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Industrial and Technological Benefits Policy: Value Proposition Guide

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Industrial and Technological Benefits Policy: Value Proposition Guide

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DEFENCE PROCUREMENT STRATEGY

On February 5, 2014, the Honourable Diane Finley, Minister of Public Works and Government Services Canada; the Honourable Robert Nicholson, Minister of National Defence; and the Honourable James Moore, Minister of Industry, announced a Defence Procurement Strategy to:

- deliver the right equipment to the Canadian Armed Forces and the Canadian Coast Guard in a timely manner;
- leverage purchases of defence equipment and services to create jobs and economic growth in Canada; and
- streamline the defence procurement process.

“The Harper Government is committed to giving our men and women in uniform the equipment that they need, in a more timely and cost-effective way and at better value for taxpayers. Now we will also leverage our investments to create high paying, highly skilled jobs right here in Canada”.

**The Honourable Diane Finley
Minister of Public Works and Government
Services Canada, February 5, 2014.**

Early and continuous engagement is one of the key principles of the Defence Procurement Strategy that will help the Government to achieve its three objectives. Engagement establishes a two-way conversation between industry and Government to better understand needs and available solutions. Industry engagement will usually begin early in the procurement process, when the Government is analyzing options for fulfilling the particular capability requirements of the Canadian Armed Forces and the Canadian Coast Guard, and the desired benefit-to-Canada outcomes.

This Guide describes how the Government of Canada intends to achieve the second objective. It sets out an approach for leveraging economic benefits from future defence procurements in response to two reports commissioned by the Government of Canada, led by Mr. David Emerson and Mr. Tom Jenkins. This Guide will be reviewed and will evolve as the Government gains experience with an approach that provides flexibility and discretion in its application.

THE CONTEXT FOR CHANGE

Governments around the world recognize the importance of a strong defence sector, not only for national security, but to fuel economic growth. The defence sector is highly innovative and produces advanced technologies with defence and civilian applications. Consequently, governments expect that their investments in defence-related goods and services will generate economic benefits to their nations. Traditionally, this has been achieved through offset policies that require contractors to undertake business activities in the procuring country at a value equal to the contract. Canada’s

Industrial and Regional Benefits (IRB) Policy has played an important role in this regard. Over the last decade, the IRB Policy has been applied to 72 procurements resulting in obligations to undertake \$25 billion of economic activity in Canada. More than one-half of these obligations have been satisfied and most of the outstanding obligations are in well-advanced stages of planning and execution. These outstanding obligations are expected to be fulfilled by the end of contractually agreed achievement periods.

Over time, some countries, including Canada, modified their offset policies to encourage higher value investments in their nations. This was achieved by crediting private sector investments in defined areas (e.g. research and development) by multiples of their face value.

Under the Defence Procurement Strategy, the IRB Policy has been transformed into the Industrial and Technological Benefits (ITB) Policy to generate a step change in how economic benefit to Canada is leveraged from defence procurement. See Annex A for a comparison of the IRB and ITB policies.

At a time when many nations' defence procurement spending intentions are stable or declining, Canada's is expected to grow. The ITB Policy will ensure that Canada's significant investment in defence-related goods and services:

- supports the long-term sustainability and growth of Canada's defence sector;
- supports the growth of prime contractors as well as suppliers in Canada, including small and medium-sized enterprises (SMEs) in all regions of the country;
- enhances innovation through research and technological development (R&D) in Canada; and
- increases the export potential of Canadian-based firms.

To further emphasize the importance of supporting strong growth in the defence sector as Canada enters a period of extraordinary procurement investments, the Government has established an aggressive target to increase by 40 percent over ten years:

- revenues earned by Canada's defence sector;
- revenues earned by Canadian suppliers in the defence sector from sales to other firms;
- research and development spending in Canada in the defence sector; and
- export revenue earned by the Canadian defence sector.

"The Industrial and Technological Benefits Policy will result in a step change in the economic benefits that Canada will obtain from its defence investments. The Policy will attract investment, accelerate growth, and result in highly skilled jobs for Canadians across the country."

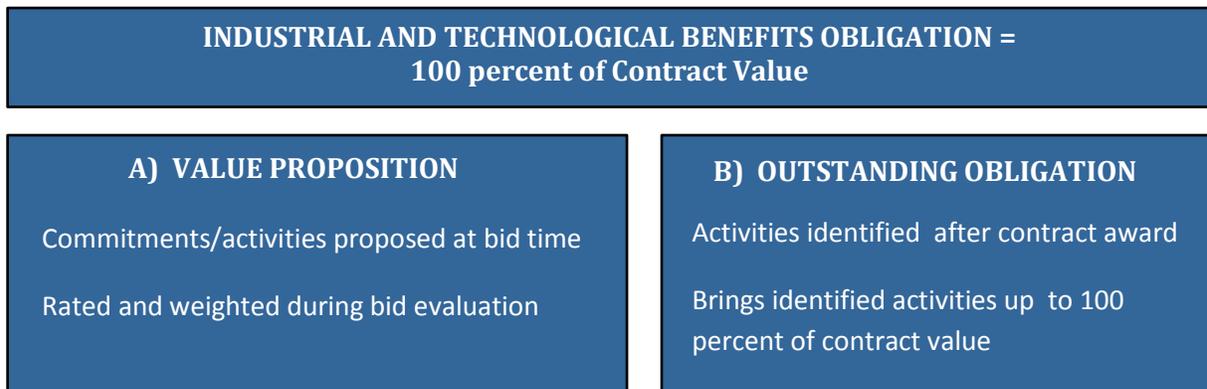
The Honourable James Moore, Minister of Industry, December 19, 2014.

The Government is committed to measuring progress against these targets. The results of the Statistics Canada Survey on the Defence, Aerospace, Space and Marine Sectors will be available in 2015 (covering the 2014 year). These results will be used to establish a baseline and the Government will report regularly on progress against this baseline, starting in 2015–16.

INDUSTRIAL AND TECHNOLOGICAL BENEFITS (ITB) POLICY

Under the ITB Policy, companies awarded defence procurement contracts are required to undertake business activities in Canada, equal to the value of the contract.

