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Aerospace and Defence SME Supplier Development Initiative

Proposal Preparation Guide



Canada



Technology Partnerships Canada's Aerospace and Defence Supplier Development Initiative: Proposal Preparation Guide

This Proposal Preparation Guide is intended to help small and medium-sized companies submit a proposal for funding assistance to Technology Partnerships Canada (TPC) for consideration under its Aerospace and Defence Supplier Development Initiative. Proposals will be received for undertaking a study or studies as well as for undertaking project development activities.

Procedure

Step 1 – Assess Your Eligibility

Your small or medium-sized company is eligible for TPC project development funding assistance if it meets all of the following conditions:

- It is established in Canada.
- It is currently supplying to the aerospace and defence industry, with a minimum of 33 percent of total revenues derived from sales to the aerospace and defence industry for the full company year immediately preceding the date of your proposal submission.
- Its total sales are less than \$20 million for the 12 months preceding your proposal submission, or its work force has fewer than 100 employees.
- Its development project proposal is part of the company's overall strategy.
- Its project proposal has total eligible costs not exceeding \$2 million and a duration not exceeding 24 months.

TPC will give preference to your proposal if your company has a mentor relationship with a large Tier I or Tier II aerospace and defence firm that is active either in Canada or worldwide. While this is not a requirement, it is highly recommended.

Step 2 – Prepare Your Proposal

Your proposal will be made up of the following elements:

- **Cover letter** with specific information about your company (see Annex A).
- Signed **letter of certification and authorization** (see Annex B).
- Written presentation of your company's **strategic intentions** for its proposal.
- **Statement of Work**, comprising a description of the **major activities** to be undertaken, a **project schedule and milestones** to be achieved and a **cost breakdown** (see Annex C with tables).
- Description of your relationship with a **mentor**.
- Determination of the **sharing ratio**.
- Selection of the **repayment plan**.
- Copies of your most recent annual **financial statements** and any quarterly statements since your last fiscal year-end.



Step 3 – Submit Your Proposal

Send your completed proposal, bearing the signature of an authorized officer of your company, by courier to:

Technology Partnerships Canada
300 Slater Street, 10th Floor
Ottawa ON K1H 0C8

Attention:
A&D Supplier Development Initiative

TPC will promptly acknowledge receipt of your proposal and contact you directly about next steps. If your proposal meets all the criteria specified in this guide, if your project has a mentor and if your company can demonstrate financial capability for paying its share of eligible costs, your proposal will receive priority consideration. Upon approval, TPC will conclude a formal Contribution Agreement with your company.

You may also send your proposal by facsimile or e-mail, provided that a hard copy bearing the signature of an authorized officer of the company is also submitted shortly after.

You can discuss your proposal under the A&D Supplier Development Initiative with an Aerospace and Defence officer by calling TPC at one of the contact numbers listed in the section For Further Information.

Proposal Elements

Cover Letter

In a one-page letter, tell us basic information about your company. See Annex A for a sample letter showing:

- Full legal company name, mailing address, contact numbers of principal contact and preferred language of communication.

- Company profile with date and jurisdiction of incorporation, form of ownership and main business lines.
- Name and work location(s) of the proposed project.

Letter of Certification and Authorization

On company letterhead signed by an authorized officer of your firm, using Annex B as a model, certify that the information in your proposal conforms with TPC requirements and authorize TPC to verify it.

Strategic Intentions

In a brief letter, tell us why you wish to undertake what you are proposing. You may append any supporting documentation such as a copy of your strategic business plan, copies of relevant correspondence between your company and a large mentor company or other material that may be appropriate.

If you are proposing to perform or to have carried out a specific study or analysis of an aspect of your business, tell us your reasons for carrying out the study, the results you expect from it and the potential future activity-based project that may arise from it. Also explain whether or not you are considering implementing the results by means of a follow-on project under TPC's Aerospace and Defence Supplier Development Initiative.

Statement of Work

Your Statement of Work must provide the details of the major activities your company proposes to carry out under the TPC initiative, the anticipated project schedule and milestones, and the cost breakdown by fiscal year for your project. Please note that depending on the characteristics of the project, TPC may request additional information.

