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# **Standing Committee on Government Operations and Estimates**

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**EVIDENCE**

**Tuesday, November 1, 2011**

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**Chair**

**Mr. Pat Martin**



## Standing Committee on Government Operations and Estimates

Tuesday, November 1, 2011

• (1530)

[English]

**The Chair (Mr. Pat Martin (Winnipeg Centre, NDP)):** Good afternoon, everyone. I call this meeting to order.

Welcome to the 14th meeting of the Standing Committee on Government Operations and Estimates. Today we're going to continue the study we have under way on the effectiveness of the Office of Small and Medium Enterprises and the Canadian innovation commercialization program.

Today we're very pleased to welcome witnesses to give testimony.

From Canada's Venture Capital and Private Equity Association we have Mr. Tom Hayes, the president and chief executive officer of GrowthWorks Atlantic. Welcome, Mr. Hayes.

From the Canadian Information Technology Providers Association we have Mr. Herman Yeh, president. Welcome.

From the 2G Robotics Inc. we have Mr. Jason Gillham, the director of operations.

Welcome to all of you. We expect you'll have an opening presentation of 10 to 15 minutes, and then we'll have questions from the committee members.

Will one or all of you give a joint presentation, or how do you wish to handle this, Mr. Hayes?

**Mr. Tom Hayes (President and Chief Executive Officer, GrowthWorks Atlantic, Canada's Venture Capital and Private Equity Association):** I believe we're all giving individual presentations, Mr. Chair.

**The Chair:** Very good. If you'd like to go ahead, the floor is yours.

**Mr. Tom Hayes:** Thank you.

I'm here today representing Canada's Venture Capital and Private Equity Association in my capacity as a member of the board of that association.

Richard Rémillard, who is the executive director, is out of the country; otherwise he would normally make the presentation on our behalf. However, I am also involved in a private venture capital fund, so I have some familiarity with the program.

CVCA represents the majority of players in the private equity and VC industry in Canada. We have over 1,800 members in the association, managing about \$75 billion in assets under management.

When the CVCA was asked to appear and comment on the Canadian innovation commercialization program, our executive director took an informal survey of the members to ascertain their knowledge of the program and to get input leading up to today's presentation.

Surprisingly, or not so surprisingly, other than myself, knowledge of the program among CVCA members was practically non-existent. In my case, I read about it in some publication over the past year—I'm not sure where I saw it—and passed on the information to the CEO of one of our portfolio companies in the venture fund that I manage, a company called Virtual Marine Technology, based in St. John's, Newfoundland. Based on that, they subsequently made use of the program.

I take from this experience among the CVCA membership that the program is not widely known and more should or can be done to publicize it. In general, the CVCA supports the use of government procurement programs as a tool to enhance industrial innovation among Canadian firms. We note the support this program has received through the Jenkins committee and report; I think it was recommendation 3: "Make business innovation one of the core objectives of procurement, with the supporting initiatives to achieve this objective".

One of the policy initiatives the CVCA has been advocating is to encourage major defence contractors to meet their IRB obligations by investing in venture capital funds in Canada that focus on investing in early-stage technology companies. Accelerated credits could be given to these contractors if they agree to invest in VC funds, similar to the credits that are given to university-based research by these same contractors. In the case of universities, I understand they get a five-to-one leverage if one of these contractors does work through a university.

We think that would be of major assistance to the issue in Canada today, which is really the issue of dearth of available venture capital for emerging and early-stage entrepreneurs. This would be one measure the federal government could take to address this important issue.

Let me go back to the program at hand, the Canadian innovation commercialization program. I was in St. John's yesterday. We were closing another investment over there, so I took the opportunity to speak to the CEO of an existing portfolio company we're involved in—BMT—and asked him about the program. Obviously he spoke favourably of it, in that they've used the program to sell a marine simulator to the Canadian Coast Guard. However, he did make a couple of observations that I'll pass on to the committee. In his view, the application process was lengthy and fairly complex, and while that wasn't an issue for his company, because they're used to dealing with these types of contracts, from the perspective of early-stage companies this might be a challenge, given the level or the lack of depth within the management teams.

As I understand it, if a company sells a prototype to a government department and the department wants to buy an additional unit, a second or a third unit, then the full-blown tendering process is required. That can be fairly lengthy and involved.

• (1535)

The other comment he made—and I'm not sure I particularly understand this—is that if the original purchase by a government department was based on specs provided by the initial supplier, then the original supplier is excluded from subsequent purchases by government. How that makes any sense, I'm not sure. In any event, I'm sure there are others here who understand that better than I do.

Just as a general comment, any barrier to selling to your own government, to the Canadian government, is always seen as a negative when you're out trying to sell to foreign companies and foreign governments. And sometimes in fact it is easier to sell to foreign companies than it is to sell back here at home. We find this is quite common among many early-stage companies. We have to prove the technology and the service outside of Canadian markets before folks here will adopt the technology.

From my own personal experience, when introducing a new program there is always learning and there are always challenges and improvements that can be made over time, based on practical experience, and I suspect that's the case here. Again, we, as an association, and I, being in the venture business, are always supportive of programs that support Canadian technology and innovation, and we would recommend that you do whatever you can to improve and strengthen the programs for future implementation and for the benefit of Canadian entrepreneurs.

Thank you.

**The Chair:** Thank you, Mr. Hayes.

Mr. Yeh, would you like to give your presentation? Thank you.

**Mr. Herman Yeh (President, Canadian Information Technology Providers Association):** Yes, thank you, Mr. Chair.

My name is Herman Yeh. I am president of Canadian Information Technology Providers Association, CITPA, and the owner of Northern Micro Inc.

CITPA was formed in 2005, and it is an affiliation of Canadian-owned companies that provide information technology solutions to Canada's public sector. Currently we represent over 40 SME companies in the Canadian IT sector. The combined annual sales

volume from our members is well over \$400 million a year in providing computer hardware, software, and professional services.

Northern Micro Inc. is a privately held Canadian company and has been serving the Canadian federal government IT market for the last 26 years. Based in Ottawa, we currently have over 70 employees, and annual sales of \$60 million.

From the CITPA members' point of view, OSME has been helpful and creative. The creation of buyandsell.gc.ca is the best attempt at using current technology in providing information for SMEs to navigate through the PWGSC procurement jargon. It is light-years ahead compared to previous efforts. I'd like to congratulate OSME on this project, and I hope they can continue investing in this website.

However, the question remains whether OSME is an effective advocate on behalf of SMEs in federal procurement, and if OSME has been able to meet its goals. If I can provide my answer to this question, I'd like to use this opportunity to examine the current SME involvement with PWGSC in the IT hardware market segment and the challenges facing our member companies. Once that is explained we can better address the question of OSME's effectiveness.

It is estimated that the annual Government of Canada IT hardware spending is \$452 million, and \$296 million of that was procured through various national master standing offers, or NMSOs, all from the services and technology acquisition management sector, STAMS group at PWGSC. There are 24 contracts listed in those NMSOs, 13 of which are held by SMEs. Most of the NMSO holders assign hundreds of SME resellers from coast to coast to fulfill orders. A conservative estimate of the SME market share for IT hardware can be as high as 75%, or \$335 million out of the \$452 million total.

Overall, PWGSC awarded over \$11 billion in contracts last year. Of this amount, \$4.73 billion, or 43%, was awarded to SMEs. So the above data show that SMEs provide a higher percentage of IT hardware as compared to the entire bundle of goods and services purchased by the Government of Canada. It is worth taking a deeper look into why the IT hardware segment is so different from the general set of goods and services.

The STAMS group at PWGSC actively engages SMEs. Currently they have over 50% of the suppliers coming from SME-sized firms. STAMS goes to the client departments and suppliers to solicit additional value-added services to fill in client requirements.

The informatics and technical services division, ITS, of the STAMS group is the technical authority for the IT hardware NMSOs. ITS has been partnered with the computer hardware division, the EJ division, by providing technical and environmental requirements and strategic advice on technology trends and issues. This partnership reduces the communication gap between technical and contract authorities and shortens the procurement cycle. The EJ division allows contract holders to assign their contracts to their SME resellers, and in turn allows SMEs to provide services to the Government of Canada from coast to coast.

