



Report of  
'MAIT Committee  
on DGS&D Procurement'

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- A Special Project at the behest of Shri M Raman, DG, DGS&D

**March 2010**

*Manufacturers' Association for Information Technology*

## **Recommendations for improvement of e-Procurement Processes**

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## **Recommendations for improvement of e-Procurement Processes**

### **Background**

Further to the interactive session with the DG, DGS&D with the MAIT Executive Council on January 22, 2010 and several rounds of meetings with the DG and senior officials of the DGS&D, a MAIT committee Chaired by Mr S S Raman, Past -President MAIT & CEO TVS-E was formed to take forward the engagement with the DGS&D. The committee is being Co-chaired by Mr S Rajendran, Member MAIT Executive Council & CMO ACER India.

### **Project scope and deliverables**

MAIT core group members were requested to send their inputs as regards to procedural/transaction issues that they are facing in dealing with the DGS&D with the entire cycle of engagement in perspective. These inputs and recommendations were collated and appropriately evolved for inclusion in this report. There are short-term and long-term deliverables. In the short term the expectation from the industry is that certain challenges with regards to renewal of Rate Contract, removal of inconsistencies and errors in the software etc. be resolved urgently and the long-term deliverable is to reengineer the DGS&D procurement process. Further, the DG has desired that the industry sign an 'Integrity Pact' with the DGS&D, and that the industry should have its own 'Code of Conduct' for such an engagement.

### **Approach and methodology**

As a first step we opted for the following approach in evolving a solution:

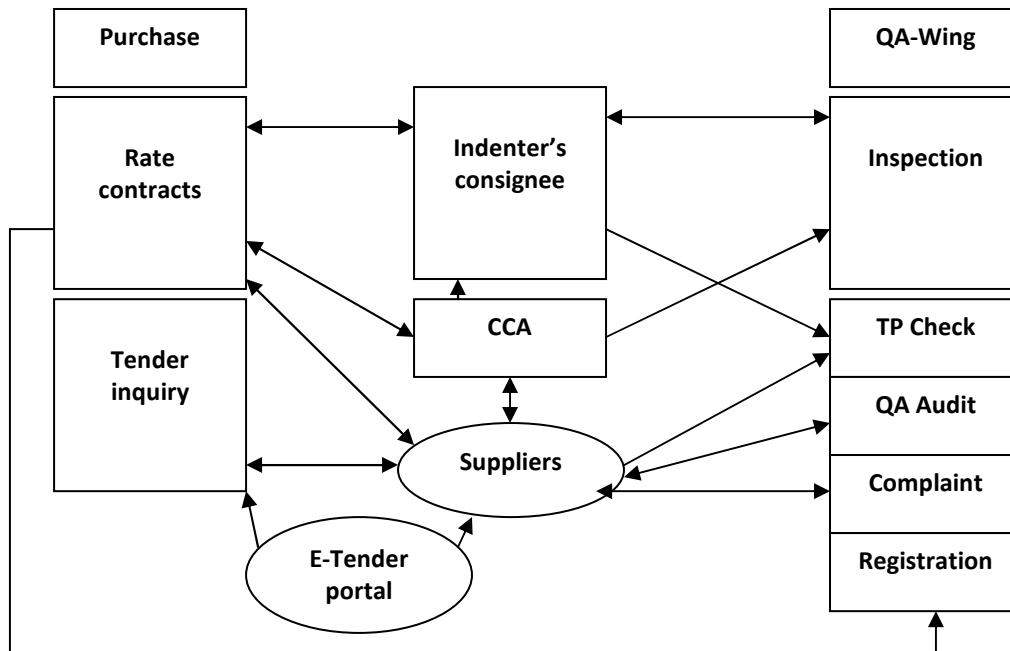
1. Have a process-oriented framework to channelize our recommendation so that we are able to suggest appropriate process corrections, which will sustain for the long-term. We have gone through the DGS&D files and understand that there are four sub-key processes in the overall procurement framework. These have been explained in fairly good detail.
2. Invite a fresh perspective from all core members on the current pain points and countermeasures so that the currency of the situation is captured. We would request for candid and fact based feedback, which then can be then incorporated in the process frame work as above.
3. Also research on the best practices prevailing in other developed countries for similar processes so that we can incorporate the learning thereof.
4. Go through the processes on the website and comment on the currency / deviations / pain points with specific observations so that we are able to drive more structured and process oriented recommendations.