The Value Proposition is what the bidder proposes to Canada at the time of bid. After a contract is awarded, the contractor is required to start fulfilling their commitments and to identify further business activities in Canada, as may be required to meet their overall ITB obligation (i.e. 100 percent of contract value). For example, if a winning company’s Value Proposition includes specific commitments and activities equal to 75 percent of the contract value, it will be required to identify additional activities equal to 25 percent of the contract value after the contract is awarded.



The ITB Policy, including the Value Proposition, will apply to all eligible defence procurements over \$100 million and to all eligible Canadian Coast Guard procurements over \$100 million and for which the National Security Exception applies. All eligible defence procurements with contract values between \$20-100 million will be reviewed for the use of Value Propositions. The review will determine whether the application of a Value Proposition is consistent with achieving the appropriate balance between capability, cost and benefit to Canada.

The ITB Policy will apply to procurements contracted after the launch of the Defence Procurement Strategy on February 5, 2014. In cases where procurement processes began prior to the launch of the Defence Procurement Strategy and are at an advanced stage, some elements of the approach set out in this guide may apply so as not to delay those procurements or disrupt significant efforts that companies may already have undertaken to create partnerships and draft bids. This approach will respect the Government’s goal to achieve the three objectives of the Defence Procurement Strategy.

When the Government chooses to specify a targeted outcome, mandatory requirements will continue to be used, as appropriate.

The remainder of this Guide is focused on the Value Proposition – what it is and how it will be evaluated. The approach described in this Guide will serve as a framework and starting point for discussions with industry on a procurement-by-procurement basis. Industry views will be taken into account during industry engagement on the potential for the evaluation criteria described herein to leverage economic benefits, on the merit of adding other criteria and on approaches to measure criteria. The detailed approach to evaluating proposals will be described in Requests for Proposals and may differ from the general approach laid out in this Guide to accommodate the unique leveraging potential and circumstances of individual procurements.

VALUE PROPOSITION

The ITB Policy is a significantly more powerful government lever than the IRB Policy because it includes a Value Proposition which requires bidders to compete on the basis of the economic benefits to Canada associated with each bid. In particular, whereas before, winning bidders were selected on the basis of price and technical merit, under the Defence Procurement Strategy the Government will now also assess the Value Proposition.



The Value Proposition submission may include a combination of the following, as specified in the Request for Proposals for the procurement:

- **Direct** commitments, supported by specific transactions when required, involve business activities that will be undertaken by the contractor and its suppliers in Canada that directly relate to the equipment or service being procured by Canada. **Indirect** commitments, supported by specific transactions when required, involve business activities that will be undertaken by the contractor and its suppliers in Canada related to the contractor's product or business lines but not directly related to the equipment or services being procured by Canada. These business activities may involve work undertaken by the bidder, purchases of goods and services from suppliers, investments in R&D, technology transfer, supplier development, and other eligible activities.
- International export strategy.
- ITB plans (management, company business, regional, and SME).
- Any other information as detailed in the Request for Proposals that may be required.

On a procurement-by-procurement basis, the Government will decide whether to seek, not only commitments at bid time, but also identified transactions which provide specific details on how those commitments will be fulfilled. Generally, there will be an expectation that bidders identify specific transactions at bid time equal to at least 30 percent of their bid price, to demonstrate their capability to carry out commitments. Commitments and identified transactions will become contractual obligations for the winning bidder.

ITB management, company business, regional, and SME plans are mandatory requirements and will be evaluated on a pass/fail basis. Bidders will be expected to demonstrate a willingness and capacity to undertake business activity in all regions of Canada. In addition, generally 15 percent of ITB obligations (i.e. 15 percent of the 100 percent contract value) must involve SMEs.

ITB commitments, specific transactions, and international strategies will be evaluated and given a score, thereby becoming a weighted factor in determining the outcome of procurements. The score of the Value Proposition will be added to price and technical merit scores to determine which bidder will be awarded the contract.

The weighting of a Value Proposition score relative to price and technical merit scores will be determined on a procurement-by-procurement basis, and will generally be 10 percent of the overall bid score. The strength of companies' commitment to Canada's economic development will now play a role in determining who will be awarded contracts. In cases where bidders are close in price and technical merit, their Value Propositions may become an important differentiator.

VALUE PROPOSITION – EVALUATION CRITERIA

This section describes the approach that will be used to assess Value Propositions in cases where there is a competitive bidding process. The Government's decision to leverage defence spending to achieve economic benefit for Canada also applies to sole source contracts, international partnership arrangements and other non-competitive procurement arrangements. In these cases, when there are leveraging opportunities, the Government will negotiate directly with contractors to maximize economic benefit to Canada, consistent with the following description of high-value economic activity.

The following four criteria may be considered when evaluating and scoring bidders' Value Propositions:

- 1. Defence Sector**
- 2. Canadian Supplier Development**
- 3. Research and Technology Development**
- 4. Exports**

1. Defence Sector

A core objective of the ITB Policy is to ensure that defence procurement supports the economic development of Canada's defence sector. The sector included more than 650 companies located in all regions of Canada, generated more than \$9.4 billion in revenues and close to \$6 billion of Gross Domestic Product, and contributed more than 65,000 full-time workers in 2011.¹ Canada is fortunate to have a strong defence sector with Original Equipment Manufacturers, large Tier One anchor firms and a robust and diverse supply chain comprising SMEs across the country.

"In addition to a sovereignty rationale, defence-related industries are important sources of technological dynamism and innovation. They are leading-edge participants in global value chains, and generators of high-value exports and well-paying jobs. Accordingly, they should be supported as drivers of long-term growth and prosperity."

Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities, Jenkins, February 2013.

The Government will motivate bidders to maximize the amount of business activity they undertake in Canada directly related to the procurement by awarding points for direct work. This is important because the presence of a company's goods and services on Government of Canada equipment platforms helps that company capture future business opportunities by demonstrating the Government's confidence in its products, enabling cost reduction through economies of scale, and by providing opportunities to further develop specialized capabilities.