The above clearly demonstrates that a positive result can be delivered when PWGSC consults with both its departmental clients and SME suppliers, even while working within the limitation of a lack of a policy framework specifically targeting SMEs.

CITPA believes OSME can achieve its mandate in two ways. First, the existing base of SME firms already selling to the Government of Canada could be assisted to sell more to the Government of Canada and occupy more market space than the current piece of the total procurement pie.

Second, OSME can contact, educate, and energize additional SME firms to do business with the federal government and grow the total SME market share in this fashion.

● (1540)

Clearly, the lowest-hanging fruit is to protect the established market share with the existing players, as shown by the bottom left quadrant in the diagram attached in your briefing notes. Finding new markets for the existing players, shown in the top left quadrant, and finding new players, the bottom right quadrant, and doing both at the same time, top right quadrant, requires added resources.

OSME is to be congratulated for trying to do all of these activities both with limited financial resources and in what remains at least an unclear and generally unhelpful policy vacuum on this subject matter at Treasury Board Secretariat. OSME has opened regional offices and made good strides to communicate with additional SMEs and bring awareness to new SMEs. Where OSME could use some help is to protect the existing base in the next few years and help that base and the newcomers to gain new ground. This will require new policy support and that policy is probably best based within the Treasury Board, and that would meet the OSME objectives.

I foresee increased challenges for CITPA member firms and for OSME to just protect its existing base, much less make headway. It is easy to see how some new management trends and the advent of the new Shared Services Canada, SSC, could potentially apply opposing pressures to what has already been achieved to date. Specifically, there is a sort of "assumed conventional wisdom", in some quarters, that savings and efficiencies can always be found through simply increasing the scale of procurements. Experience has shown that there are often diminishing returns to ever-increasing scale.

At some point, for some activities, scale can cross over from being of benefit to become a negative and create its own set of new risks. Since 2005 there have been strategies circulating within the Treasury Board and PWGSC to consolidate procurement. The strategy is essentially to reduce the number of suppliers and hold larger,

bundled contracts, under the theory that larger purchases will increase buying power and may be able to produce larger savings. However, there is no empirical data showing these savings hold true for all commodities. In fact, in the overall IT operation, the IT capital cost is around 15% to 20% of the total IT operation. The major savings opportunities are not in capital spending but rather within the operating and support costs of the IT operation.

Here are the two recommendations regarding OSME.

First, it's very difficult to evaluate the success of OSME because of the lack of data. OSME should have solid data upon which to manage and evaluate its activities and there is little available. It's not OSME's fault.

Second, OSME also suffers by operating in essentially a policy vacuum or, even worse, operating within a series of unresolved conflicting policies or strategies. Prime among these is the unresolved question as to how SMEs are to be promoted in an environment where ever larger bundled contracts are being promoted and ever fewer suppliers are being sought.

Due to the lack of SME procurement policy and, specifically, an SME IT policy framework from the Treasury Board, CITPA found it is extremely difficult to work with PWGSC in resolving conflicting policies within the Government of Canada. The required SME procurement policy, which would properly enable OSME, should contain an authority for data collection from Government of Canada contracts that would enable OSME to develop a series of key performance indicators, KPIs.

With such a policy in place, OSME will be able to work with its client departments including SSC to design a functional procurement strategy to achieve a win-win for both SMEs and the Government of Canada. With such a policy in place, OSME can put in place tighter KPIs to measure its efficiency and effectiveness. OSME and PWGSC, right now, are having a difficult time pointing out their success in the past five years other than some evidence that they have done a good job in listening to their community and trying their best in providing information to SME with their limited budget.

This just is not good enough, and it's not OSME's fault. The failure here lies with the absence of a proper clear enabling policy framework for SME IT procurement at the Treasury Board.

● (1545)

By simply issuing a few large bundled contracts, the Government of Canada would just be performing a risk transfer and cost transfer to private sector contractors. It would have no guarantee that very few and very large bundled contracts would be successful. In fact, if the contractor failed, the whole IT transformation and modernization project could become a large failure. The risk factor could become unbearable, and it could potentially be a political embarrassment to the government.

Today, the SME IT sector is being challenged by many new threats, most importantly by the misguided notion that SME procurement is expensive and inefficient. There are several management trends that are being used to apply pressure to SMEs, such as consolidated procurements that focus on large multinational manufacturers and cut out SMEs in the sometimes misguided search for savings.

As currently constituted and funded, OSME can do little to assist its SME clients today. If you want my advice, you would look to the success story of IT procurement and the opportunities it has provided for the growth of Canadian IT SMEs. It has provided the very necessary political push to create an enabling national policy framework within Treasury Board policy that would support OSME and PWGSC in achieving its combined goals of strengthening SMEs and the associated economic development benefits for Canadians, while at the same time achieving procurement savings for Canadians.

CITPA would be very pleased to help this committee and the relevant civil servants to develop the road map to broaden and deepen this existing success story.

Thank you.

• (1550)

**The Chair:** Thank you very much, Mr. Yeh. That was very interesting.

Next is Mr. Gillham, with 2G Robotics Inc. Do you have a presentation, sir?

**Mr. Jason Gillham (Director of Operations, 2G Robotics Inc.):** Yes, thank you.

2G Robotics is one of the companies that worked with the CICIP program and it was successfully selected for that program.

I'm the founder and CEO of 2G Robotics, a small start-up company based in Waterloo, Ontario. We provide solutions for companies interested in high-precision measurements in an underwater environment.

2G Robotics developed the world's first easy-to-deploy underwater laser scanner. Using our laser scanner, underwater inspection companies can generate digital 3D models at specific locations of interest on their underwater structure. These 3D models are typically of defects in the structure. Engineers can then use this information to assess the integrity and/or performance of an asset to ensure continued safe operation of the asset with minimal budget maintenance allocation. Typical applications for the technology can include municipal water infrastructure, offshore oil and gas systems, and nuclear and hydroelectric power systems. Additional industries include scientific, archeological, and military security.

In addition to benefiting from the Canadian innovation commercialization program, 2G Robotics has benefited from a number of other funding support programs through the technology development phase of the company. These have included support from the Ontario Centres of Excellence, Canadian Youth Business Foundation, Precarn, Canadian Institute for Photonic Innovations, Mitacs, Maars, and Communitech.

Regarding the Canadian innovation commercialization program specifically, I was made aware of the program through Communitech. We submitted an application for purchase of our system through the program under the public safety category, and in December 2010 we were selected to be matched with a testing agency. Over the following months, we were matched with DRDC Atlantic and completed the various stages of the contract completion and approval.

In August 2011 we delivered an underwater laser scanner to DRDC for testing and provided facility personnel with system training. In the coming months the project will be completed, as DRDC will compare the performance of our technology for assessing targets against the existing technologies.

When 2G Robotics applied to the program, we had not yet sold any systems. Over the past year a total of six systems have been sold, and numerous rentals of the technology have taken place. Our technology has been used around the world, from Antarctica to the Arctic, from the Persian Gulf to the Gulf of Mexico. It has been used for everything from assessing the growth and structure of microbial organisms in a lake bed to the inspection of offshore oil platform structures.

The CICIP program has provided us with a significant reference customer, a critical first step for any new technology looking to disrupt an industry. We have doubled our full-time staffing and we are seeing significant interest in the product, pointing towards continued success.

In addition to the direct and indirect financial benefits for 2G Robotics, we have learned a lot about government process and the skill set required for working with large organizations.

I would like to take this opportunity to thank the CICIP administrators for selecting us, and we look forward to seeing how the program will continue to benefit 2G Robotics.

• (1555)

**The Chair:** Thank you for your presentation, Mr. Gillham.

We'll now go to committee members for rounds of questioning. We start with, first of all, on behalf of the NDP, the official opposition, Denis Blanchette.

[Translation]

**Mr. Denis Blanchette (Louis-Hébert, NDP):** Thank you, Mr. Chairman.

My first question is for Mr. Hayes.

In your presentation, you discussed the fact that it is important for businesses to establish ties with the university community. How can the government benefit from the synergy among university circles, innovating businesses and venture capital businesses?