## Recommendations for improvement of e-Procurement Processes

### DGSND e-Procurement process and key elements

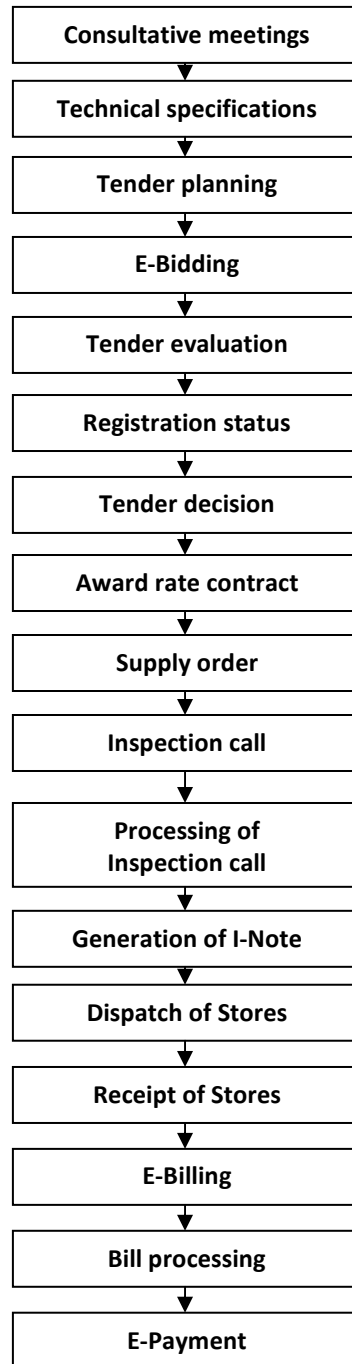
e-Purchase	e-Tendering	e-Inspection / Supply	e-Payment
1. Registration	1. Tender notice	1. Supply order	1. Bill submission
2. Store coding	2. Tender inquiry	2. Inspection	2. Processing
3. Technical particulars	3. Bid submission	3. Dispatch details	3. Payments
4. Evaluation of bids	4. Bid opening	4. Receipt details	4. Debit adjustments
5. Award of rate contract			5. Status
			6. Complaints