If your proposal is successful, this Statement of Work will form the core of any subsequent



Contribution Agreement between your company and TPC. Under the terms of this agreement, you must make regular reports to TPC on the progress of your project. Your claims for payment will be administered by TPC according to your project schedule and your cost breakdown as specified in the Statement of Work. Therefore, you must promptly notify TPC of any material changes to the project as set out in the Statement of Work.

Your Statement of Work should follow the structure of Annex C, and include the following four sections:

(i) Description of the Work

In a one-page letter, provide an overview of the project, including its scope, objectives and overall performance goals.

(ii) Major Activities

Your description of the major activities to be carried out under your proposal should adequately reflect the entire scope of work to be undertaken. It should be framed in terms of objectively verifiable indicators. List all locations in which the work is to be performed. Describe each activity, including its challenges, the measures in place to mitigate risk and anticipated performance goals.

Each proposed activity must relate to one of the following categories:

- Development and incorporation of new quality management systems; examples: 6-Sigma, ISO 9000 series, ISO 14000 series, etc.
- Development and incorporation of world-class business/manufacturing practices and processes; examples: concurrent engineering and design systems, FMECA system application, multidisciplinary design and optimization, three-dimensional CAD/CAM systems, intelligent process control systems, and manufacturing enterprise modelling and simulation systems.

- Development and incorporation of process planning systems, particularly on an enterprise level; examples: SAP systems, BAAN systems, CAE tools, Enterprise Resource Planning systems, and Enterprise Resource Management systems.
- Development of modular flexible cell manufacturing systems; example: robotic manufacturing systems.
- Development and validation of technical data transfer systems; examples: electronic data interchange, product data interchange and technical data interchange systems.
- Development and incorporation of program management systems derived from other systems.
- Capital equipment specifically required to carry out the activities described in the proposal and previously agreed to by TPC.

The examples shown above are intended to illustrate a category, not fully define it. You are encouraged to explore options within these seven categories with your TPC Aerospace and Defence officer.

Identify any consulting or subcontracting intentions, including names of consultants or contractors, proposed start date and duration of the consultancy or subcontract, and costs. List any equipment proposed to be acquired, including timing of acquisition and estimated laid-down cost.

(iii) Project Schedule and Milestones

Provide a project schedule for each of the major activities to be carried out by your proposed project. Show the milestones to be met and the target dates in the format of a Gantt chart, as illustrated in Table A of the Statement of Work. Payments under the terms of your Contribution Agreement with TPC will be related to the work progress.



(iv) Cost Breakdown

You must identify the costs of your project or study by major cost category and by activity. Use the definitions below and complete a table as illustrated in Table B of the Statement of Work for all government fiscal years of the project duration.

You must identify all sources of funds that you anticipate using to pay for the costs to be incurred. Typically, these sources may include (but are not necessarily limited to) internally generated funds, equity injection, new short-term debt, new long-term debt, TPC's investment, funds from other Canadian government sources (federal, provincial or municipal), funds from foreign government sources, funds from other corporate sources, etc. As well, if any of the proposed activities in the project qualify for SR&ED tax credits, you must identify the amount of credit that you would expect to earn (even if you cannot use it in the period in which you earn it). This identification may be presented as a narrative, or as a table, at your discretion.

Eligible costs for studies and projects include labour, material and other costs directly attributable to the project. Overhead expenses such as indirect labour, materials and supplies, and general and administrative expenses are also eligible. Costs of consultants and subcontractors are eligible, provided that they are incurred for activities approved for the project. Equipment required to carry out the agreed tasks, as well as one-time software tools and site licences, as discussed with your TPC Aerospace and Defence officer and agreed to prior to project approval, are also eligible. All cost estimates must be calculated and reported by government fiscal year (April 1 to March 31).

In completing this section, your cost estimates must correspond with the following TPC definitions for eligible costs:

- Direct labour costs are the unburdened hourly, monthly or annual costs incurred by the recipient's employees while working directly on

activities of the project. Public Works and Government Services Canada (PWGSC) and the Canada Customs and Revenue Agency (CCRA) define direct labour costs differently. You should take these differences into account when preparing the Statement of Work for your proposal.