[English]

**Mr. Tom Hayes:** Some years back we were asked.... The fund I work with, GrowthWorks, manages funds across Canada, about \$500 million in assets under management. We were asked by the deputy of Industry Canada what percentage of the companies that we funded in our portfolio were the result of R and D based at a university. We went back and did a scan of all the funds we manage. We were a bit surprised, frankly, to find that 40% of the companies that we eventually fund had their origins in universities.

This was important, because when you collectively look at the significant investment that the Government of Canada, coupled with the provinces and other organizations make, I think it was something in the order of \$25 billion annually that goes into R and D. However, unless there is linkage to commercialization of much of that R and D, many of the potential benefits, in our view, are lost.

I know the other members of the CBCA would agree with me when I say this, but it's critically important for folks in our business to be always working with the universities and trying to find out and identify young and up-and-coming investment opportunities that have been the result of work done at a university setting.

Out east we have an organization called Springboard, which is supported by ACOA and which represents the 19 universities, including the community colleges, throughout Atlantic Canada. We're working as an organization very closely with them. Some universities, frankly, are more inclined towards this area than others. Out east it would be Memorial in Newfoundland, Dalhousie, and UNB. Two of the best VC deals in Canada in the last 12 months came out of an engineer from UNB, who created about a billion dollars worth of value in terms of two companies he started that were eventually sold.

That's the kind of impact you can have in the local economy. In both those cases significant employment was created and continues to be created by the two companies that he founded. In our view, universities are an extremely important part of the continuum.

[Translation]

**Mr. Denis Blanchette:** Thank you very much, Mr. Hayes.

Mr. Yeh, you mentioned that large purchases may be disadvantageous in certain conditions.

Can you give us more details on that point?

[English]

**Mr. Herman Yeh:** I didn't get the question, sorry.

[Translation]

**Mr. Denis Blanchette:** You mentioned that it was not necessarily an advantage for the government to award only large contracts. In your view, it would be preferable for it to retain a significant portion for SMEs. You contended that excessive procurement concentration may be a disadvantage for Canada.

Can you give us more details on that specific point?

[English]

**Mr. Herman Yeh:** In the IT setting, you can go for very large contracts. All it shows is a single contract out. But any engineering principal will usually have to break down a large project into smaller

pieces. Usually in the competition context, the SME is actually very competitive at the task level. It might not be as competitive because of the scale—they cannot raise enough capital to do one single large project at the same time.

That might answer part of your question.

• (1600)

[Translation]

**Mr. Denis Blanchette:** How much time do I have left, Mr. Chairman?

[English]

**The Chair:** You have about 20 seconds, Denis.

[Translation]

**Mr. Denis Blanchette:** All right.

So tell us about the political void you talked about at length.

[English]

**Mr. Herman Yeh:** Essentially in the last 26 years, since I've been in business, we have never seen the government exactly have a policy on how to promote SMEs on the procurement side. We talk about it a lot. We have lots of data supporting SMEs as an important driving force in the economy, but we have never really had a full procurement policy in that sense.

Without that, the departments actually do not care, or they do not know why they have to deal with SMEs, until they go to PWGSC, but then it's often too late, because the procurement does not start at PWGSC, it starts at the department level when they have a requirement to resolve a project or a solution for a program they're supposed to run. None of the departments are really IT required shops.

**The Chair:** Thank you, Mr. Yeh.

That concludes your time, Denis. Thank you.

For the government side, the Conservative Party, Kelly Block.

**Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC):** Thank you very much, Mr. Chair.

I'd like to thank our witnesses for being with us today.

I'm going to direct my comments and questions to Mr. Hayes.

I'm looking at the document that was given to us regarding CVCA. I note that CVCA is a leading source for advocacy, networking, information, and professional development for venture capital and private equity professionals. It goes on to describe what the programs include. It also states—and I think you stated in your opening remarks—that you represent the majority of private equity companies in Canada, with over 1,800 members, and that venture capital is characterized generally by investment in early-stage companies, mostly in technology businesses.

I want to move over to what we know about OSME. It was created with the main purpose of giving SMEs access to government procurement in a number of ways: by reducing procurement areas, simplifying the contracting process, providing training and education, collaborating to improve procurement policies, and working to ensure that the concerns of SMEs are brought forward and heard.

It seems to me that there's an incredible opportunity for the role of CVCA to engage those individuals you are working with at OSME. Yet you've stated that it is not widely known. In fact, among CVCA, knowledge of the work of OSME is practically non-existent, and perhaps the CICP, more particularly. You also stated that more should and could be done to promote it.

I'm wondering what you think should be done in order to ensure that at least your members know about this program, and what your organization could do to help.

**Mr. Tom Hayes:** Maybe my statement wasn't a fair comment on reality, but it reflected the informal or not very scientific survey we did prior to this session to try to get a sense of what the knowledge level was among CVCA members. Certainly, as an organization, we speak to a group of folks who are funding at least on the VC side, but not necessarily on the private equity side, because they are doing deals with more mature companies. On the VC side, we're dealing mainly with earlier-stage companies, which would be the ideal clients, I would think, for the office and for this particular program we're talking about today.

We have many vehicles that we use quite effectively to communicate with our members. We have annual conferences and professional development sessions we run in the larger centres and nationally through video conferencing. We have a website and weekly e-mail blasts going out to our members. From the perspective of those groups that fund these early stage companies, we would be a great conduit to help promote the programs.

As I said, I'm not aware of attempts that have been made in the past to use the CVCA. Certainly the executive director, when he briefed me on this session, didn't appear to be that knowledgeable either. In fact, he wasn't even aware of the program. I raised it with him.

I think we could be used as a very positive force, at least in getting the message out to our own members. In turn, if you have companies in your portfolio that you think can benefit from this kind of a program, you're immediately going to pass the information on. In fact, that's what I did in the case of one company in Newfoundland and Labrador.

• (1605)

**The Chair:** You have one minute.

**Mrs. Kelly Block:** One minute—then I'm going to quickly ask a question of Mr. Gillham.

You may have mentioned this in your remarks. How did you hear about OSME and CICT?

**Mr. Jason Gillham:** It came to me through Communitech, which is sort of a local Kitchener-Waterloo-Cambridge-Guelph organization that supports small and medium-sized enterprises and connects them with a variety of things. They're not a venture capital organization, but are a not-for-profit organization with a combination

of services, from mentoring to running events, to support the start-up community.

**Mrs. Kelly Block:** Okay.

**The Chair:** That's pretty well it, Kelly.

For the NDP, Alexandre Boulerice.

[*Translation*]

**Mr. Alexandre Boulerice (Rosemont—La Petite-Patrie, NDP):** Thank you, Mr. Chairman.

Thank you for being with us today. Thank you for your presentations.

Mr. Gillham, I would like some clarification on a point that intrigued me. You've created a kind of little submarine that goes around with a laser that recreates the images it captures in 3D. That's fascinating.

[*English*]

**Mr. Jason Gillham:** Images of Austin Powers often come to people's heads when they hear about this. It's a sensor that can be deployed onto robotic submarines. It will create what's called a point cloud of the underwater asset it's looking at. If this microphone, say, were under water, the robot could come and sit in front of it, take a scan of that microphone, and then provide a 3-D model of what you're seeing under there.

[*Translation*]

**Mr. Alexandre Boulerice:** Unless I'm mistaken, you learned about the Canadian Innovation Commercialization Program through an intermediary organization. It wasn't the Office of Small and Medium Enterprises that contacted you or sent you documentation.

Is that the case?

[*English*]

**Mr. Jason Gillham:** Yes.

[*Translation*]

**Mr. Alexandre Boulerice:** Mr. Hayes, earlier you said you had the feeling, although it was not based on any official source, that the members of your association were not really aware of the existence of this program, apart from those who were already doing business with the government. I simply wanted to emphasize that you are not the only ones. In committee, we heard from representatives of the Canadian Federation of Independent Business, which conducted a poll that revealed that 94% of its members were unaware of the existence and role of the Office of Small and Medium Enterprises. I believe that statistic supports your feeling.