### DGSND processes



## Recommendations for improvement of e-Procurement Processes

### E-Procurement processes

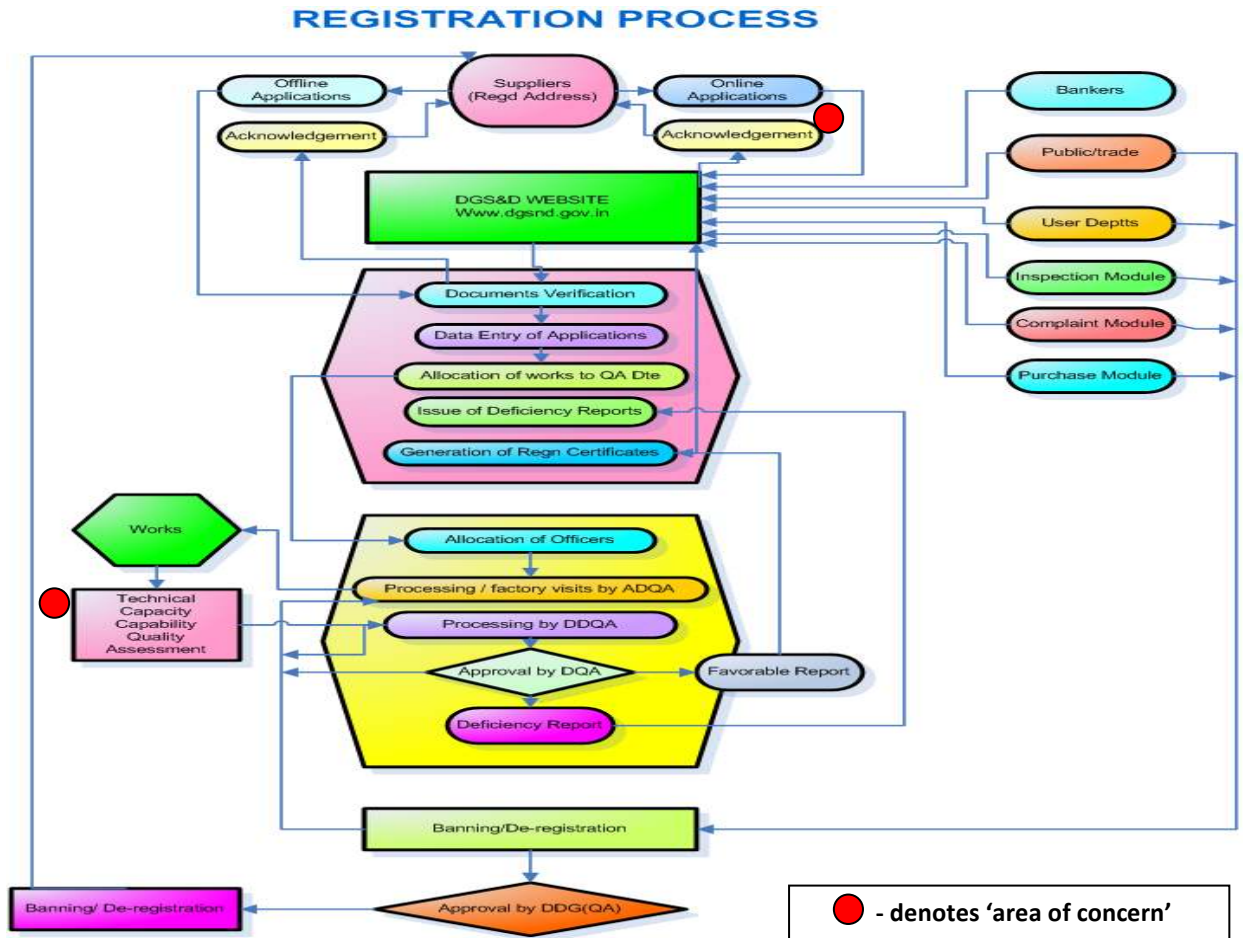


### Suggestion

Each activity should have a specified time-line and there should be a binding on DGSND to complete each activity within that time frame which will avoid delay in concluding the rate contract.