The Government may also award points for indirect work that involves business activity in Canada related to the defence sector, particularly when there is limited capability in Canada directly related to the procurement, when there is limited opportunity to involve Canadian suppliers and/or when there are significant benefits that can be leveraged in other defence-related areas. This approach will support the long-term sustainability and growth of Canada's defence sector.

On a procurement-by-procurement basis, industry will be engaged – both potential prime contractors and often potential suppliers to prime contractors – to ensure that the Government has an accurate understanding of the capabilities that exist related to individual procurements. Industry engagement will also inform the Government's understanding of the potential benefit to Canada from developing new or nascent capabilities in Canada.

"The [Defence Procurement] Strategy will also require a value proposition for each major procurement that will specify how it will support key industrial capabilities and increase the competitiveness of Canadian firms in the global marketplace."

The Road to Balance: Creating Jobs and Opportunities, Budget Plan, February 2014.

In keeping with the recommendation of Mr. Tom Jenkins in his report "Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities", further work will be launched to

¹ Industry Canada economic modeling estimates based on Statistics Canada economic impact multipliers normalised to employment, 2013; and the Canadian Commercial Aerospace, Defence, Commercial and Civil Marine and Industrial Security Sector Survey 2011, Statistics Canada and Industry Canada, 2013. Jobs include direct, indirect, and induced impact.

refine the list of Canadian key industrial capabilities identified in that report. The report highlighted the importance of having key industrial capabilities in areas needed to meet the operational requirement of the Canadian Armed Forces. When these capabilities are driven by innovation and are in demand globally, Canadian strength in these areas can be expected to generate significant economic growth and high quality jobs for Canadians.

Over the coming year, the Government will consider the advice of an interim board for standing up a permanent Defence Analytics Institute to refine its understanding of key industrial capabilities that would position Canada well for export-driven economic growth. In addition, the Department of National Defence will develop a list of key industrial capabilities required in Canada for operational and security reasons. The Value Proposition Guide – and in particular the Defence Sector criterion – may be amended in the future to reflect the results of this collective effort led by the departments of Industry; National Defence; Foreign Affairs, Trade and Development; and Public Works and Government Services.

2. Canadian Supplier Development

The competitiveness of Canadian firms is significantly dependent upon their ability to penetrate export markets and integrate into the global supply chains of large systems suppliers that dominate the international market. Under the first criterion, bidders will be motivated to maximize the amount of work undertaken in Canada directly related to the procurement and/or in the defence sector more broadly by committing to undertake business activity in Canada through their Canadian-based operations and by committing to work with major suppliers.

“The government should make better use of its substantial purchasing power to create opportunity and demand for leading-edge goods, services and technologies from Canadian suppliers. This will foster the development of innovative and globally competitive Canadian companies connected to global supply chains, while also stimulating innovation and greater productivity in the delivery of public goods and services.”

Innovation Canada: A Call to Action—Review of Federal Support to Research and Development: Expert Panel Report, 2011.

To further incent prime contractors to provide work to companies in Canada beyond their own Canadian facilities and undertake supplier development activities that enhance the productivity and competitiveness of their Canadian-based suppliers, points may be awarded for work offered to and investments made in suppliers in Canada. Supplier development opportunities may be awarded points under this criterion whether directly related to the procurement, the defence sector, or other sectors of the economy. This approach will incent prime contractors, often with multiple lines of business, to provide meaningful growth opportunities to suppliers in Canada, thereby supporting the long-term sustainability and growth of Canada’s defence sector as well as other sectors of the Canadian economy.

Primes that secure contracts have a requirement to involve Canadian SMEs in carrying out generally 15 percent of their ITB obligation. It is particularly challenging for SMEs to participate in global value chains as primes are increasingly seeking to work with larger tier one companies that have the capacity to undertake R&D and share in risks. SMEs account for significant job creation in Canada and their participation in global value chains can result in significant growth potential. To incent bidders to work with SMEs, additional points may be awarded for work involving SME suppliers.

3. Research and Technology Development

A key objective of the ITB Policy is to encourage innovation, a widely recognized determinant of economic growth. Research and technology development (R&D) can position Canadian companies at the leading edge of advanced technologies, enabling them to move up the value chain and capture high-value market opportunities. The defence sector in Canada undertook \$251 million of R&D in 2011.²

Points may be awarded for R&D investments that bidders and their major suppliers propose to make in Canada, including R&D related to the procurement, the defence sector and other sectors of the economy. This approach will incent primes to locate high-value research and engineering work in Canada and position Canadian-based companies to benefit from its subsequent commercialization.

To incent bidders to partner with Canadian universities and colleges, additional points may be awarded based on the R&D that bidders and their major suppliers propose to undertake with accredited Canadian post-secondary institutions. Companies that turn to universities and colleges for support often contribute to more transformational technological advances with the potential for benefits to spill over to other firms and sectors of the economy. Industry-academic partnerships also often involve students, giving them opportunities to develop industry-relevant skills and positioning them for employment.

Bidders may be requested to attest that they and their suppliers have access to the intellectual property rights required to carry out the R&D they propose to undertake.

4. Exports

Canada's defence sector is export intensive, which is a measure of its innovation and competitiveness. Forty-nine percent of the revenue for the sector was derived from exports in 2011.³ A key objective of the Defence Procurement Strategy is to strengthen Canada's success in tapping traditional and non-traditional export markets and share in the long-term economic benefits that result from success in those markets.

"Business innovation is an engine of productivity growth, increased international competitiveness and higher living standards. It is underpinned by investments in R&D, machinery and equipment... and intangible assets."

State of the Nation Report, Science, Technology and Innovation Council, 2012.

"The key to sustainable long term growth lies in export markets. Canadian defence-related industries must become even more export-oriented ... to become more cost competitive ... and to meet world class quality standards."

Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities. Jenkins, February 2013.

