ITMU, hinging on the latter's professional judgement of quality. There need to be a mutually acceptable way to incent a supplier to submit a "higher quality" proposal at a "higher price", risking the loss of a business.

To do so I would suggest a way to articulate track record with proposal quality, by establishing a point system to accredit the past performance of individuals, their respective projects, their respective department, and their respective employing companies at the time of engagement. The points will be used at both ITPSA SOA qualification and assignment bidding times to grant a supplier with an advantage during the price comparison exercise.

For illustration purpose, in any successfully completed assignment, an individual credits 100 points per planned man-month of his or her effort, contributes 15 points to the project leader, 5 points to the Programme Manager, and 1 point to the employing company. The project leader in turn credits 100 points on top of the contribution from his team members, contributes 15 points to the Programme Manager, and 5 points to the employing company. The Programme Manager and the employing company also get their own points.

At the time of SOA qualification, a tenderer company submits its aggregate points to be part of the technical evaluation. During assignment bidding, only the team leader and the individual points will be counted and they will be factored as a price comparison advantage by, say up to 10%.

In another word, a tenderer with a valid proposal of 10% higher price than the lowest valid proposal supplier can still have a chance to win, provided that its point count is high enough. And to encourage working relationship building, the points could be boosted up by a certain factor if they were earned in a past assignment with the same department issuing the current one.

The accreditation scheme may seem complicated but I believe that the existing ITPSA administration process is sophisticated enough to provide the required data

with marginal effort. It can become one integral part of a supplier registration system.

12. During tendering, Category A suppliers were asked to describe the resources estimation methods that they adopted and to take note at the one that the Government adopted. However in almost every work assignment brief, we were prescribed with a minimum resources requirement and a suggested project team organization. There were no indication that the required resources were estimated using the Government method, nor the method that we proposed in the tender.

Resources estimation, team formation and project scheduling are the most advanced and high-value skills in system development project. The Government should, for the sake of further development of the local IT industry, encourage those skills to practiced, communicated and even debated among the fellow IT professionals.

13. The existing ITPSA Category A service does not encourage participating companies, SME's in particular, to specialize themselves for the long term benefit of their own and the industry as a whole. At best we are specialized into two groups, one resembling "convenience stores", the other resembling "supermarkets".

The Government should consider bringing the playing field to the next level of sophistication. The Hong Kong IT industry to the world is analogous with the SMEs suppliers to the suppliers pool in ITPSA, we need to find ways to either develop niches in the complex global IT supply chain, or to upgrade our resources along the value chain. The local industry possesses legacy skills such as logistics, scheduling, optimization and others which were accumulated from our experience in managing extremely high volume business activities of Hong Kong. Our systems analysts for example, are poised for upgrading into process consultants by training them with the latest business modeling techniques and providing them with the assignment opportunities to practice.

Irrespective of the number of contenders, Category A services could be further segregated by technological specialization.

14. Some ITPSA assignments are unreasonable of their payment terms. In the extreme cases, they mandate "100% payment upon project closure". Not only does this practice portraits an unpopular image of the Government of ignoring the commercial norm, it also seriously impairs the trust and professionalism behind

the formulation, development, and governance of each deliverable that constitutes project milestones.

All in all, Y&A will be glad to work with the Government towards a fair, value for money and nourishing business environment.