# Recommendations for improvement of e-Procurement Processes

## Registration process



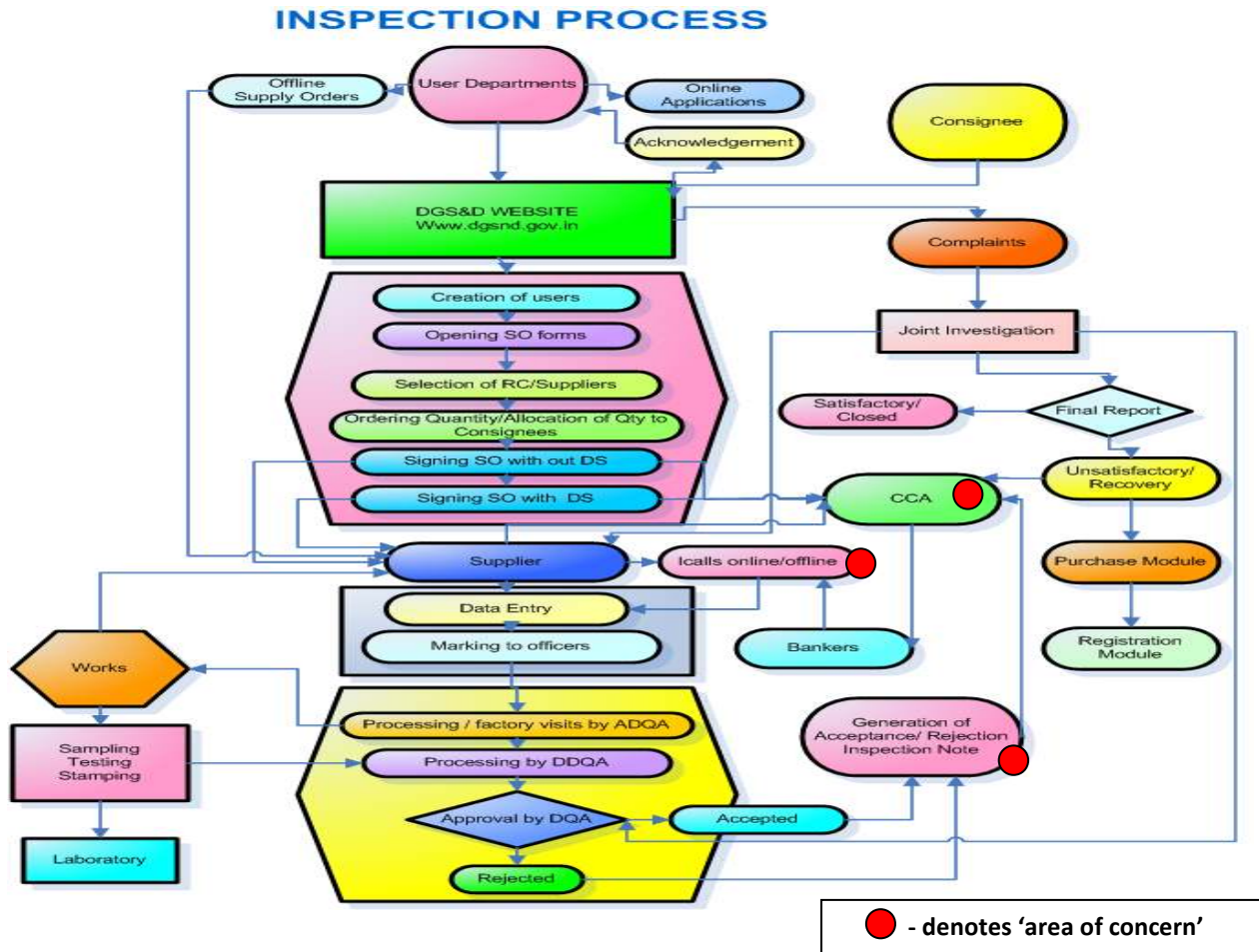
## Recommendations for improvement of e-Procurement Processes

### Registration process – Issues and Recommendations

Sr#	Issues in current process	Recommendations for process improvement to DGSND
1	<p>a) All vendors irrespective of size are required to go through the same cumbersome registration process.</p> <p>b) Registration valid for 2~5 years depending on the registration category.</p> <p>c) Further the products are required to be ERTL tested and registered.</p> <p>d) Detailed documentation required to be submitted.</p> <p>e) Inspection of product / premises and registration process is a 3 month long process, after the submission of documents.</p>	<p>To have a broad based panel of technically capable, financially sound and reliable sources of supply to whom enquiries can be addressed for Government purchases.</p> <p>If OEM is in the Forbes Global Fortune 500 list OR among the top 10 in the industry as per various secondary research reports, should be registered directly without asking for the ERTL report on each of the product category. If a declaration is given by the vendor that the ERTL process is under way then the RC should be conditionally issued. This is to save time and get things done in a parallel mode.</p> <p>Green Channel for top quality vendors, the global fortune 500 recognized companies and established Indian companies (beyond minimum size) is the correct way forward like in customs. One recent notification of green channel for companies with turnover &gt; Rs 1000 Cr is a good step but not a complete step. Many MNCs having subsidiaries in India got left out as most are &lt; Rs 1000 Cr. DGS&amp;D needs to examine withdrawals size for the category before arriving at the threshold figure. For OA and Imaging industry, the size of the industry is not that large to warrant Rs 1000 Cr Threshold. Suggested approach is to allow global 500 brands which are 100% subsidiaries along with that notification.</p> <p>The location of sourcing (different manufacturing plants) should not matter so long as the vendor is the same. The Govt. may want to declare a list of banned countries which the vendors would abide by.</p> <p>For a vendor already registered, who would like to include a new product/model, a new registration should not be insisted upon. Again, for a registered vendor, in case of some changes in criteria for fulfillment are announced, only such changes need to be addressed by the vendor to comply and not a fresh registration.</p> <p>Organizations that are qualified under “Indian Manufacturer” for any one product line should be given a waiver in terms of Pre product testing &amp; capacity testing for the purpose of vendor registration to qualify for participation in RC tender when the product falls under “Indian Agent of foreign Manufacturer” category.</p>
2	<p>The process of registration of simple upgrades of existing hard ware models is cumbersome.</p>	<p>There should be a different process for new models of hard ware with simple upgrades which are better than the existing registered model. For example if a 20 ppm printer is upgraded to 22 ppm with all other features / specifications being the same then registering such models could be automatic based on simple declaration.</p> <p>The registration should be for the company and not for every individual model. Necessary qualification criteria/norms may be declared so that only those of repute and capability are chosen. In case of a model roll-over it should be enough for the vendor to prove compliance to all requisite specifications; and a re-registration not be insisted upon.</p>