You told my colleague Ms. Block that the office could do more. We get the impression that, for the moment, the office is only a website. It appears that, if people don't visit the website, they will have few ways of learning that this assistance is available.

Having said that, I would like you to explain to us—I'm speaking to the three of you—how the office has helped you, in concrete terms, work your way through the administrative maze, move your file forward and get things done. In other words, when you learned about the existence of the office and knocked on its door, did the office prove to be a solution or a problem?



[English]

**Mr. Jason Gillham:** Going through that process for me.... We applied through the MERX electronic tendering system. That's how we had to apply for this project. At that point it was fairly straightforward. There was an online application form. We completed that and then submitted it, just like we would submit for any other programs we've been part of up to now.

At that point we were contacted and basically told that we had been approved—"conditionally pre-approved" was the exact term. They then matched us with the testing facility. At that point it became, certainly for a small company of just a few people, a fairly onerous process to deal with the bureaucracy of the system. It required a sort of persistent patience is how I would describe it, where we had to maintain persistence, but then it would go off into a land that we didn't understand and then come back to us as another question we weren't expecting, let's say. So we had to maintain this patience.

•(1610)

**The Chair:** You have one minute, Alexandre.

[Translation]

**Mr. Alexandre Boulerice:** With regard to the Canadian Innovation Commercialization Program, the approach currently being used is to rely on existing products and to help SMEs commercialize them by putting them in touch with their first customer or, in cases where no assistance is found for them, by awarding them contracts so that their first customer is the federal government. The program is genuinely based on commercialization. However, it isn't a program based on ways of furthering innovation. Do you think it would be justified if the purpose of one of the components of that program was to encourage people to innovate?

[English]

**The Chair:** That was a one-minute question, so perhaps we can have a very brief answer, please.

**Mr. Jason Gillham:** The program was definitely geared toward companies that were in the very late stages of development. There are a lot of programs already that help you get to the stage we're at. It's the only one I'm aware of that really helps you get that first customer, which is critical for small and medium enterprises.

**The Chair:** Very good. Thank you, Mr. Gillham.

Thank you, Alexandre.

Now, for the government side, Jacques Gourde has the floor.

[Translation]

**Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC):** Thank you, Mr. Chairman.

Thanks to the witnesses for being here today.

My first question is for Mr. Hayes.

You said you belonged to an organization that manages venture capital funds. Based on what criteria do you determine whether a company is eligible for your funds?

[English]

**Mr. Tom Hayes:** Sure. I apologize. When you were asking me the question I was buying my friend here a drink, because I too was enthralled by the story and like the technology. Maybe he needs some investment. Afterwards I'll talk about the criteria and he can decide whether he's interested.

On the sweet spot in our fund, you can't generalize, because various funds pick different aspects of the spectrum. But we're what we call an early-stage investor. We look for companies that have at least demonstrated commercial acceptance of their product or service. That's why this program is so important. As my friend said, that first sale is critical to demonstrating that there has been commercial acceptance.

Quite often the companies we invest in have no revenue but are on the verge of revenue. We prefer to see revenue, but don't see it in every case. We examine the management team. We look for at least some semblance of a competent, domain-experienced management team that has some skin in the game, so to speak, recognizing that we're going to provide most of the funding, at least initially.

We look for companies that make innovative use of technology where there isn't a lot of competition out there. They're not in a competitive commodity business, but something that gives them an advantage, at least for a short term. We all know that with anything that's successful, the window of opportunity doesn't remain open for a long time.

Most of these companies would focus on large geographic markets, and in some instances the world, but they certainly wouldn't be confined to a small geographic market. For the most part they would be exporters, which is also important and a benefit to Canada to have those dollars coming back to the country.

On the size of deals, we look at anything in the first round from \$500,000 to \$1 million, recognizing that we'll probably have to do subsequent follow-on rounds. We ask for a board seat. We're minority shareholders. We don't manage the companies, but we hopefully help add value and help the companies as they go through their growth phases.

So have I sold you?

**Mr. Jason Gillham:** Close.

[Translation]

**Mr. Jacques Gourde:** Your answer takes the words out of my mouth because you indirectly also answered my second question. However, perhaps you can give us some more details.

A Canadian company qualifying under the Canadian Innovation Commercialization Program becomes eligible for your investment fund since it showed it had a competitive advantage over other companies. Do you try to make them all eligible, or is it really a privilege to be able to obtain funding from the Canadian Innovation Commercialization Program?

•(1615)

[English]

**Mr. Tom Hayes:** That wouldn't be a final determinant, but it would be extremely helpful if, in the presentation the firm makes to us, they can demonstrate conclusively that they have a reference customer. In an appropriate situation the reference customer might happen to be the government, whether it's DND or, in the case of the Newfoundland company, the coast guard. That would certainly help make a compelling business case in presenting to any equity funder.

[Translation]

**Mr. Jacques Gourde:** Thank you.

[English]

**The Chair:** You have concluded? Very good.

For the Liberal Party, today Kirsty Duncan is joining us. Welcome, Kirsty.

**Ms. Kirsty Duncan (Etobicoke North, Lib.):** Thank you so much, Mr. Chair.

Thank you, everyone.

Thank you to the witnesses. Thank you for your time, your effort, your testimony.

I'd like to begin with Mr. Gillham.

Your words "persistent patience" really stuck with me. Could you tell us what you saw as the advantages or the successes of the program? Could you outline the things that truly helped you? What were the weaknesses, and what would you have liked to see?

**Mr. Jason Gillham:** I'll probably have to get you to repeat them as we go.

One of the real benefits we've seen is getting that first reference customer. It's critical for small start-up companies to have that initial purchase. I know we talked about persistent patience being something that was not necessarily desirable but it's possibly also something that's a benefit from an education standpoint—to learn that process and understand it. So if that process is in place, it's challenging for us to go through it, but it's also an educational component. So I wouldn't necessarily say that's just a disadvantage. It also helps you learn how to deal with governments, how to work through that process. It's the same for large corporations that have the same high levels of bureaucracy relative to small companies, which we would be.

What were some of the other questions?

**Ms. Kirsty Duncan:** You've given me one benefit.

**Mr. Jason Gillham:** Yes.

**Ms. Kirsty Duncan:** Did you see other benefits to the program, and were there negatives?

**Mr. Jason Gillham:** Sure.

**Ms. Kirsty Duncan:** And what was missing?

**Mr. Jason Gillham:** Other benefits will, I suspect, come up as the program continues on, because we delivered the system relatively recently to them. So the next step for the overall project is a testing component in which Defence Research and Development Canada is

going to take the system and compare it to other technologies so they will then be able to say "Look how this new technology can benefit us from an operational standpoint". And then ideally we can get scanners on every ship, all over the place and around the world, hopefully, for specific security-related applications.

Ultimately, the benefit to any company comes down to money. It will end up being money in the door one way or another. So from a short-term standpoint, we were able to get an initial sale and see some cashflow. Down the road, we'll be able to have that reference customer we can point to and continue to reap the benefits of that reference customer.

**Ms. Kirsty Duncan:** Okay. And what were your challenges? What was missing? What would have helped you that didn't exist?

**Mr. Jason Gillham:** If there had been more mentorship. I suppose one of the main things missing, as far as I was concerned, was a single point of contact. We were passed from person to person throughout this process. I never understood exactly who I was supposed to be talking to and listening to. We ended up speaking to about five people throughout that process and never really understanding where they sat in the decision-making process.

**Ms. Kirsty Duncan:** So you're saying a single point of contact.

What were the other challenges?

**Mr. Jason Gillham:** Certainly one challenge was going through the application process. I wouldn't say it was a negative to the project, but it was a challenge we had to go through.

•(1620)

**Ms. Kirsty Duncan:** If you had a wish list, what would be on it?

**Mr. Jason Gillham:** You mean a wish list for...?..

**Ms. Kirsty Duncan:** If there were something....

**Mr. Jason Gillham:** Do you mean for how to change the project?

**Ms. Kirsty Duncan:** Yes.

**Mr. Jason Gillham:** The biggest thing for me would be having that single point of contact, someone to go to who would know what to do.