² Canadian Commercial Aerospace, Defence, Commercial and Civil Marine and Industrial Security Sector Survey 2011, Statistics Canada and Industry Canada, 2013

³ Canadian Commercial Aerospace, Defence, Commercial and Civil Marine and Industrial Security Sector Survey 2011, Statistics Canada and Industry Canada, 2013

Bidders may be required to submit an international export strategy as part of their Value Proposition, demonstrating that they and their suppliers can leverage the procurement into future export success from a Canadian base. These strategies should identify the international markets that the bidder and their suppliers intend to target and demonstrate that they have the capacity to successfully carry out their plans.

The international export strategies of bidders and their suppliers will focus on the future export potential from Canada of the good or service being procured. Success in penetrating global markets from Canada will result in jobs and growth and ensure that Canadians share in long-term success following the procurement.

Points may also be awarded for international export strategies that demonstrate incremental capacity to export from Canada, related to bidders and their suppliers' other lines of business in the defence sector or other sectors of the Canadian economy. This will be particularly important when there is limited capability in Canada directly related to the procurement, when there is limited opportunity to involve Canadian suppliers and/or when there are significant benefits that can be leveraged in the defence sector more broadly or other sectors of the Canadian economy. This approach will support the broader economic development goals of the ITB Policy.

Target Markets

The international export strategy should identify the international markets that the bidder and its suppliers intend to target from Canada and provide sufficient information to enable the Government to determine whether a realistic assessment of export potential has been provided. More specifically, the bidder should:

- Identify the specific markets that are targeted, including an assessment of the size of the market potential.
- Describe any barriers affecting market entry from Canada and mitigation strategies.
- Identify whether a buyer has been identified and whether the bidder's solution is a procurement priority of potential buyers in target markets (e.g. has a Request for Proposals been issued?).
- Describe the direct or indirect market entry approach (e.g. government to government contract, direct commercial contract, agent, local partner, setting up local operations).
- Describe the bidder's competitive advantage (e.g. has the offering already been sold commercially?).

Capacity to Export

The international export strategy should also demonstrate that the bidder and its suppliers have the capacity to successfully carry out their export plans from Canada and enable the Government to determine whether the conditions for success are in place. More specifically, the bidder should:

- Demonstrate that they have the decision-making authority to export from Canada.
- Demonstrate that they have access to the intellectual property rights needed to export from Canada.
- Demonstrate that their Canadian-based operations have a global product mandate.
- Demonstrate that they have an appropriate management team in place to pursue international sales from Canada.
- Demonstrate that they have set aside sufficient human and financial resources to pursue international market opportunities from Canada.

This criterion will encourage companies to establish or enhance operations in Canada. It will encourage multinational companies to develop intellectual property within their Canadian operations, transfer intellectual property to their Canadian operations, empower their Canadian operation to seize export opportunities and provide Canadian operations with lucrative global product mandates. Primes will also be motivated to transfer technology and intellectual property to their suppliers and position them for success in export markets.

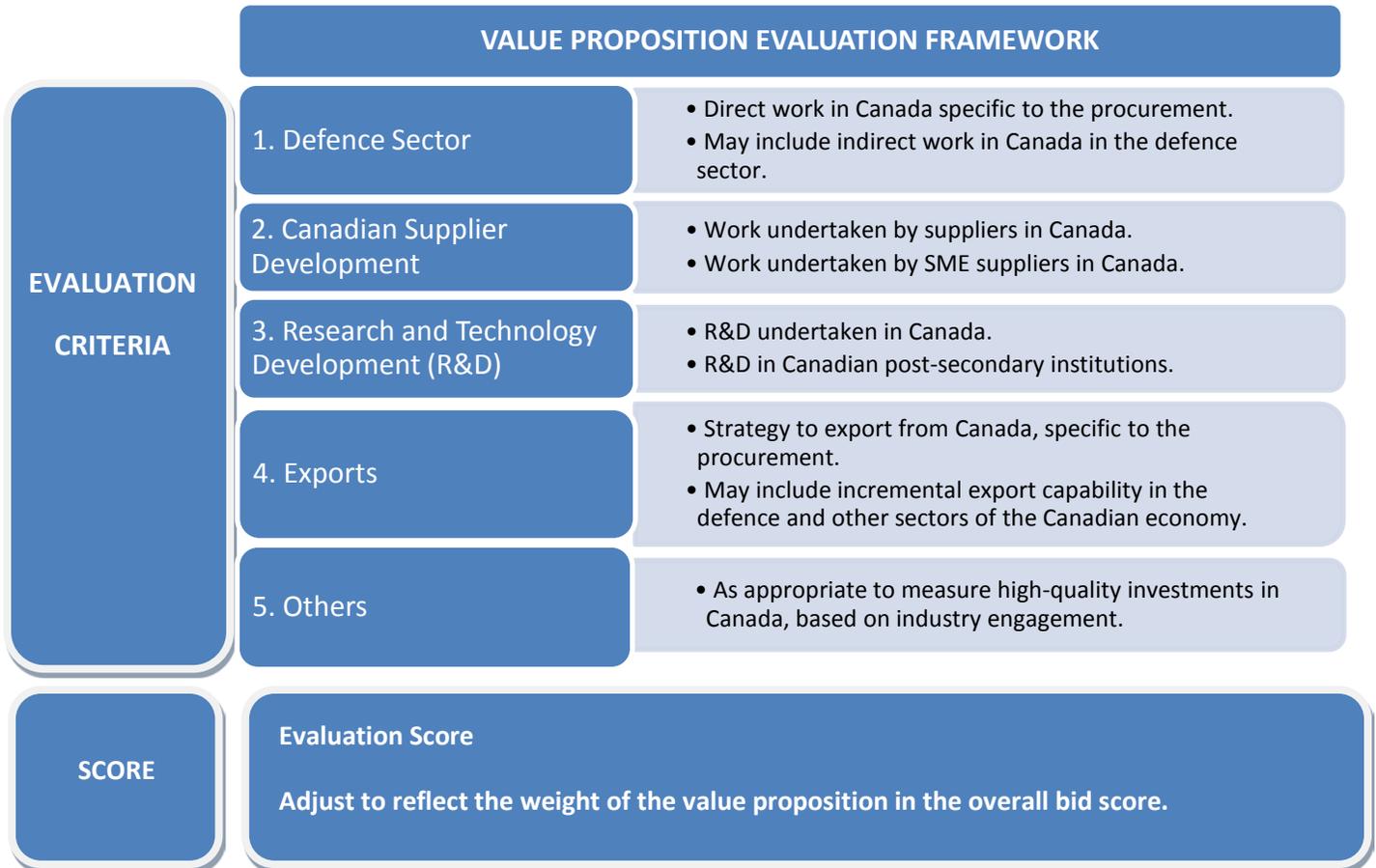
5. Other Evaluation Criteria

On a procurement-by-procurement basis, the Government may engage industry to determine whether they propose to make other high-value investments in Canada that would not be captured by the above-noted criteria. In these cases, the Government may decide to add additional criteria.