## Recommendations for improvement of e-Procurement Processes

### Inspection process



### Inspection – Issues and Recommendations

Sr#	Issues in current process	Recommendations for process improvement to DGSND
1	<p>The name of the consignee is not mentioned in the Online I-call format. Hence suppliers have to prepare a manual I-call format in addition to the online format. In addition to the above, suppliers are unable to upload the I-calls in the website due to the following –</p> <ul style="list-style-type: none"> <li>• SO Number not available In the website</li> <li>• Acknowledgement No. not correct in the PO</li> <li>• DP expired in the website</li> <li>• Quantity mismatch between PO and website info.</li> </ul>	<p>Hence we would suggest incorporating the name of consignee also in the Online I-call format. This will help reduce unnecessary workload and also having to physically send the paperwork by courier again.</p>

## Recommendations for improvement of e-Procurement Processes

### E-Tendering process

1. On-line publishing and download of tender enquiries
2. Supplier registration
3. Online bid submission by suppliers
4. Online bid opening and witness by suppliers
5. Spot price comparative chart
6. Security audit by STQC

### Rate contract – Issues and Recommendations

Sr#	Issues in current process	Recommendations for process improvement to DGSND
1	Changes in models/specifications/ prices during the rate contract period.	<p>RC tender doc should be specific to product category (currently same for empanelment of trucks, cloth, software, hardware etc.)</p> <p>DGS&amp;D as a policy need to incorporate changes in the tax structure by Government</p> <p>During the currency of the rate contract period if there are changes in models / specifications/ prices then the amendments need to be issued immediately. The gap between the two leads to a lot of operational problems. The revision should be made effective from the date of the amendment announcement and not with retrospective effect. Hence, preferably new RC needs to be in place well before expiry of existing RC.</p> <p>The RC 'period of validity' should be made one year. Existing RC to be automatically extended till the release date of new RC in case new RC is not released on time subject to the vendor being protected for changes in statutory levies and/or forex rate changes beyond a defined band of 5%. That will balance both Government interests as well as Vendors'.</p>
2	Consensus among all vendors to bring healthy competition.	Since IT is driven on Global industry standards / parameters so the discussions should be open to incorporate some mandatory quality factors.
3	The 'Matching L1' paradigm as a counter offer from DGS&D is not a good practice. This brings the industry to lowest quality wins levels. This also encourages vendors to quote anything as they will get a chance to match L1 anyways. Hence not a good practice from Government interests point of view too.	The right way is to establish a band (say 10%). Brands should get the RC even though they are not L1 as it is only fair to let high quality brands command a premium if they wish to & also giving buyers a choice. Those who have quoted higher than 10% of L1 can be given a choice of staying 10% higher and still get RC. Once again it is only fair for L1 brand to keep the advantage of staying L1 and that will also give strong reason for all to bid as competitively as they can provide DGS&D a good price discovery mechanism.

## Recommendations for improvement of e-Procurement Processes

### Ordering - Issues and Recommendations

Sr#	Issues in current process	Recommendations for process improvement to DGSND
1	With the online ordering of products by indenters on DGSD website, there is no automatic selection of QA region by the system. Hence customers make inadvertent mistakes in selecting the wrong QA region for a particular supplier. This results in holding of inspection since the QA office is not able to view the Supply Order (SO) and hence do not accept the I-call.	Suggested solution is to ensure the system selects the approved QA office depending on the supplier. When a customer places an order or cancels an order, there should be an email notification to the supplier so that the supplier can then take necessary action immediately. When an I-Call is raised the system should automatically schedule a visit date or a time frame (say within 7 days) and this should be visible on the web-site. Otherwise the vendor has no scope for planning this activity, and it requires multiple follow-ups to get a visit schedule by the Inspecting authorities.
2	The current process for entertaining amendment requests (which are based on genuine factors like technology obsolescence, discontinuance of some models etc.) leads to a lot of avoidable and questionable practices.	The process should be transparent with a defined escalation process. It should be based on merits and in a timely manner.