**Ms. Kirsty Duncan:** Thank you.

Mr. Yeh, you said that for your organization, OSME has been helpful and creative, and you explained that buyandsell.gc.ca is the best attempt at using current technology and providing information. Has your organization used any of the other services? Has that information been tracked? What was helpful and what were the benefits and the disadvantages?

**Mr. Herman Yeh:** That we got because our members are quite experienced in selling to the federal government already. They're existing players. What we found when OSME was formed was that their focus is really on finding new customers or new SMEs and showing them new opportunities. Canada is a pretty large country, and to promote the Canadian government as being easy to do business with is not the easiest sell. So they're putting lots of resources into looking for these new customers.

That's what I show in my diagram, in the top right quadrant. It is not an easy quadrant. For any other business, that's not the first quadrant they go after. They go after existing customers or the existing base first. You secure the existing base, build a good foundation, then you expand. We found that when they formed five years ago, OSME did not really do that.

Our organization represents lots of small SMEs, so we're one of the first ones who contacted OSME and asked them what they were doing and how could we help, and things like that. We sent a message out to all our members and let them know about the service and we brought them in to talk to our organization. Most of the members are finding that because they're not new SMEs to the government, the service is really not accessible.

In terms of reducing barriers, they have a really limited ability on doing so. They do help in some cases. For example, they say, we'll help you to get faster payment; we'll help you to get interest payments. They advocate on that, which is good, but that is really not the most important thing. It's part of the course of doing business. There are documents, you've got your paperwork ready and they pay you. If they don't pay you for 45 days or 60 days, it does not matter.

**The Chair:** Thank you, Mr. Yeh. We're well over time.

Thank you, Kirsty.

Next is Peter Braid. Five minutes, Peter.

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Thank you, Mr. Chair, and thank you to all of our witnesses for being here this afternoon.

Mr. Gillham, it's great to have you here. Congratulations on the success of your company so far, another great start-up from Waterloo. There's something in the water in Waterloo, as they say.

In response to a question from Mr. Boulerice, you described in more detail some of the technology that you have. I think it was the underwater laser scanner. Is this the only robotic product that you've developed, or are there others you've developed or others in the pipeline?

**Mr. Jason Gillham:** It's the only product we've developed, and there are others in the pipeline.

**Mr. Peter Braid:** Can you tell us anything about what's in the pipeline?

**Mr. Jason Gillham:** One of the limitations of the underwater laser scanner is the need to have it stationary, relative to whatever it is that you're scanning. To overcome that, and this sort of talks back to Mr. Hayes' discussion about the university's involvement, through another government program we were able to bring on a grad student through a sort of time-sharing with his research and his time at 2G Robotics, where we're developing the ability to create 3-D models of underwater environments simply from video. So you no longer need the laser in the picture and can just take video to create a 3-D model of the underwater structure.

**Mr. Peter Braid:** Great. Do you think the CICP will help to foster the commercialization of the underwater laser scanner? Will it help to get it to market sooner, do you think?

•(1625)

**Mr. Jason Gillham:** It certainly has. Basically, from the point of making that first sale through CICP, we've been able to build on that and use DRDC as a reference customer in selling future systems.

**Mr. Peter Braid:** Have you sold any future systems yet?

**Mr. Jason Gillham:** Yes. We have about six total that have been sold into the market.

**Mr. Peter Braid:** Excellent.

Has the CICP helped you to hire more employees?

**Mr. Jason Gillham:** We've doubled our staff over the past six months, but is it directly causal to the CICP program? It's always hard to say. There's going to be a component to that program, but there's also going to be a component to everything else that has been leading up to what we've done.

**Mr. Peter Braid:** How many employees do you have now?

**Mr. Jason Gillham:** We're up to about six.

**Mr. Peter Braid:** Great, thank you.

Mr. Yeh, I have a question for you, sir. With some previous witnesses there's been some debate about where OSME should be housed, in PWGSC or maybe some other department. Do you have any thoughts or perspectives on that?

**Mr. Herman Yeh:** I think Treasury Board should come forward with a better policy to focus on SME procurement.

As far as recruitment goes, it should stay in PWGSC, because it's procurement policy.

Of course if you're talking about industrial regional benefits, then it's Industry Canada. I disagree with this, but it's not the same minister on the procurement side.

**Mr. Peter Braid:** Finally, Mr. Hayes, as I'm the member of Parliament for Kitchener—Waterloo, I would strongly encourage you to support Mr. Gillham's sector.

**Mr. Tom Hayes:** Thank you.

**The Chair:** Thank you very much, Peter. That was a good use of your time. You might have got some investment in the local business.

**Mr. Peter Braid:** It certainly was.

**The Chair:** That's the end of the first round of questioning.

I wanted to ask for some clarification on one point in the testimony from Mr. Yeh.

We heard testimony from previous witnesses earlier in this study who pointed out the United States office of small and medium-size enterprises, or the sister organization that assists SMEs, is almost a public interest override. Projects are not bundled into mega-contracts unless it can be demonstrated it's absolutely necessary. So the default is smaller bite-size contracts instead of massive overwhelming contracts.

Could I ask you to talk about what you called the risk transfer that's possible, going from the risk of it being in-house to the risk of being in one mega-contractor doing all that IT work for us?

**Mr. Herman Yeh:** Yes.

**The Chair:** Could you expand a little bit on that?

**Mr. Herman Yeh:** Let me give some examples of IT projects.

When you want to build a large data centre, there's a large capital involvement. Building a tier-four data centre costs, per se, \$150 million, plus you have to fill it up with servers, communications gear, and so on. From a bureaucratic senior management point of view, it's great. They say a big project may be easier for them to farm out to one company to let them handle the whole thing, from building it to managing it, the whole infrastructure. By doing that there is a risk transfer because they do not want to keep it in-house and break it down into a smaller bite size.

You need lots of talented people to do it, and I believe the government with the 8,000 IT staff they have—with the SSCs they will have 8,000 people—and all those other people who are already managing data centres and their networks. Starting to subcontract might not be the best job, but we are not sure. SSC never said they would do it that way, but there's a tendency at the senior level. When they are talking about it at the large project level they have a tendency, as we've seen year after year. A few years ago it was the government marketplace project. A number of projects are really not doing so well, but they did give the contract to a single contractor.

On the other hand, we've seen it's very effective when they bring it down to a smaller size, a bite size, and the smaller SME contractor can contour much better. They're the subject experts. Often the large company will go to the SME and ask if they want to be their subcontractor and then they make money in between.

• (1630)

**The Chair:** That's very interesting. Thank you, Mr. Yeh. I wanted you to expand on that somewhat.

The next round of questioning will begin with the NDP, Mathieu Ravignat, for five minutes—or are you sharing your time with Denis?

**Mr. Mathieu Ravignat (Pontiac, NDP):** I'll share my time with Denis.

**The Chair:** Very good.

Five minutes, however you want to cut it up.

[*Translation*]

**Mr. Mathieu Ravignat:** Thanks to the witnesses for being here.

Could you tell me whether you are a member of the Canadian Federation of Independent Business?

[*English*]

**Mr. Herman Yeh:** No, we are not.

[*Translation*]

**Mr. Mathieu Ravignat:** That's fine.

[*English*]

**Mr. Tom Hayes:** No, I'm not.

**Mr. Jason Gillham:** I'm not, no.

[*Translation*]

**Mr. Mathieu Ravignat:** I asked you that simply to put my question in context.

The Canadian Federation of Independent Business has conducted a survey of its members on public markets. It received approximately 626 responses, which is quite a lot. They realized that only 5.9% of that number knew the role the Office of Small and Medium Enterprises plays in federal government procurement. I was wondering whether that surprised you. If not, why not?

[*English*]

**Mr. Herman Yeh:** If I answer for that part, it's not a surprise to me, because this was as I described before. And when you go for a new customer, it's the hardest one to get. They might not be interested in the Canadian federal government business either, if they consider it hard to do. And as they say in the report, they report back to the one who responded and say, "Hey, how come it is so hard to do business with them?" And we might disagree, because we are doing business with the government and there is a certain way to go in and to buy and sell. As Jason was saying, it takes lots of patience to keep going through that.