Bidders' proposed business undertakings in Canada may receive points under more than one of the evaluation criteria. For example, a commitment to provide an SME with R&D work directly related to the procurement and that positions the SME to seize longer term export market opportunities, would be awarded points under the Defence Sector, Canadian Supplier Development, R&D and Exports criteria.

EVALUATION FRAMEWORK

The following chart illustrates the evaluation framework that will be used as a starting point in discussions with industry on a procurement-by-procurement basis. See Annex B for an example of how the Value Proposition principles outlined in this Guide could be applied in practice.



GUIDING PRINCIPLES

The approach outlined in this Guide for evaluating Value Propositions is a broad framework. Within it, for each procurement, there is flexibility to:

- increase or decrease the 10 percent weight of the Value Proposition in the overall bid score;
- weigh individual evaluation criteria differently;
- apply all or some of the evaluation criteria;
- add additional evaluation criteria;
- apply mandatory requirements; and
- develop different rating grids to adequately assess and differentiate among Value Propositions.

Decisions in the above areas will be informed by industry stakeholders with a direct interest in the procurement, in-depth research and analysis, and expert third party advice as required. Taking these inputs into account, decisions on how best to tailor the evaluation of Value Propositions for individual procurements will be made by the Government's defence procurement governance committees and will be guided by the following principles:

- Encourage firms to make high-value investments in Canada which are likely to generate long-term economic benefits beyond the life of the procurement.
- Grow and enhance, as a first priority, the international competitiveness of Canada's defence industrial base by building Canadian industrial champions that can successfully compete at home and in international markets, and by supporting the development of new or nascent capacity when appropriate for economic, sovereignty, security of supply or national security reasons.
- Maximize opportunities for broader-based economic growth in Canada that supports high quality jobs, fuelled by innovation and export success abroad.
- Generate strong competition among bidders to ensure price discipline while maximizing long-term economic benefit to Canada.
- Achieve the three objectives of the Defence Procurement Strategy.
- Strive for administrative simplicity and efficiency.

ACCOUNTABILITY AND TRANSPARENCY

The contractor will have a period of time in which to achieve its Value Proposition commitments, which will generally tie to the period of time that the goods or services are supplied under the contract. In some cases, the achievement period may deviate from the delivery schedule if more or less time is required to ensure that the greatest benefit is leveraged from the procurement.

Strong measures will be taken to ensure compliance, including the use of performance guarantees such as holdbacks, milestones, liquidated damages, letters of credit and vendor performance. All past contractual commitments entered into by firms under the IRB Policy will continue to be enforced in accordance with the terms of that Policy.

Enhanced transparency will further encourage compliance and enable the Government to report to Canadians on the benefits that result from the ITB Policy. Each contractor will be required to report to Industry Canada on progress in meeting its Value Proposition commitments on an annual basis. Industry Canada, in turn, will report annually to the public in a manner that respects commercial confidentiality.

Several of the policy features and administrative processes that are associated with the previous IRB Policy have been retained within the ITB Policy, including items such as the SME definition, the eligibility criteria, banking, multipliers, and verification. These features will be reviewed and streamlined as may be necessary to ensure that the goals of the Defence Procurement Strategy are fully realized. The Government will work closely with industry stakeholders to identify key issues and move forward as

appropriate. As this review process evolves in the coming months, stakeholders may continue to consult the documentation published on the ITB website for samples of contract terms, conditions, and definitions (see <http://www.ic.gc.ca/itb>).

The Guide also takes into consideration approaches and measures such as those found in the Procurement Strategy for Aboriginal Business, which are designed to enhance the participation of Aboriginal businesses in a manner consistent with Government of Canada Contracting Policy. As such, Aboriginal business participation plans or evaluation criteria may be incorporated in Requests for Proposals when appropriate on a procurement-by-procurement basis.

CONCLUSION

The ITB Policy is a new, powerful investment attraction tool for Canada. It will ensure that purchases of defence equipment and services results in economic growth, innovation and success in export markets. The ITB Policy will encourage companies to establish or grow their presence in Canada, strengthen Canada's supply chains, and develop Canadian industrial capabilities. In so doing, the ITB Policy will encourage the creation of high-value jobs for Canadians.

The Government of Canada is committed to the successful implementation of the ITB Policy and the Defence Procurement Strategy more broadly. Industry Canada will take stock of lessons learned as it gains experience with the approach laid out in this Guide, invite regular feedback from industry, and make adjustments as required, to ensure that government defence procurement leverages significant economic benefit for Canadians.

