



Government  
of Canada

Gouvernement  
du Canada

# Government of Canada Advertising Renewal

February 2003

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Canada The wordmark for Canada, with a small red maple leaf icon integrated into the letter 'a'.

## Government of Canada – Advertising Renewal

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## **INTRODUCTION**

In May 2002, the Prime Minister asked the President of the Treasury Board, the Honourable Lucienne Robillard, to make recommendations on how sponsorships, advertising and public opinion research could be better managed by the Government of Canada to ensure value for money. The review focused on four broad objectives: a strengthened policy framework, a renewed procurement toolkit, increased management capacity within government, and improved accountability and transparency.

Consistent with these goals, the Honourable Ralph Goodale, Minister of Public Works and Government Services and Minister responsible for Communication Canada, initiated informal discussions with the advertising industry across the country to seek views on how the government could increase the credibility and the value of its advertising activities.

On December 17, 2002, the Government of Canada announced that it would be making changes in the way its advertising is managed. The overall aim of the changes is to create much greater competition for government advertising business and improve the value of what the government receives for its investments in advertising. Changes have been made to policies including:

- The elimination of the practice of assigning one advertising agency per department;
- The elimination of the mandatory requirement for a single Agency of Record for media placement activities;
- The elimination of the requirement that advertising firms doing business with the Government of Canada be 100% Canadian-owned; and
- The requirement to conduct a comprehensive internal audit in 2005.

At the time of the announcement, Minister Goodale made a commitment to consult industry stakeholders on how to implement the proposed changes in a manner that is transparent, fair, and focused on value for money from a quality and cost perspective.

Based on preliminary discussions, this document intends to gather ideas, views and concerns from the advertising industry, government departments and other interested parties on the following issues: Canadian content, agency selection, agency remuneration, Agency of Record and building government capacity and strengthening transparency, with the objective of beginning to implement the changes in April 2003.

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### **OBJECTIVES**

The objectives of this advertising renewal are:

- to increase value for money in the expenditure of government advertising dollars;
- to ensure that the procurement of advertising services is, and is perceived to be, open, transparent and fair;
- to encourage competition by a wide variety of qualified suppliers;
- to provide departments with a range of procurement options to meet their needs;
- to establish a new advertising management framework that clearly defines roles and accountability;
- to build capacity within Communication Canada and within departmental communications branches to manage the advertising function at a professional level consistent with industry standards and trends; and
- to introduce specific measures to increase accountability and transparency.

### **ISSUES**

#### **Canadian Content**

The management of advertising activities was in the past governed by Appendix Q to the government Contracting Policy, which specified who was eligible to compete for government advertising business and how qualified suppliers were to be selected. Appendix Q included a requirement that advertising firms be Canadian-owned in order to be eligible to do business with the Government of Canada. The proportion of Canadian ownership was not specified in the policy, but in practice was set at 100%. This requirement meant that only a relatively small a number of firms operating in Canada could compete for government business. It is estimated that approximately 80% of the advertising firms established in Canada are associated through ownership with multi-national firms active internationally.

The requirement for Canadian-ownership for advertising services was at odds with other provisions of the Contracting Policy, which require Canadian content rather than ownership. In practice, the Canadian content requirement means that a certain percentage of the labour, services and goods that are used to perform the work must be Canadian.

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As part of its review of advertising activities, the Treasury Board recommended that Appendix Q of the Contracting Policy be eliminated, and that contracting requirements for advertising activities be included in the main Contracting Policy. This change was implemented in December 2002. As of January 1, 2003, the requirement that advertising firms be Canadian-owned has been eliminated, and in future eligibility will be determined on the basis of Canadian content. It is anticipated that moving from a Canadian ownership to a Canadian content requirement will bring greater participation in the competitive process by competent agencies from all regions of the country.

As noted above, the Canadian content requirement means that work must be performed by a Canadian firm, established in Canada, and using at least a given percentage of Canadian labour, goods and services. One key question is to determine the level of that percentage. For other types of service contracts that are not subject to trade agreements (WTO, NAFTA, Agreement on Internal Trade) government practice is to apply a Canadian content requirement of 80 %.

### Possible questions

How should the government move to an appropriate definition of what constitutes Canadian content for the purpose of purchasing advertising services?

What should the percentage of Canadian content for advertising services be?

What effect might this change have on the structure of the advertising industry in Canada?

Should exceptions to the Canadian content rule be allowed, for example for campaigns in foreign markets or where expertise in Canada might not be available?

