

**Submission
No 5**

**PROCUREMENT AND MANAGEMENT OF ICT
SERVICES IN THE NSW PUBLIC SECTOR**

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The Committee Manager
Public Accounts Committee (PAC)
Parliament House
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Inquiry into the Procurement and Management of ICT Services in the NSW Public Sector

Dear Committee Members,

Thank you for your invitation to make a submission to the Government's Inquiry. This Inquiry considers a series of topics important to the improvement of ICT procurement and management in the NSW public sector. The utility that can be derived from employing resellers to act as intermediaries between government departments and vendors cannot be understated, and it is in light of this we make the following comments with regard to the terms of reference:

(a) Measures to improve ICT project and contract management in the public sector, in particular in relation to contract negotiation and on-going contract management;

It is important that the NSW Government have an efficient and cost-effective means by which it can meet its ICT requirements; contract negotiation and management play an integral role in establishing the normative price of goods and the efficiency of the consumption cycle. Contracts that give vendors the exclusive right to sell a particular product increase the propensity for price inflation and eliminate any advantage that might be derived from market competition.

The majority of the margin on any given product (on average around 90%) comes from the vendor, with only a fraction of that coming from distributors and resellers. Resellers such as Ethan Group specialize in knowing how to convince vendors to lower their prices, which they are certainly capable of doing, by a greater percentage than the margin that we exact. Because resellers are privy to information that end users are not – which vendors and distributors have no obligation to disclose – we are more readily capable of taking advantage of when a vendor has an excess of stock they are looking to disseminate, or when they are looking to flood a particular product to increase their market share. We also have a unique position from which to compare competitor prices. The nature of our intermediary role between end users and vendors has allowed us to develop relationships

with suppliers that they do not have with each other. We are best suited to convince vendors of the need to lower their prices, lest they lose their sale to a competitor's offer that they know nothing about. Keeping an intermediary between vendors and end users ensures that the terms of trade are not dictated solely by demand but by the particulars of supply as well.

There are more efficient and effective ways of cutting costs than disintermediation – a contract that competes resellers against each other is a far more efficient model. Competition forces each company to offer the lowest possible price so that they might win the tender response, which in turn drives down margins from resellers.

(b) The efficacy of central agency policies and strategies that guide ICT projects in the public sector.

Effective central agency policies that guide ICT projects in the public sector are essential to improving the flowing functionality of ICT procurement by Government and can help to reduce market friction. Policies pertaining to the offering and assessing of tender responses should foster and encourage the utilization of companies that not only offer competitive prices but can provide accurate and efficient lead times for both large and small orders.

One of the advantages for the public sector in going through resellers is that the small and medium sized orders are not neglected. Large vendors are used to dealing with bulk orders from retail chains and intermediaries, and are fairly capable of keeping a relatively small number of customers happy. Inversely, resellers specialize in not only sourcing products for end users, but in anticipating and servicing the needs of the client in order to get the best result as quickly as possible. Our experience dealing with end users and their needs and concerns on a daily basis allow us to excel in efficiently completing all orders, regardless of size. Speaking from the experience Ethan Group has from working with AGIMO, government departments and their requirements are not always uniform – for instance some departments have special delivery requirements; others use bulk purchasing orders. In each order there are potential complications that can trip up larger organizations but that we are capable of resolving quickly and efficiently, because we are most practiced at it; examples include arranging for the return of items, logging warranty calls and amending existing orders all on behalf of multiple customers. Resellers deal with issues such as these on a daily basis – our very existence hinges upon our ability to make the process more efficient, and in so doing save our clients both time and money.

(c) The adequacy of risk management and corruption prevention strategies relating to ICT procurement and contract management.

Across all industries, corruption is a serious concern that any responsible institution or company should strive to prevent. One benefit that arises from working with resellers is that we are entirely dependent upon our good reputation and eminently replaceable in our role. Even the suggestion of impropriety is enough to permanently damage a reseller's reputation and relationship with its customers. Due to the highly competitive nature of the ICT procurement industry, resellers are able to be replaced with relative ease – these two combined factors ensure firstly, that it is in the reseller's best interests that they remain honest, and secondly, that dishonest resellers, once caught, do not remain in the marketplace.

With regards to risk management, unintentional non-delivery of goods can be a serious issue. While risk cannot be eliminated entirely, a proactive approach to managing the inevitable goes a long way toward minimizing the amount of risk incurred. Again, a reseller's utility from a customer's

perspective is derived from its ability to fulfil orders successfully and efficiently at a competitive price. Any reseller that does not keep regular tabs on stock availability and its preparedness to handle larger orders can and should be easily replaced.

(d) Long-term planning to meet the ICT needs of the public sector and ensure the best value for money in the procurement of government ICT products and services

In order to best meet the long term ICT needs of the public sector and ensure the best value for money for any given product, it is imperative that the Government receive unbiased and impartial recommendations from experts in the field. This becomes substantially more difficult when the suppliers and marketers of ICT products are also that product's producers.

With respect to finding the most suitable and cost-effective product for any given situation, a reseller's interests are indistinguishable from that of the client. Unlike vendors, we are not limited by a product line, and we do not produce the products that we sell, and so have no financial incentive to source inferior goods – rather, a reseller's reputation is dependent on the quality of the goods it recommends. By broadening the relationship with independent and impartial resellers that have a vested interest in providing not any particular product, but the best suited product for the situation, it is in both the short and long term interests of the public sector.



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