COMPARISON OF IRB AND ITB POLICIES

	Industrial and Regional Benefits (IRB) Policy	Industrial and Technological Benefits (ITB) Policy
Scope of Coverage	Applied to all procurements exempt or excluded from international trade agreements over \$2 million ~ 6 procurements per year	Applies to: all eligible defence procurements over \$100 million; all eligible Coast Guard procurements over \$100 million and for which the National Security Exception applies; and eligible defence procurements over \$20 million, subject to a review. ~ 15 procurements per year
Overall Obligation	Undertake business activity in Canada = 100 % of the contract value	Undertake business activity in Canada = 100 % of the contract value
Transaction Types	<ul style="list-style-type: none"> business activity directly related to the product or service being procured (direct) other work not directly tied to the procurement (indirect) 	<ul style="list-style-type: none"> business activity directly related to the product or service being procured (direct) other work not directly tied to the procurement (indirect)
Scoring at Time of Bid	N/A	Rated Evaluation Criteria: 1) Defence Sector 2) Canadian Supplier Development 3) R&D 4) Exports Weighted: generally 10% of overall evaluation score.
Identified Activities at Time of Bid	Generally 30% of the IRB obligation.	Generally 30% of the ITB obligation.
SME Obligation	Generally 15% of the IRB obligation.	Generally 15% of the ITB obligation.
Plans	Assessed as pass/fail: <ul style="list-style-type: none"> IRB Management Plan Company Business Plan SME Plan Regional Plan 	Assessed as pass/fail: <ul style="list-style-type: none"> ITB Management Plan Company Business Plan SME Plan Regional Plan
Enhanced Priority Technology List	At least 5% of contract value	N/A
Contractual Commitment	Yes	Yes + stronger performance guarantees
Policy/administrative features of IRB Policy	Multipliers, banking, verification, etc.	Retain, review and streamline where appropriate

VALUE PROPOSITION – EVALUATION PROCESS

This annex provides an illustrative and hypothetical example only, showing how the Value Proposition principles outlined in this Guide could be applied in practice.

Evaluation Methodology

The Value Proposition evaluation will be composed of mandatory and point-rated criteria.

Mandatory requirements identify the minimum requirements for bids to be considered for further review. Mandatory requirements are evaluated on a pass or fail basis. Bids that do not meet each and every mandatory requirement are declared non-responsive and are given no further consideration. Bids that comply with all of the mandatory requirements will then be point rated. Point rated criteria identify those elements that can be evaluated on a variety of characteristics to determine the relative merit of each bid.

The mandatory requirements evaluation of the ITB Proposal will generally include some or all of the following elements:

- Commitment to 100% obligation and to a schedule for identifying specific activities
- Commitment to 15% SME involvement
- Acceptance of ITB terms and conditions and performance guarantees
- Submission of four plans (ITB management, company business, regional and SME)

The point rated evaluation of the Value Proposition will generally include some or all of the following criteria:

- R1: Work in the Canadian defence sector;
- R2: Work with Canadian suppliers;
- R3: Research and technology development (R&D) in Canada; and
- R4: Exports from Canada

In some instances, bidders may be assessed on the basis of their commitments for these criteria and/or on the basis of their identified transactions.

Bidders may maximize points through commitments that cross into more than one area. For example, if a Value Proposition evaluation included all four criteria above, and the bidder proposed work with an SME that was directly related to the procurement, that same activity could be recognized and receive points in both the defence and Canadian suppliers criteria.

The weighting of the Value Proposition score will generally be 10 percent of the overall bid score.

Industry Engagement will inform the evaluation approach and may lead Canada to consider alternative mandatory and/or point rated criteria, weightings, evaluation methodologies and strategies on a procurement-by-procurement basis. It may also result in Canada using only some of the criteria listed above.

Example

The following hypothetical example will be used throughout the rest of this Annex to demonstrate how Canada could evaluate Value Propositions:

Description: Procurement of a hypothetical piece of military equipment including in-service support for DND, valued at approximately \$100 million.

Assumptions: Following consultation with industry, Canada determined that:

- The 10% Value Proposition weighting was deemed appropriate for this procurement.
- Strong industrial capability for the equipment being procured exists in Canada and Canada wishes to support that capability through this procurement.
- Canada wishes to encourage bidders to work with Canadian suppliers and in particular SMEs.
- A strong innovation growth potential for equipment exists in Canada and could be harnessed through greater investment in R&D, particularly with accredited post-secondary institutions.
- Very little export capability currently exists in Canada and several foreign allied countries have shown significant interest in purchasing this equipment from Canada. Canada wishes to encourage export development through this procurement.

It is assumed that all bidders have met the mandatory criteria.

Based on the above assumptions, Canada has determined that the following evaluation criteria and associated weightings should be applied for the hypothetical example.

Summary of Point Rated Criteria and the associated weighting using the example

In this hypothetical example, significant emphasis has been placed on incenting defence sector investment and increasing export potential. As such, R1 – Defence Sector has been attributed 50% of the available points and R4 - Exports has been attributed 25% of the available points.

Criteria	Points	Weighting	Weighting Percentage
R1 – Work in the Canadian Defence Sector	50	50 divided by 100	50%
R2 – Work with Canadian suppliers	15	15 divided by 100	15%
R3 – Research and technology development (R&D) in Canada	10	10 divided by 100	10%
R4 – Exports from Canada	25	25 divided by 100	25 %
Total Score	100	100 divided by 100	100%

VP Commitment Summary using the example

The table below details the hypothetical Value Proposition amounts committed to by each bidder. A bidder's VP commitments may apply to more than one criterion.

Criterion	Bidder A - VP Commitment	Bidder B - VP Commitment	Bidder C - VP Commitment
Defence Sector	\$80M	\$60M	\$15M
Canadian Suppliers	\$30M (of the \$80M)	\$25M (of the \$60M)	\$10M (\$5M of the \$15M + \$5M in non-defence)
R&D	\$5M (of the \$80M)	\$5M (of the \$60M)	\$15M
Exports	N/A	N/A	N/A
Total VP Commitment	\$80M	\$60M	\$35M

Evaluation Methodology

The evaluation methodology below details how Canada could assign points for each criterion and demonstrates how each bidder would score based on the hypothetical value proposition investment commitments above.

R1: Work in the Canadian Defence Sector (up to a maximum of 50 points)

This criterion may be used to evaluate bidders' commitment to undertake work in the Canadian defence sector. There may be a preference for commitments involving direct work.

Points may be assigned based on:

1. The bidder's commitment to undertake direct work in Canada in the defence sector; and/or
2. The bidder's commitment to undertake indirect work in Canada in the defence sector.

This approach will be informed by industry engagement and will vary on a procurement-by-procurement basis.

