

FEEDBACK ON ITPSA REVIEW

Submitted by: Azeus Systems Limited

1. We support the ITPSA scheme, with its objectives to streamline the process of acquiring IT professional services, while maintaining its competitive nature. The scheme has been effective in achieving its goals of obtaining the best value for money in meeting the operational and services needs of the Government, and in promoting the local IT industry.

2. While we believe that some fine-tuning can be performed, ITPSA has a novel, creative and successful approach to balancing all its constraints while achieving substantially its objectives. Below are some points we raise for consideration.

Selection of Contractors and Quality Consideration

3. In line with the Government's support for the upgrading of the local IT industry through the provision of grants to achieve SW-CMM or CMMI statuses, we encourage the adoption of such international standards in Government procurement. However, we do not support the inclusion of such general qualification requirement until as such time as enough Hong Kong-based suppliers have already achieved such status.

Participation by Suppliers / Categorization of Services and Suppliers

4. The current arrangement enhances the opportunity for contractors, particularly SMEs, to compete.

5. We believe it is in the public interest to groom capable SMEs.

6. Sections 23 and 24 of the Consultation Paper, which proposed increasing the number of participants in each category/group, may not result in participation of SMEs. SMEs do

not have the size, track record, nor the ability to compete head on with the multinationals in some categories/groups. Instead of creating an environment that will nurture small but capable companies, this may lead to their destruction, as they find it difficult to compete against multinationals.

7. For some service categories, we suggest extending the two-tier grouping to a three-tier grouping, with the new group catering to small but capable contractors. This allows entry of new players to start in the scheme. As these companies grow, they can move to higher groups.

Cut-throat Price Competition

8. With the rules of the game being the lowest conforming offer wins, we confirm the problem of cut-throat price competition among contractors. This development is detrimental to the local IT industry in the long run.

9. To be able to win the Assignment with the lowest bid, the winning contractor is under pressure to minimize its costs -- contractor under pressure to use and pick the cheapest contract staff whose qualifications meet the minimum requirements; intangibles such as quality, professionalism, and competency are secondary or ignored. In the long term, the contractor has no project margins to build up human capital by training to develop and enhance the skills of the staff.

10. Under an environment where price is the only determinant, three or four contractors is enough to drive cut-throat pricing. We believe that increasing the number of contractors in each service category/group (sections 23 and 24 of the Consultation Paper which were proposed to address another issue) will further worsen the situation.

11. Though the seemingly obvious solution to this problem is to introduce non-price criteria for individual Assignments, We acknowledge the practical difficulty of applying changes to the

scheme under the current constraints of the Hong Kong Government and ensuring that the changes produce the expected results.

Improving Professionalism

12. ITPSA can be used to drive the adoption of mature and professional practices. There is room to improve IT professionalism among the Bureaus/Departments.

13. For example, some project specifications are missing any, even basic, sizing information. In other professional fields, say building construction, a fixed-price contract would definitely include basic sizing information, for example, such as number of floors.

14. Currently, the implementation size of IT projects fulfilling the same set of specifications under fixed price contract can vary a few hundred percent; this is obviously an area for improvement.

Warranty Period or Maintenance Service in Assignments

15. For Assignments with one-off implementation, we recommend to lengthen the duration of the system's warranty period or maintenance services in the scope of the Assignment.

16. We have observed in open tenders that including warranty period or long-term maintenance services together with the one-off implementation results in lower cost over the life span of a project for the Government, while at the same time increasing profit for the contractor. This is because it encourages and rewards contractors to put in more upfront resources in delivering the Assignment with regard to minimizing its cost over the life span of the system by designing and building ease of maintenance and reliability into the system, with mutual benefits to both the Government and contractor.

Specialized Skills in Project Team

17. We also note some Assignment Briefs requires very specialized but restrictive skills for its project team, e.g., expertise in business operations of the client. While local talents might be able to perform the tasks, overseas resources must be procured.

Categorization of Human Resources

18. We suggest categorization according to the number of years of relevant experience without reference to the much general years of working IT experience. Compared to the number of years of general working experience in IT, the number of years of relevant experience, for example, in system analysis and design or a particular technology, would be a sufficient measure of competence. It would also be a better indication of pricing.

Promotion of Software Intellectual Property Industry

19. We are fortunate to have this opportunity to provide feedback to the Hong Kong Government, so we seize this opportunity to include a topic which, while not directly related to ITPSA, is relevant to the IT industry.

20. The amount spent on the purchase of software licences exceeds the amount spent on services procured through ITPSA. Unlike services, a significant portion of the amount spent on foreign software licences is repatriated. Any increase in the purchase of local software will be an immediate net gain to the local industry.

21. Redistribution of the procurement of services between local and overseas company results in minor net differences to the local economy, any increase in the purchase of local software will be an immediate net gain to the local industry.

22. We suggest that a similar consultation exercise be made for the procurement of software to review if the success of ITPSA can be applied to software.

Level Playing Field for Local Companies

23. The Hong Kong Government follows WTO GPA rules so that local companies are treated as well as overseas companies. But all things being equal in an open tender, a local company will lose to a multinational as it cannot compete against the marketing and branding of the multinational.

24. ITPSA provides a level playing field. It is based solely on capability.

25. A stamp of approval through a stringent and comprehensive vetting by an expert and credible body, ITSD, provides assurance to the Bureaus/Departments that they can comfortably procure services from little known local companies, like us. This stamp of approval is key to the success of local companies who do not have the branding and marketing reach of companies a few thousand times bigger.

26. That level playing field needs to be preserved. The strength of ITPSA is in the credibility of the comprehensive and extensive vetting and classification of the suppliers. It neutralizes any perception bias by focusing on capability. Though this may not be perfect level field, it is the closest we can get. This scheme should not be diluted.

Summary

27. The ITPSA has been a success. Looking forward, we believe it can be a good foundation for the development of intangible qualities including professionalism, competency, expertise and quality for the long term development of the local IT industry.

28. Finally, we appreciate ITSD's effort in soliciting feedback from participants of the scheme and members of the industry. We continue to give our full support to the ITPSA scheme, and to provide suggestions to continuously improve it.

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