- PWGSC defines direct labour costs to mean the portion of gross wages or salaries incurred for work that can be specifically identified and measured as having been performed or to be performed on a project and that is so identified and measured consistently by the company's cost accounting practices, as accepted by TPC. The PWGSC definition **excludes** all benefits, vacation pay, sick pay and statutory holidays.
- CCRA (SR&ED) defines direct labour costs to mean the salaries or wages of an employee engaged directly in a project. The CCRA definition **includes** such amounts as vacation pay, statutory holidays and sick pay.
- Direct material costs are the costs of materials that can be specifically identified and measured as having been performed or to be performed on a project and that are so identified and measured consistently by the company's cost accounting practices, as accepted by TPC.
- Subcontract and consultant costs are the costs of all subcontracts and consultants for work that can be specifically identified and measured as having been performed or to be performed on the project.
- Equipment costs are the costs of all equipment, regardless of cost, for work that can be specifically identified and measured as having been performed or to be performed on the project.



- Other direct costs are any costs for work that can be specifically identified and measured as having been performed or to be performed on the project, but that have not been captured in the preceding cost breakdowns.
- Overhead costs are costs that, although necessarily having been incurred during the period of the project for the conduct of the recipient's business, cannot be identified and measured as directly applicable to the project (e.g. corporate travel costs). Overhead will be charged in one of two possible ways:
 - Flat rate of 65 percent of direct labour, using the SR&ED tax credit definition for direct labour.or:
 - Fixed rate of direct labour as determined by PWGSC. This rate will apply without adjustment for the duration of the project, and will be set in consultation with PWGSC prior to commencement of the work.

Mentor

One aspect of this initiative that TPC wishes to encourage is the development of effective relationships between smaller companies that have a project to propose to TPC and large companies that are active in the aerospace and defence industry. A large company may wish to establish a long-term relationship with a smaller firm, or a smaller firm may wish to link with a large firm, although one or more elements necessary to cement such a relationship may be missing.

For example, a large firm may be interested in the technical capabilities of a smaller firm, but the smaller firm may lack a sufficiently advanced quality management system, data interchange capability or some other characteristic. This TPC initiative will help defray the initial costs associated with developing and installing such systems in the smaller firm, while the large

company will provide strategic advice and guidance to the smaller firm. As a result, the smaller firm will advance into new territory through implementation of its proposal under this initiative. It will have the assurance of being on a path that will develop into a long-term relationship with the large firm. Any costs associated with such advice and participation of the large firm are at the expense of that firm. They will not be considered as eligible costs for a project under this initiative.

Your proposal should include a letter from your intended mentor that details what the mentor is prepared to do as part of your project. Participation is strictly between you as the proponent and the larger company. You may, if you wish, discuss this element with TPC before you submit your proposal.

While it is not a pre-condition of application that you have a mentor relationship established before you submit your proposal, those proposals that do include such an arrangement will be given a higher priority for consideration than those that do not.

Sharing Ratio

TPC will contribute a share of eligible costs for approved studies and projects as follows:

- For approved **studies**, TPC will contribute toward 50 percent of eligible costs.
- For approved **projects**, TPC will contribute toward 40 percent, 45 percent or 50 percent of eligible costs for approved projects. The precise share will depend on your company's relative financing capacity, the amount of research and development it has already performed, and the relative complexity/technological risk presented by your project.



In preparing your proposal, you may estimate which sharing ratio applies to your proposal, subject to confirmation by your TPC Aerospace and Defence officer, taking into account the following measures:

- Your corporate ratio of liabilities to assets: If this ratio is 0.7 or less, you are seen as having leverage room. This is viewed as a positive element.
- Your ratio of R&D expenditures to revenues: If your company does not have an established budget line for R&D expenditures, you may use the SR&ED tax credit claim as a proxy. If your R&D ratio exceeds 0.05, then you are seen as having an active R&D component in your company. This also is viewed as a positive element.
- The number of discrete eligible activities specified in your proposal: The maximum number allowed is seven (see Major Activities listed above). If your proposed project has two or fewer activities, your project will be viewed as a relatively simple proposal. This will be treated as a positive element. Your TPC Aerospace and Defence officer must agree that the activity areas proposed for your project are substantive and justified.

Once your rank for each of these three parameters has been determined, in consultation with a TPC Aerospace and Defence officer, then your sharing ratio for use in your project proposal will be fixed as follows:

- If your project has two or more positives, it qualifies for a 40 percent sharing ratio.
- If your project has one positive, it qualifies for a 45 percent sharing ratio.
- If your project has no positives, it qualifies for a 50 percent sharing ratio.