In this hypothetical example, both direct and indirect commitments are being assessed with a preference for direct commitments further to the following methodology:

Direct Commitments	Indirect Commitments	Weighted Total Commitment	R1 Score
X = Bidder's % commitment	Z = Bidder's % commitment multiplied by 0.50	X+Z = Weighted Total Commitment	Weighted Total Commitment divided by 100 multiplied by 50 available points

Using this methodology, hypothetical bid responses to R1 were received and evaluated as follows:

Bidder	Bid response		Evaluation Methodology			R1 Score
	Direct Commitments at time of Bid: <i>expressed as a % of the contract value (X)</i>	Indirect Commitments at time of Bid: <i>expressed as a % of the contract value (Y)</i>	Direct Commitments: <i>X = Bidder's % commitment</i>	Indirect Commitments: <i>Z = Bidder's % commitment (Y) multiplied by 0.50</i>	Weighted Total Commitment: <i>X+Z</i>	<i>Weighted Total Commitment divided by 100 multiplied by 50 available points</i>
A	80	0	80	0	80	40
B	40	20	40	10	50	25
C	15	0	15	0	15	7.5

R2: Work with Canadian Suppliers (up to a maximum of 15 points)

To incent bidders to tap into Canada's supply chain, the assessment may consider work involving suppliers in Canada, including direct work on the procurement, indirect work related to the defence sector as well as work related to other sectors of the economy. This criterion may also assess the bidder's commitments with Canadian SMEs.

Points may be assigned based on:

- The bidder's commitment to involve Canadian suppliers (not including SMEs);
- The bidder's commitment to involve Canadian SMEs.

Using this hypothetical example, both of the above criteria are assessed. Points are allocated based on the bidder's commitment to involve Canadian suppliers with a preference for commitments that involve Canadian SMEs. The bidder's commitment to involve Canadian SMEs will be multiplied by 2 as shown in the table below. The bidder that offers the highest total commitment achieves the maximum available points for R2. All other bidders obtain a pro-rated score as per the following methodology:

Commitment to involve Canadian suppliers (not including SMEs) at time of bid expressed as a % of the contract value	Commitment to involve Canadian SMEs expressed as a % of the contract value	Bidder's Weighted Total Commitment to involve Canadian suppliers for evaluation purposes	R2 Score
X = bidder's % commitment	Z = bidder's % commitment times 2	X + Z = bidder's Total Commitment	Bidder's Weighted Total Commitment to involve Canadian suppliers divided by the highest Weighted Total Commitment, multiplied by 15 available points

Using this methodology, hypothetical bid responses to R2 were received and evaluated as follows:

Bidder	Bid Response		Evaluation Methodology			R2 Score
	Commitment to involve Canadian suppliers (not including SMEs) at time of bid <i>(expressed as a % of the contract value)</i> <i>(X)</i>	Commitment to involve Canadian SMEs <i>(expressed as a % of the contract value)</i> <i>(Y)</i>	X <i>(expressed as a % of the contract value)</i>	Z = Y Multiplied by 2 for evaluation purposes <i>(expressed as a % of the contract value)</i>	X + Z = Bidder's Total Weighted Commitment to involve Canadian suppliers for evaluation purposes <i>(expressed as a % of the contract value)</i>	Bidder's Total Weighted Commitment to involve Canadian suppliers divided by the highest Weighted Total Commitment, multiplied by 15 available points
A	10	20	10	40	50	15
B	5	20	5	40	45	13.5
C	5	5	5	10	15	4.5

R3: Research and Technology Development (R&D) in Canada (up to a maximum of 10 points)

Bidders may be requested to commit to R&D activities in their bid. Points may be allocated as follows:

- R&D commitments in Canada, including R&D on the procurement, related to the defence sector or related to other sectors of the economy; and/or
- R&D commitments with accredited Canadian post-secondary institutions such as Canadian universities and colleges. To incent this type of R&D, a higher weighting may be applied for evaluation purposes.

Using the hypothetical example, both of the above criteria are assessed. Points are allocated based on the dollar value of the R&D committed in the bid. Canada may consider alternative metrics to evaluate R&D on a procurement-by-procurement basis. For example, a ratio could be used instead of absolute research dollars expended if bidders were of different sizes so as not to disadvantage smaller firms.

To incent R&D with Canadian universities and colleges, for evaluation purposes, the bidder’s R&D commitment with accredited Canadian post-secondary institutions is multiplied by 2 as shown in the table below.

The bidder that offers the highest total R&D commitment will be assigned the maximum available points for R3. All other bidders obtain a pro-rated score as per the following methodology:

Bidder’s commitment to R&D not including R&D with Canadian post-secondary institutions <i>(expressed in \$)</i>	Bidder’s commitment to R&D with accredited Canadian post-secondary institutions <i>(expressed in \$)</i>	Bidder’s Weighted Total R&D Commitment for evaluation purposes <i>(expressed in \$)</i>	R3 Score
X = R&D commitment (\$)	Z = R&D commitment (\$) multiplied by 2	X + Z = Bidder’s Total R&D commitment (\$)	Bidder’s Weighted Total R&D commitment divided by the highest R&D commitment multiplied by 10 available points

Using this methodology, hypothetical bid responses to R3 were received and evaluated as follows:

Bidder	Bid response		Evaluation Methodology			R3 Score
	Bidder’s commitment to R&D in Canada, not including R&D with Canadian post-secondary institutions <i>(expressed in \$)</i> <i>(X)</i>	Bidder’s commitment to R&D with Canadian post-secondary institutions <i>(expressed in \$)</i> <i>(Y)</i>	X	Z = Y multiplied by 2 <i>(expressed in \$)</i>	X + Y = Bidder’s Weighted Total R&D Commitment for evaluation purposes <i>(expressed in \$)</i>	Bidder’s Weighted Total R&D Commitment divided by the highest Total R&D Commitment multiplied by 10 available points
A	\$0M	\$5M	\$0M	\$10M	\$10M	5
B	\$5M	\$0M	\$5M	\$0M	\$5M	2.5
C	\$10M	\$5M	\$10M	\$10M	\$20M	10

R4: Exports from Canada (up to a maximum of 25 points)

Bidders will be requested to submit an international export strategy demonstrating that they can leverage the procurement into future export success from a Canadian base. The international export strategy should identify the international markets that the bidder intends to target from Canada and demonstrate that it has the capacity to successfully carry out its plans.