**Mr. Tom Hayes:** The only comment I would make is that you would really have to take a look at the structure of the membership of the CFIB. I don't know enough about it, but I'm not sure that many of their member companies would be companies that would necessarily sell to government. There are lots of Canadian manufacturers associations and other industry associations that would have members that would be applicable to this type of a program. I'm simply not sure whether the membership structure of the CFIB is applicable in this instance.

**Mr. Jason Gillham:** I don't have too much to add, but my knowledge of getting to the programs has been through Communitech, as I discussed earlier. Being a small company, you don't have all the time and knowledge to gain an understanding of everything that's out there on your own.

[*Translation*]

**Mr. Mathieu Ravignat:** Mr. Gillham, perhaps you were lucky to know it existed.

Could you suggest to the Office of Small and Medium Enterprises any effective ways of promoting its programs?

[*English*]

**Mr. Jason Gillham:** I mean, I only have this single data point myself, and it worked out very well, going through these Communitech-type organizations that have entrepreneurs in residence and support locally grown innovation. It has been a great organization for me, generally, for a wide range of knowledge acquisition.

[*Translation*]

**Mr. Mathieu Ravignat:** Do the others have any suggestions?

[English]

**Mr. Tom Hayes:** It's like a new company with a new product that it's trying to get into the marketplace. My understanding is that this is a fairly new initiative. It takes time to get the word out. You've got to put some resources behind that, in terms of marketing the program.

Again, not to be critical, because I'm not sure what efforts have been made to date in promoting this particular program, but it doesn't happen overnight. You have to work at it and you've got to put the resources behind it and find effective avenues to get that message out to the client group.

●(1635)

**The Chair:** You've used your time, Mathieu.

**Mr. Mathieu Ravignat:** Really?

**The Chair:** Thank you very much.

Scott Armstrong.

**Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC):** Thank you very much for being here. I've listened with interest.

Mr. Gillham, first of all, congratulations. I'm very excited for your company. It's great to see another company from Waterloo do so well, despite the great representation by your member of Parliament.

In your experience in applying to this program, you referred to having persistent patience. Do you think a lot of companies with less staff or less patience would simply give up with the process? Was it that complicated to try to access this program?

**Mr. Jason Gillham:** I don't think so. It was more a lack of knowledge of where we sat in the process, as the process was taking place. We would get one level of approval and wonder if that was the final approval. And then we'd get to another stage and wonder if that was actually the final approval. I remember when we did get the final go-ahead to ship the equipment, I wasn't even clear if that's what we were able to do at that point. So I had to send back a clarification e-mail asking if that meant we could send the equipment and send an invoice.

**Mr. Scott Armstrong:** Basically, because of the nature of the program, everyone's going to have that same experience, because there's going to be a first time for everyone in this particular program. So is some sort of explanation of the exact process, the steps that have to take place and where you actually have to get to, with constant feedback, a recommendation we should make as a committee?

**Mr. Jason Gillham:** I would certainly agree. And that's where, for me, having that single point of contact where they could sort of lay out those steps for me as I was going through it would have been nice.

**Mr. Scott Armstrong:** Without the support of this program, without being able to tell future clients that you had this first sale and a government client who actually could testify to purchasing your product, would it have been far more difficult to get your company established?

**Mr. Jason Gillham:** Yes. I mean, it would certainly have been more difficult. A major customer we're working with right now on a

more significant contract specifically referenced that DRDC sale as a benefit in working with us.

**Mr. Scott Armstrong:** That was a huge breakthrough, really, in positioning your company for more sales.

**Mr. Jason Gillham:** Certainly, yes, it was.

**Mr. Scott Armstrong:** Mr. Hayes, to expand on that, if someone came to your operation with an idea like theirs for an underwater scanner, a laser scanner, would it be a much stronger application if they had a government contract already ordered in support of some sort of department in the federal government or a provincial government?

**Mr. Tom Hayes:** I have a couple of comments. First of all, you're always looking for that first customer or reference customer. So yes, for sure it would strengthen the business case they would present to us.

In addition, if the type of technology or product is focused on government agencies, whether they be security agencies or coast guards or DND, it's really important to be able to sell to your own home agencies, like the ones I just listed. If your target market is the navies around the world or the coast guards around the world, such as the Chilean navy, for example, the first question they would ask, because these are small communities, and they all talk to each other, is whether you had work with the Canadian navy.

Absolutely, it's very advantageous to have that kind of support from government agencies here at home.

**Mr. Scott Armstrong:** Mr. Yeh, you talked a lot about how sometimes we have competition between a small business trying to procure government contracts and bundled contracts, which really preclude them from bidding. When you see the success of a small business basically based on the fact that it has had this one first reference client, do you think that's an argument for us to support more businesses, more start-ups, by having less bundling of government contracts?

**Mr. Herman Yeh:** Definitely the bundling of contracts is excluding the SMEs. Bundled contracts are called large contracts over \$10 million. Anything less than \$10 million is considered a regular process contract. That's currently how PWGSC defines these large contracts.

SMEs often don't have the capital to do a bundled contract. When you have a smaller-sized contract, the SME can actively participate and can actively compete. It helps the SMEs to establish ground, show what they know, and show what they can do as a solution.

●(1640)

**Mr. Scott Armstrong:** Mr. Hayes, I'll ask you the same question. Does the bundling of government contracts preclude a lot of businesses you may invest in from actually getting their investment or getting that first reference customer?

**The Chair:** Give a short answer please, Mr. Hayes. We're quite over time.

**Mr. Tom Hayes:** It certainly makes it more challenging from the perspective of an early-stage company.

**Mr. Scott Armstrong:** Thank you.

**The Chair:** Thank you very much, Scott.

From the NDP, we'll have Denis Blanchette. Are you ready to take five minutes?

[*Translation*]

**Mr. Denis Blanchette:** Thank you, Mr. Chairman.

Mr. Yeh, there's a lot of talk about the success of the SMEs that are government suppliers in the IT sector. Can the SMEs' formula for success in the IT sector be exported to other sectors of procurement activity?

I'll be more specific. IT involves a number of components: consulting, hardware sales and software sales. Do some sectors perform better than others? Can that model be exported to other procurement sectors?

[*English*]

**Mr. Herman Yeh:** Yes. Actually, that's why in my presentation I talked about having cooperation between the technical authority, as we call it, and a contracting authority. That's within PWGSC right now. If they do it well, it's transferable. At least the experience can be transferable. You can see what the requirements are for other industries. If they can work with the contracting authority and work together to listen to the SME as to what they can do and what the requirements are, I believe that experience can be transferable. That's why I pointed out in the document that we should spend some time looking at what this STAMS group is doing and whether they are successful in engaging the SMEs without ignoring the large enterprises. They're doing a pretty good balancing job, in some cases.

[*Translation*]

**Mr. Denis Blanchette:** A number of small businesses in the IT sector are authorized resellers of major suppliers. Does that enable small and medium-sized businesses to access government contracts in that sector in a major way, and thus to enter the IT market, or is that a marginal factor?

[*English*]

**Mr. Herman Yeh:** In the IT sector, usually how the chain works is that if the manufacturer does not have enough people to service their customers, they rely on the SME resellers to service that portion, and multinationals don't do lots of things by themselves. We are reselling HP products, and the large multinational products also. This may be industry-specific, but in some other industries we see it can work that way too—for example, some professional services or property management. There are more SMEs active in working with large enterprises in those cases.

[*Translation*]

**Mr. Denis Blanchette:** Thank you very much.

In your brief, you discussed the advent of Shared Services Canada, but with a certain amount of fear. I would like you to tell us how you think there could be a harmonious transmission for SMEs in the IT sector.

[*English*]

**Mr. Herman Yeh:** Do you mean the transition between the current state and the future?

Okay, on that front, the IT sector is actually changing all the time. It's never static. So if you look at how the PC grows into the current state, it's very different. As the government goes toward more consolidation.... There are lots of misconceptions about consolidating technology versus consolidating procurement. They are two different things. You can do consolidation of technology without consolidating procurement into one single large contract. You still can do the project by breaking it down into smaller chunks and working through the competition.