### **Agency selection**

Under the provisions of the now-eliminated Appendix Q to the Contracting Policy, government practice has been to select and assign one advertising agency per department for a period of three to five years. This practice was applied to departments regardless of their level of advertising need. Instead of the rather arbitrary one-size-fits-all approach, the government believes it would be preferable to have a range of tailored options available to departments in securing the services of an advertising agency, as they have in securing services in other areas of activity.

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Treasury Board therefore recommended that a variety of procurement and contracting options be made available to government departments. This change is intended to increase and broaden competition for government advertising business by:

- providing a greater number of competition opportunities;
- opening competitions to a greater number of suppliers;
- offering departments more flexibility to use a variety of suppliers.

One way of achieving these objectives is to establish contracting tools that would be available to departments on the basis of the value of the work they need done. The following components might be part of such an approach.

### Low dollar-value campaigns - Standing Offers (SO)

Standing Offers are used to buy services at pre-agreed prices based on a set of pre-arranged terms and conditions, for a specific period, on an “as-and-when” requested basis.

A list of 15 to 30 firms of various sizes from all regions of Canada would be established from time to time, with agencies on the list being “assigned” to campaigns as needs arise. The types of campaigns would generally be relatively small, “one-offs” or regional in scope; assignments could also be given for such specific services as strategic planning and production-only requests. One option to define lower-value could be below \$50,000 or \$100,000.

### Medium dollar-value campaigns - Supplier Arrangements

Supplier Arrangements allow for the establishment of a pool of pre-qualified suppliers. Competitions are held among the pre-qualified agencies to award contracts.

A pool of 10 to 20 agencies of various sizes across Canada would be created. They would all be invited to compete on medium dollar-value campaigns. One option to define medium-value could be below \$1 M.

Campaigns in this category would be national in scope and could require that the agencies have demonstrated experience in such areas as social marketing or with particular topics such as science and technology, finance or aboriginal issues. Supplier Arrangements could also be used to award contracts for unforeseen needs or campaigns that must be implemented within a short timeframe.

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### Higher dollar-value campaigns - Request for Proposal

Requests-for-Proposals are full and open competitions. Contracts at this level would generally be for multi-year, thematic or repetitive annual campaigns of substantial size that would benefit from a long-term client-agency relationship (e.g. National Defence recruitment or Health Canada anti-smoking campaigns). One option to define the value for high-dollar campaigns would be over \$1 M.

Opportunities under all three instruments would be published on MERX, the government's electronic bidding system.

### Possible questions

How can the government ensure more open, competitive and broadly based selection processes?

How can the government encourage greater participation from firms all across the country?

How important is it to achieve regional inclusion and balance?

Are there other contracting mechanisms that should be established?

What should the thresholds be for small, medium and large-value campaigns?

How often should the Standing Offer list and pre-qualified Supplier Pool be updated?

What should be the most important selection criteria?

How should agencies be selected from the Standing Offer list?

How should agencies be selected from the Supplier Arrangement pool?

### Selection Process

The establishment of new contracting instruments will require putting in place selection processes that are transparent, fair and equitable to select the various suppliers. The following steps are usually included in such processes:

- PWGSC, Communication Canada and client departments establish the statement of work and selection criteria;

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- Statement of work and selection criteria are published on MERX, and if warranted advertised through general and specialized media;
- Selection committees are established to evaluate and select suppliers based on the pre-established criteria. These committees would be chaired by PWGSC and comprised of two voting representatives from Communication Canada, client departments and a roster of private sector representatives (e.g. representatives from the Association of Canadian Advertisers (ACA), the Institute of Communications and Advertising (ICA), academics, retired professionals and experts not conducting business with the Government).
- PWGSC has the final say on all competition results.

### Possible questions

What information should be required from competing firms in order to establish a short list, and what additional information should be requested to complete the assessment?

How can the government demonstrate and guarantee true competition, fairness, transparency and objectivity in the selection processes?

How should private sector representatives be chosen to be on the selection committee roster?

### **Agency Remuneration**

Government practice has been to pay hourly rates for planning, creative development and in-house production, as well as a 11.75 % commission on media planning and a 17.65 % commission on production work contracted outside the agency. Treasury Board recommended that better methods of payment be used, including performance-based approaches.

In recent years, the advertising industry has been open to the use of time rates rather than commissions. Fixed time rates can also be an option, provided all parties understand and agree on the costing basis. Other options include payment on a sliding scale of commissions and payment by results.

It may be useful to use different methods of agency remuneration for each of the three procurement instruments described above, i.e. to use one method for Standing Offers, another for Supplier Arrangements, and to consider other



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options for large-value campaigns that are the subject of specific competitions. This might build in a measure of flexibility and maximize the value for the investment made by client departments.

### Possible questions

What criteria should be used to determine the best method of remuneration?