A qualitative assessment of bidders’ export strategies will be conducted using a qualitative assessment grid. Scoring will generally take into account the following:

- R4 (a): Evaluation of bidder’s identified international target markets for exports from Canada; and/or
- R4 (b): Bidder’s demonstrated capacity to implement their international export strategy*

*Note: Canada may require bidders to substantiate their capacity to implement their international export strategy. This may include providing proof of decision-making authority to export, a global product mandate and access to intellectual property rights.

In this hypothetical example, both of the criteria are assessed as follows:

R4 (a): Evaluation of bidder’s identified international target markets for exports from Canada (Up to a maximum of 12.5 points)

Rated Criteria	Score to be assigned based on the following	R4(a) Score
Target Markets	Excellent – addresses all of the listed target market criteria and allows for a complete understanding of the bidder’s export strategy	Up to 100 percent of available points
	Very Good – addresses most of the listed target market criteria, but is missing detail that does not allow for a complete understanding of the bidder’s export strategy	Up to 80 percent of available points
	Good – addresses at least half of the listed target market criteria and provides information that gives basic details on the export strategy	Up to 60 percent of available points
	Fair – addresses less than half of the listed target market criteria and does not provide detailed information on the export strategy	Up to 40 percent of available points
	Poor - addresses none of the listed target market criteria and vaguely describes the export strategy	Up to 20 percent of available points

R4 (b): Bidder's demonstrated capacity to implement international export strategy (Up to a maximum of 12.5 points)

Rated Criteria	Score to be assigned based on the following	R4(b) Score
Capacity to Export	Excellent – addresses all of the listed capacity to export criteria and allows for a complete understanding of the bidder's export strategy	Up to 100 percent of available points
	Very Good – addresses most of the listed capacity to export criteria, but is missing detail that does not allow for a complete understanding of the bidder's export strategy	Up to 80 percent of available points
	Good – addresses at least half of the listed capacity to export criteria and provides information that gives basic details on the export strategy	Up to 60 percent of available points
	Fair – addresses less than half of the listed capacity to export criteria and does not provide detailed information on the export strategy	Up to 40 percent of available points
	Poor - addresses none of the listed capacity to export criteria and vaguely describes the export strategy	Up to 20 percent of available points

Using this methodology, hypothetical bid responses to R4 were received and evaluated as follows:

Bidder	Bid response		R4 Score		
	R4(a) International Target Markets	R4(b) Capacity to export	R4(a) Score	R4(b) Score	R4 Total Score = R4(a) + R4(b)
A	Bidder provided a comprehensive export strategy that addressed all of the listed target market criteria and allowed for a complete understanding of the bidder's export strategy	Bidder provided a comprehensive export strategy that addressed all of the listed capacity to export criteria and allowed for a complete understanding of the bidder's export strategy	Excellent = 12.5 points	Excellent = 12.5 points	25
B	Bidder provided a comprehensive export strategy that addressed all of the listed target market criteria and allowed for a complete understanding of the bidder's export strategy	Bidder provided an export strategy that addressed most of the listed capacity to export criteria, but is missing detail that does not allow for a complete understanding of the bidder's export strategy	Excellent = 12.5 points	Very Good = 10 points	22.5
C	Bidder provided an export strategy that addressed none of the listed target market criteria and vaguely described the export strategy	Bidder provided an export strategy that addressed none of the listed capacity to export criteria and vaguely described the export strategy	Poor = 2.5 points	Poor = 2.5 points	5

Value Proposition - Roll-Up of Point Rated Requirements (Maximum Total 100 points)

Requirement	Bidder		
	A	B	C
Rated Requirements (Maximum Total of 100 Points)			
R1 – Canadian Defence Sector (50)	40	25	7.5
R2 – Canadian suppliers (15)	15	13.5	4.5
R3 – Research and Technology Development (R&D) in Canada (10)	5	2.5	10
R4 – Exports from Canada (25)	25	22.5	5
TOTAL Score (100):	85	63.5	27
Weighted Value Proposition Score (10): Bidder’s Total Score divided by the maximum available points (100) multiplied by Value Proposition weighting (10)	8.5	6.35	2.7

Value Proposition Evaluation Summary

In this example, **Bidder A** received the highest score in the Value Proposition evaluation by maximizing its commitments in the highest weighted areas (i.e. Defence Sector and Exports). Its proposal addressed Canada’s Value Proposition requirements by committing to invest heavily in the Canadian Defence Sector in work directly related to the procurement and by committing to work with Canadian suppliers. Additional points were awarded for committing to work with Canadian SMEs. The bidder committed to invest in R&D, receiving extra points for working with accredited Canadian post-secondary institutions. Bidder A’s excellent export strategy also contributed to it achieving the highest Value Proposition score.

Although **Bidder B** proposed substantial commitments in its Value Proposition, particularly in the Canadian Defence sector, only a portion of it was for commitments directly related to the procurement. In addition, although Bidder B made the same commitment as Bidder A for SMEs, its total commitment to Canadian suppliers was less than Bidder A. The bidder committed to invest in R&D but did not receive any extra points for involving accredited Canadian post-secondary institutions. Bidder B’s export strategy demonstrated that the company was in an excellent position to reach international target markets and had a very good capacity to export.

Bidder C received the lowest score of the three bids received. This bidder specified all of its commitments in the defence sector directly related to the procurement; however, the commitment was substantially lower than the other bidders. This bidder committed to work with Canadian suppliers, including those in the non-defence sector, and committed to work with SMEs; however, the amount was not substantial when compared to the other bidders. This bidder proposed the largest investment in and received the most points for R&D, half of which was directed towards accredited Canadian post-secondary institutions. The Bidder's export strategy was poor as it did not demonstrate that the company was in a position to reach target markets or a capacity to export.