• (1645)

[*Translation*]

**Mr. Denis Blanchette:** How much time do I have left, Mr. Chairman?

[*English*]

**The Chair:** There are about 30 seconds.

[*Translation*]

**Mr. Denis Blanchette:** As you've discussed performance indicators that can be used to get a slightly clearer picture of the effectiveness of the Office of Small and Medium Enterprises, you definitely already have some ideas that you could share with the committee. Could you tell us a little more about those performance indicators?

[*English*]

**Mr. Herman Yeh:** I missed the translation.

[*Translation*]

**Mr. Denis Blanchette:** Has it come back?

[*English*]

**The Chair:** It's coming now.

[*Translation*]

**Mr. Denis Blanchette:** I was talking about performance indicators.

[*English*]

**Mr. Herman Yeh:** Well, for that part it's like with any good management—you're always looking for measurement indicators, or as we call them, key performance indicators. Without those it's hard to measure the efficiency and effectiveness, and currently there's not enough data to support that activity.

**The Chair:** That concludes your time, Denis. Thank you very much.

Ron Cannan.

**Mr. Ron Cannan (Kelowna—Lake Country, CPC):** Thank you, Mr. Chair.

Thanks to our witnesses for being here this afternoon and sharing a little bit about your personal experience working with OSME.

As you know, our goal is to analyze the effectiveness of the Office of Small and Medium Enterprises in the Canadian innovation commercialization program. I was just reminding the committee that OSME is committed to giving small and medium-sized businesses access to compete for government business by working to reduce barriers and simplifying requirements for SMEs that want to do business with the Government of Canada.

Mr. Gillham, do you have any idea what website OSME has set up to help small business?

**Mr. Jason Gillham:** No, I'm not familiar with it.

**Mr. Ron Cannan:** Mr. Hayes?

**Mr. Tom Hayes:** No, I'm not.

**Mr. Herman Yeh:** I can agree with that.

**Mr. Ron Cannan:** It's called...

**Mr. Herman Yeh:** Is it the buyandsell.gc.ca?

**Mr. Ron Cannan:** There you go. Give that man a prize.

**Mr. Herman Yeh:** Thank you.

**Mr. Ron Cannan:** That's our ultimate goal, to get the message out. We've talked to many witnesses. Don't feel bad. There are a lot of people who don't know about it. As you said about your members, very few of them were aware of the Canadian innovation commercialization program, and ultimately, our goals.

Mr. Yeh, in your handout you indicated a couple of suggestions and talked about the low-hanging fruit. I was co-chair of Canada-Taiwan. They call it the "early harvest".

**Mr. Herman Yeh:** Yes.

**Mr. Ron Cannan:** The aspect of working with the status quo is not good enough. We want to move forward. What is your first suggestion as far as trying to help OSME to get the message out more effectively than we're doing is concerned?

From what you have here, it says: "Where OSME could use some help is to protect the existing base in the next few years.... So, in our view, we believe OSME requires new policy support."

That's from the Treasury Board?

**Mr. Herman Yeh:** Yes.

**Mr. Ron Cannan:** Maybe expand on that, please.

• (1650)

**Mr. Herman Yeh:** If you look at it from a business point of view, we often talk about let's protect the existing customers first. If you're losing customers, that is not a very good thing. So in OSME's case, the customer is the SME clients. If you're losing those clients, that's not a very good thing. But so far we've seen that they're expending lots of effort on going after new clients and new opportunities. I don't think that is time or money best spent. They should look at it from a more balanced approach by protecting some of the existing markets and then grow from there and build a foundation on that.

But the policy from the Treasury Board never really states how the government is going to deal with the SME people or the SME suppliers. It never had a policy for that. I searched around, and I cannot find it, unless you guys can point me to the right direction. They have the industrial regional program, which is not the same.

It's not idea-specific. I'm really talking about the SME segment. In political elections, many politicians talk about how important SMEs are. I did a study twenty-some years ago when I worked in the government. We used data to prove that SMEs are important to the GDP growth of Canada and it does not really have a solid policy on that. OSME is operating without such a policy. It has lots of difficulties getting other client departments to listen to them. It's too late when they go to OSME or go to PWGSC. The government or the client department has already decided that is the solution they want. You can't go back to change that.

**Mr. Ron Cannan:** Mr. Hayes, do you support that policy direction?

**Mr. Tom Hayes:** I certainly understand where he is coming from. I haven't had direct involvement in that kind of a situation with one of the companies we're involved in, but I can appreciate clearly what he is recommending and supporting, for sure.

**Mr. Ron Cannan:** Mr. Gillham, I too want to congratulate your entrepreneurial spirit. I represent a riding in the central Okanagan, Kelowna. Actually, the CFIB just awarded them the number one place to do business in British Columbia. And similar to Springboard West, we have Accelerate Okanagan working with the B.C. Innovation Council and the variety of entrepreneurs in the community.

I'm just wondering, from your perspective, were you involved in an incubator program? How did you get your concept to commercialization?

**Mr. Jason Gillham:** We weren't involved in an incubator program to start out. The concept really developed out of a combination of co-op terms as a student in this industry. I've always been interested in working in this industry. Then we moved toward development of the technology as a master's thesis at the University of Waterloo.

**The Chair:** Ron, that concludes your five minutes. Thank you.

Now we again have, for the Liberal Party, Kirsty Duncan.

**Ms. Kirsty Duncan:** Mr. Chair, thank you.

Mr. Yeh, I'm going to ask you a similar question to what I asked Mr. Gillham before. I meant to say congratulations, so I will now.

Mr. Yeh, could you tell about us five things that are working well in OSME and then give us five things that would be on your wish list, please?

**Mr. Herman Yeh:** When OSME started, it was formed as a very small section within PWGSC. It opened regional offices. It hosted seminars. That worked well, especially for people who didn't understand how to deal with the government. They pointed out the MERX website, and they started using the website and things like that. After that it was able to find some funding to do a website and it did it very creatively. It is outside the Canadian government framework. If you look at its website, you'll see it doesn't look like a government website at all. It is using some new technology to be able to do searching and things like that; that helps a lot. Its office is always open. If you call them up, they always call back. We have good experience on that. If you have some procurement issue or contracting issue, they try to help resolve it. We understand what they're doing. I think those are the five good things I can talk about without specifically saying one, two, three, four, five.

You ask what is missing or what could be done better. I know they are putting some resources into doing a study on the future impact of Shared Services Canada or bundled contracts or large contracts. They're working on it. We've been talking to some of the other contractors and the internal staff. I wish they had some more power to actually go beyond that, not just say "I have a large contract; how am I going to do subcontracting?" I don't believe SMEs are looking for subcontracting. SMEs are looking for opportunities to actually compete in those cases, and that is one of the important factors. For a smaller contract, a multinational or large company can bid also. It doesn't mean...that does not exclude the large company from bidding. But when you have a hundreds-of-million-dollar contract, SMEs cannot bid. Period. It's the scale itself.

The question is... We've been talking to OSME. I asked how we are going to handle these bundled contracts. It has no solution because there's no policy guiding it into what it should do or what it is able to do.

**Ms. Kirsty Duncan:** What would you like to see, Mr. Yeh?

**Mr. Herman Yeh:** In the policy we're looking for, we are not looking for a set-aside for SME or things like that. I think we're looking for what Pat was talking about a little bit earlier. On the U.S. side they are enforcing—at the department level, not PWGSC level—the break-down of contracts to a certain size, so the SME can actually compete in those cases. It's really at the client level, not the PW level. If you go to the procurement side and say "If you want to buy this, break it down", the client department won't be happy. Not every single contract is buying an airplane or a tank or something like that.

**Ms. Kirsty Duncan:** Okay.

Mr. Hayes, do you have anything to comment on that?

• (1655)

**Mr. Tom Hayes:** I won't give you five reasons. I'll give you one comment, and it was based on the comments of the CEO of the firm that took advantage of this program when he attempted to explain to me that if the purchase by a government agency is based on the specifications that company provides, then that company is excluded from future sales to that department or perhaps other government departments. I don't understand that. There's possibly somebody who can explain the rationale for that, but it didn't make any sense to me.