What are the most appropriate methods of remuneration given the environment within which public sector advertising is done?

What are some of the shortcomings of alternative methods of remuneration?

Are commissions a valid basis for remuneration?

### **Agency of Record (AoR)**

The government uses the services of an Agency of Record (AoR) to purchase media space and time for government advertising. In 2001-02, the government purchased approximately \$125 million worth of media space and time. Under the terms of the current contract, the AoR receives a commission of 3.25 % on the value of media bought and placed through its services. The primary functions executed by the AoR are negotiating prices, effecting the detailed “booking” of time and space, and verifying that the time and space have been provided as agreed. In addition, the AoR provides to the Government all the data (by department, by medium, by campaign, by region, etc.) associated with the placement of government advertising.

The authority to direct the AoR to purchase media space and time represents one of the few centralized control points in the government’s decentralized advertising process. All departments and agencies must obtain a registration number from Communication Canada before they can contract with the AoR for placement of material.

Treasury Board recommended that the mandatory requirement for an Agency of Record be eliminated from policy, and that the role of the AoR be re-examined as a business decision.

The Association of Canadian Advertisers was commissioned to do an independent and impartial study of the government’s requirements relating to the use of an AoR. The study included consideration of the responsibilities of the AoR and its relationship with

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departments, with other agencies and with media outlets. The analysis encompassed the evaluation of past and current agreements, industry practices, departmental requirements, and recommendations on the roles and responsibilities of the AoR.

The ACA study concluded that the government should:

- Retain the services of a media AoR;
- Better define the scope of services of the AoR;
- Conduct a review of costs and fee remuneration structure for an AoR;
- Conduct formal performance evaluations on any new contractor; and
- Develop media planning capability within government.

It is likely that the government will accept these recommendations and select through an open and competitive process an Agency of Record to succeed the existing AoR within the next few months. The competitive process will be open and transparent and the scope of work will be very detailed, in line with industry standards. The AoR selection committee will be made up of representatives from PWGSC, Communication Canada, government departments and the private sector.

### Possible questions

How should an Agency of Record be remunerated? What is the appropriate fee?

Are there positive incentives that can be built into the AoR method of remuneration that will help the government improve the value it receives for the investment it makes in media time and space?

How can the government ensure fairness and transparency in the selection process?

What should the scope of work for a new AoR include?

What selection criteria should be established for the AoR competition?

How can performance of the AoR be verified and improved?

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### Building Government Capacity and Strengthening Transparency

Following its review of government advertising practices, the Treasury Board concluded that efforts to strengthen internal capacity are key to ensuring value for money.

In particular, it recommended that the government:

- continue to advance efforts to promote better planning and coordination;
- develop training programs for staff involved in advertising activities;
- provide a more comprehensive toolkit (e.g. standard templates and checklists); and
- promote the increased use of post-campaign evaluation.

In order to strengthen transparency and accountability, Treasury Board recommended that the publication of an annual report on advertising activities be considered and that an internal audit be conducted in 2005.

Consistent with the government Communications Policy, planning and coordination capacity is being strengthened at Communication Canada with a view to providing departments and central agencies with support in managing advertising activities across government. In particular, capacity will be focussed in the four following areas:

- Coordination and planning services
- Advisory services
- Training and Development
- Accountability and Transparency

#### Possible questions

How can the government improve the planning of its advertising activities?

How can the government improve its ability to evaluate the effectiveness of its campaigns?

What additional services could be offered by a centre of expertise in Communication Canada?

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What specific training could be offered to officials managing departmental advertising activities?

Would it be useful to foster executive interchanges between the government and the private sector?

What additional tools would staff need to better manage advertising activities?

What are the most effective ways of evaluating advertising activities?

Which public reporting mechanisms should be put in place?

How could transparency and accountability be increased?

### **Next steps**

Communication Canada and PWGSC will hold consultations with departments and the advertising industry in March on the renewal of the advertising function in government.

It is anticipated that changes to the advertising management process will be announced in April 2003, and implementation of the changes will be phased in throughout the year.

### **How to provide comments**

Interested parties can provide comments:

- in person (Toronto - March 4, Winnipeg - March 5, Vancouver - March 6, Halifax - March 10 and Montréal March 13);
- on the web ([consultation@communication.gc.ca](mailto:consultation@communication.gc.ca)); and
- by mail (Advertising Coordination Directorate, Communication Canada, 155 Queen St, Ottawa, Ontario, K1A 1M4)

Further details on the consultation process can be obtained by consulting [www.communication.gc.ca](http://www.communication.gc.ca) or by calling 1-800 –816-7291

The consultation period will close on March 21 2003. A summary of comments received will be posted on the Communication Canada web site in April 2003.

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