## Recommendations for improvement of e-Procurement Processes

### E-Payment process

1. Documents receipt
2. Bill submission
3. Processing
4. Payments
5. Debit adjustments

### Payment – Issues and Recommendations

Sr#	Issues in current process	Recommendations for process improvement to DGSND
1	<p>Despite the Indenter placing the order through an online system with digital signature, the CCA authorities insist on a stamped/signed PO copy for payment release. It defeats the purpose of transparency and timeliness.</p> <p>Payment advice to CCA (Central Controller of Accounts) against BG takes 30 to 60 days which is an avoidable delay.</p>	<p>The present process of DGS&amp;D confirmation and then routing to CCA could be avoided if the CCA could nominate an officer to whom the BG could be sent directly by the vendor. Given the magnitude and involved processes, there are numerous instances where the vendor loses the I-Notes; or due to the time period involved the I-Notes become disfigured and illegible. Getting payments for such instances is becoming a near impossibility. In case there is no 'Stop payment' advice from the consignee then the CCA should release the payments without imposing a need for additional documentation. And in case the warranty period is also over by the time the request for payment is being made, then the payment to the vendor should be released automatically without recourse to needless investigations or burden on the vendor through indemnity bonds. Adoption of Electronic bill processing by CCA would make the process more efficient and would save time and effort for both CCA and vendors. However, some of the end consignees may not be in a position to digitally sign the documents resulting in existing physical movement of paperwork. DGS&amp;D may adopt this process and roll out this process at all the locations where Internet connectivity is there. In parallel, DGS&amp;D may have a Process and Connectivity roadmap for locations not connected right now.</p>
2	<p>CCA Cap issue - The as-is process adopted by CCA is that there is a cap on the number of bills that can be submitted to CCA for payment. This is CCA issue and not necessarily DGS&amp;D issue.</p>	<p>DGS&amp;D may adopt the process of Normal Bill queue, where a threshold limit for a payment may be adopted. If the payment for a particular bill hits the threshold, it may be escalated to a Priority queue. Some extra resources may be pooled at CCA for processing the Priority queue. Adoption of threshold for payment will smoothen the process of payment of bills on time and will improve the manageability of CCA to handle and process the bills for payment to Vendors. Also, this would eliminate the need for Cap on the number of bills that can be submitted to CCA.</p>

## Recommendations for improvement of e-Procurement Processes

3	Today suppliers are facing issues while delivering the products to the consignees. The consignees mostly insist that the installation is also completed before they sign off on the 98 % I-note. This compels the supplier to leave the products with the consignee without any recognizable signed document for the goods supplied until the installation is completed. This is a huge financial exposure for the supplier. However suppliers are adapting to this since they are left with choice.	Instead of insisting on 98 % I-note sign off by consignee for effecting payment, it is recommended that 98 % payment is made based on SO Copy, Invoice, 98 % I-note & duly signed POD by consignee. In instances where the bill has been rejected on some legitimate grounds, then once the vendor has taken care of those lacunae, the processing of the bill(s) should be on fast-track /immediate basis and not suffer joining the queue at the beginning again.
4	Payment process and Bank Guarantee.	DGS&D may adopt a payment process whereby 100% payment is released to the vendors based on I-note and proof of dispatch through a recognized transporter. All vendors should submit a Bank Guarantee equivalent to say 5% of previous year's drawals which can be encashed if the vendor fails to install the ordered quantity to the satisfaction of the consignee.

### Urgent imperatives for better functioning of the procurement process

#### Registration

- Bring the Top organizations of the respective Industry segment to participate on the RC directly.
- For Indian manufacturers, the registration should be applicable only for the main-line products (server, desktop, laptop, etc.)
- Since the peripheral items (printer, software, networking, etc.) become the part of the total IT solution hence there should not be separate RC for these items.
- Indian manufacturer vendors who are registered with DGSND should get waiver for new product testing and capacity testing.
- For registration minimum 60 days should be given.