That was one of the things he raised as an issue that would be a negative about the program.

**Ms. Kirsty Duncan:** Thank you.

Mr. Yeh, do you believe that OSME reduces competition barriers and simplifies the contracting process in an effective manner? Provide details, please.

**Mr. Herman Yeh:** In the last five years we have not seen a lot of evidence that they are able to do that. Reducing barriers, I know they did try that term, but they don't want to cross the line into influencing the clients as to how they want to buy stuff. If they're saying "I will make sure they post it on the MERX website or people can download it", that's not removing barriers. That's just raising awareness. I think they on their part have a hard time convincing clients. That's why recently Ms. Miller was assigned to client engagement, as a director general also, because they saw that as a deficiency. They are not able to do it, so they got an additional role so they can talk to the client department and try to remove that barrier.

**The Chair:** Thank you, Mr. Yeh.

And thank you, Kirsty. That concludes your time.

The last in this round is Bernard Trotter.

**Mr. Bernard Trotter (Etobicoke—Lakeshore, CPC):** Thank you, Mr. Chairman.

Thank you, witnesses, for coming in today.

I really appreciate your comments about small and medium enterprises. Really, when you think about these companies and the entrepreneurs who start them in this country, it's really the foundation of the whole economy. When they're successful, they often become larger companies. Sometimes they break up into a bunch of smaller companies, but it's that culture of entrepreneurship that really drives our economy to create great things, create jobs, and create all kinds of economic activity for people.

My own riding of Etobicoke—Lakeshore has a very diverse economic background: food processing, light manufacturing, chemical manufacturing, creative industries like film and television and software companies. These are all, for the most part, small and medium enterprises. I just want to ask certain things in the spirit of how we can foster and nurture an environment where these companies can really move forward. OSME is one part of that. It's not the whole solution, obviously.



When it comes to OSME, and how we seem to be directing things through Public Works and Government Services Canada, I think there are some good news stories. In your presentation, Mr. Yeh, you mentioned \$11 billion in contracts and about \$4.73 billion, or 43%, went to SMEs, and that's everything that Public Works Canada awards. In your area specifically, IT hardware, there was \$452 million in contracts; of that, \$335 million, or about 75%, was awarded to SMEs. So I think SMEs are doing quite well.

Could you describe the value.... I think "reseller" doesn't really capture it. Maybe for the benefit of the committee, you're not just reselling; there's a lot of value that you're adding as a reseller in your industry. Could you describe the services when it comes to hardware that the Government of Canada uses?

**Mr. Herman Yeh:** Actually, at the small and medium enterprise level of selling, it's totally different from buying from Best Buy or Future Shop—two different ways. At the SME level, it requires a lot of integration work, and a lot of introduction to technology. We bring them manufacturers, we bring them technology, we actually help them with installation, we help them to do testing, we help them to experiment with different technologies to move forward, and with proof of concept. We do a lot of these different types of activities. SMEs actually have certain specific skill sets that different.... We often use the term "value-added reseller". Each value-added reseller has a different set of skill sets, so when you combine that with all those different value-added resellers, you form a very large knowledge base, and I think that is what they are looking for.

**Mr. Bernard Trottier:** How is it you're able to outcompete your larger competitors, though? If 75% is going to SMEs within your industry, versus only 25% of the value of the contracts are going to larger enterprises, what is it about the agility or...? Maybe you can describe how you're able to outcompete them.

• (1700)

**Mr. Herman Yeh:** If you're talking about large organizations.... For example, if you're using some large telco company, they're not at the same touch level. They might have the skill set level, but they do not attack the business the same way. They don't go to the engineering level or the management level or the working level to demonstrate how this technology works. They intended to go for a larger contract, and once taken over, they can introduce their own style. It doesn't mean they do a bad job; it's just a different approach. In the government, traditionally they buy it in the big-time format, called the task base format. They often are doing that.

**Mr. Bernard Trottier:** Okay.

I have just a question for Mr. Hayes. Maybe it's a higher level than OSME, but you mentioned that among your members there wasn't a high level of awareness or utilization of OSME. Maybe you could just describe the state of entrepreneurship as you see it in Canada, and also the state of entrepreneurship in risk capital. Many observers have said that Canada kind of lags when it comes to entrepreneurship and risk capital. You're obviously in this industry, so can you describe how you see it, and maybe what things we need to take action on to improve it?

**Mr. Tom Hayes:** We certainly don't lag in entrepreneurship and the desire to grow successful entrepreneurs. This is not just a Canadian challenge. I was at a conference last week in Quebec City, where we update annually what's going on in the world of venture

capital. Where we are having significant challenges is with the lack of venture capital, particularly in developed countries. And that's been a real challenge. It's a cyclical industry. Returns have not been great over the last ten years, and many of the traditional sources of venture capital have dried up.

What we're seeing internationally is government getting back and becoming involved in initiatives that encourage the formation, creation, and increase in the supply of venture capital. And in my view, that's the way to attack the whole issue of innovation, entrepreneurship, and commercialization of technology.

I had occasion to listen to the founder of VC in Silicon Valley, a guy by the name of Bill Draper. When they started out it was an industry in its infancy in Silicon Valley. And some of the companies we know of today—Google, Facebook, Twitter, Starbucks, and FedEx—were all small companies started by entrepreneurs who were funded by venture capitalists. You can have a tremendous economic impact on local and national economies if you have a supply of capital and people who are prepared to take risks and develop technologies that consumers want, as opposed to technology for the sake of technology.

I think the issue of addressing the dearth of VC is something governments should take seriously and become active in. We have lots of ideas on how we could solve those problems.

**Mr. Bernard Trottier:** Can you share two or three of those good ideas? We'd all like to provide more risk capital, but how?

**Mr. Tom Hayes:** Mr. Wallace has heard presentations on initiatives that we've done at the finance committee over the years.

In addition to direct investment by government, you have a couple of vehicles. You have BDC and EDC. They are active and can do more, particularly on the funding of funds. IRBs offer one creative way. There are these companies like Boeing and Lockheed and now Irving that have billions of dollars of IRB obligations to invest in Canada. Why not provide them with these incentives to get these accelerated credits if they invest in qualified VC funds, funds that will focus on early stages, because that's where the need is?

I'm in the retail venture capital industry. When the program was started the federal government provided a 20% tax credit to investors in retail funds up to a maximum of \$5,000. That was in the mid-1980s when the RRSP tax credit was \$7,000. Well, we now know the RRSP credits are about \$22,000, and the retail venture is still at \$5,000, so that's an issue. And the tax credit has been reduced to 15%. If you take it back to the original 20%, we think you'll immediately increase the supply of VC to the entrepreneurs who need it.

• (1705)

**Mr. Bernard Trottier:** Thank you.

**The Chair:** Thank you, Mr. Hayes.

That's almost a whole separate presentation you've given us, but it's very interesting.

**Mr. Tom Hayes:** I didn't know when I could get it worked in.

Thank you.

**The Chair:** It's nice working with a real professional.

That's the end of our second round. I have one question, based on one of your earlier comments, Mr. Hayes. In your presentation you made the comment—and it's a little worrisome—that it's sometimes easier to sell to governments of a foreign country than to your own. Do you want to expand on that briefly?

**Mr. Tom Hayes:** Sometimes it's easier to sell to foreign customers than to domestic customers because as Canadians we tend to be followers and not leaders. We've had numerous companies present to us where the CEO laments that he has to go stateside or elsewhere to demonstrate that the technology works, and then come home and sell it to domestic customers. That's why it's important that the Canadian government agencies do what they're supposed to do under this program and support domestic companies.

I listened to a presentation by a chap from Quebec who sells some type of technology related to airport security. He said he sells his product in 44 countries around the world but Transport Canada hasn't bought in yet. That was just another example of what we hear from the types of companies that present to us.

**The Chair:** That's an interesting point. Thank you very much.

I think that concludes the questioning. We want to thank you very much for three very interesting briefs, from three different points of view, all of which will help us in our study.

We're going to have votes. I believe the bells will ring at 5:15. We're going to adjourn the meeting now, unless there's any other business.

Thank you very much for coming, all of you.

The meeting is adjourned.

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