#### Reasonableness of Prices

- Vendors should submit a declaration of integrity for effectively undertaking that the vendor will not offer any prices lower than what has been offered to DGS&D and that this would form the basis of the pricing and not MRP based formula or Import cost based formula. Such declarations should be backed up with very stiff penalties including blacklisting if it is found that even after making such a declaration certain unscrupulous vendors offer lower prices outside DGS&D.

## **Recommendations for improvement of e-Procurement Processes**

### **Rate contract period**

- There should be no gap between the existing and the new RC. DGSND should ensure that the new RC is in place at the time of expiry of the current RC.
- In case, if the new RC is not finalized, the existing RC should get extended taking due care to account for changes in statutory levies and / or forex rate changes beyond 5%.

### **Acknowledgement of order placement / cancellation**

- Since now the orders are sent online hence there should be an email acknowledgment from the customer to the respective vendor and in return vendor to confirm the same on email.

### **Services**

- Incorporate service level agreement (SLA) and introduce Services product as a product line in the rate contract like Warranty Extension packs, Post warranty support pack, etc.

### **Obsolescence policy**

- DGS&D in consultation with Ministry of IT, MAIT and other relevant government organizations should come out with a policy on IT product obsolescence, which will enable the government office to replace the old obsolete systems with new latest products. This will be another boost for the fresh business on the rate contract.

### **Business from non-Central Government departments**

- Though non-Central government departments can place orders against the DGS&D Form-86 order, but this ordering process is not as simple as it is for DGS&D Form-131 order. DGS&D should create a process to universalize the DGS&D RC and create the acceptability of the RC with the State government departments.

### **Payments**

- It is often experienced by the vendors that the consignee does not sign the I-Notes within stipulated time frame or the I-Note gets misplaced. For the cases which are long overdue DGS&D should consider the release of the payment based on the POD receipt of the goods delivered to the end consignee.

## Recommendations for improvement of e-Procurement Processes

### Recommendations on Best Practices

Sr#	Area	Recommendation
1	Pre-market requirements	<ol style="list-style-type: none"> <li>1 Attract and maintain skilled procurement professionals</li> <li>2 Engage with industry in developing the requirement</li> <li>3 Secure support and funding</li> <li>4 Supplier prequalification</li> <li>5 Panel renewal</li> <li>6 Limit requirements to those that are essential</li> <li>7 Eliminate duplication.</li> </ol>
2	Going to market	<ol style="list-style-type: none"> <li>1 Availability</li> <li>2 Defining the market</li> <li>3 Notices of planned procurement</li> <li>4 Notices of intended procurement.</li> </ol>
3	Procurement strategy	<ol style="list-style-type: none"> <li>1 Select the appropriate RFX</li> <li>2 Two envelope tendering</li> <li>3 Staged independent reviews</li> <li>4 Reduce complexity.</li> </ol>
4	Specifications	<ol style="list-style-type: none"> <li>1 Quality of specifications</li> <li>2 Internal consistency</li> <li>3 Exclusionary, Prescriptive and Compliance criteria</li> <li>4 Live test and demonstrations.</li> </ol>
5	Reasonable timing	<ol style="list-style-type: none"> <li>1 Allow adequate timing</li> <li>2 Best and final offer</li> <li>3 Communicating changes.</li> </ol>
6	Conditions of contract	Specify the terms.
7	Tendering	Requirements for tendering and electronic tendering.
8	Discontinued tenders	Advise promptly for discontinued tenders.
9	Tender evaluation	<ol style="list-style-type: none"> <li>1 Provide clear evaluation criteria</li> <li>2 Evaluation criteria</li> <li>3 Application of the criteria</li> <li>4 Evaluation ethics</li> <li>5 Evaluation skills</li> <li>6 Offsets</li> <li>7 Evaluation software.</li> </ol>

### MAIT Core Group Members' commitment to process

All the members of the MAIT have strong ethics and guidelines laid out in their respective corporate. All of them are committed to adhering to the process laid down by DGSND for E-Procurement subject to the changes proposed.