Repayment Plan

For approved **studies**, one repayment plan is applicable to all. If you decide to implement the study findings or to submit a project proposal to TPC to implement the findings of another study, you will repay the contributed amount by means of five equal, annual payments of one-fifth of the TPC contribution per payment, starting one year after the completion of the study in question. If you decide to not proceed with implementation of the findings, no repayment is required. Please note that a decision not to proceed will be reviewed and monitored by TPC.

For approved **projects**, you have a choice of two repayment plans:

- Conditional repayment: For any year during a 10-year repayment period, you will repay 15 percent of the contribution actually disbursed if your company achieves more than 10 percent growth in total revenues above the previous year's total revenues and if the absolute level of revenues in that year is greater than the absolute level of revenues achieved in the year prior to the first repayment year (i.e. the "base amount"). If your company fails to achieve the required levels in any given year, then no repayment is required for that year. If your company consistently meets or exceeds the levels, total repayment will exceed the face value of the contribution, up to 115 percent of the contribution disbursed. If in any year a significant change in corporate structure has an effect on revenues (e.g. if an acquisition or divestiture is made), the base amount will be adjusted appropriately. The start of the repayment period and the timing of the first payment are defined in the Contribution Agreement.



- Unconditional repayment: You will repay one-eighth of the contribution provided by TPC per year for eight years, preceded by two years of grace, when no payment is made. The date of the first payment is defined in the Contribution Agreement.

Your project proposal must clearly state which repayment plan you wish to use. Changes between repayment plans will not be accepted after the start of your project. Please note that your choice must be agreed to by TPC.

Financial Statements

With your proposal, please submit copies of your three most recent annual financial statements and any quarterly statements since your last fiscal year-end. These will help TPC assess your company's financial capability and verify your estimate of the sharing ratio for your project.

For Further Information

You can get more information about the A&D Supplier Development Initiative through one of the contact numbers below. You may discuss your proposed project with a TPC Aerospace and Defence officer directly by telephone; ask for the A&D Supplier Development Initiative desk.

Tel.: 1-800-266-7531

Fax: (613) 954-9117

E-mail: tpc@ic.gc.ca

Web site: <http://tpc.ic.gc.ca>



Annex A: Cover Letter

1. Company Information:

Legal Name of Company: _____

Mailing Address: _____

Principal Contact: _____

Telephone Number: _____

Fax Number: _____

E-mail Address: _____

Preferred Language of Communication: _____

2. Company Profile:

Ownership and Form of Organization
(Legal Status): _____

Brief Summary of Your Company's History, Main Business Lines and Employment:

Date of Most Recent Annual Financial Statements: _____

3. Project Summary:

Initiative Name: _____

Work Location(s): _____



Annex B: Model Letter of Certification and Authorization

[Company Letterhead]

I certify that:

- The information contained in the project proposal and attachments is accurate and complete.
- [insert your firm's name] is in full compliance with all of the company's current obligations, financial and otherwise, to the federal government, including other contribution agreements. Execution of the proposed project will not prevent [name of your firm] from continuing to meet these obligations and from maintaining the economic benefits anticipated by any other agreements. These obligations will in no way preclude [name of your firm] from fulfilling its obligations under the proposed project.
- The work to be performed on the [insert title of proposed project] project will be performed in accordance with the requirements of all the regulatory bodies having jurisdiction over [name of your firm] on this project.
- [name of your firm] is currently in compliance with all municipal, provincial and federal environmental requirements.
- [name of your firm] is not experiencing any Y2K residual issues that impact on the company's operations.
- [name of your firm] will advise if the services of a lobbyist are used for the purpose of its project proposal. If a lobbyist is engaged for this purpose, the lobbyist will be in compliance with the *Lobbyist Registration Act*.

I authorize Technology Partnerships Canada to gather from, and share with, other government sources of assistance the necessary information to ensure that there will be no duplication of assistance and confirm that all agreements are being adhered to.

I understand that no commercially confidential information provided to TPC in this project proposal will be disclosed unless: otherwise specified by [name of your firm]; required to be released by law; or required by the Minister of Industry to be released to an international or internal trade panel for the purposes of the conduct of a dispute in which Canada is a party or a third party intervener.

I understand that TPC is a discretionary program subject to available funding, and that submission of a complete project proposal, meeting any or all of the assessment criteria, or responding to requests from TPC Aerospace and Defence officers for further information in respect of a project submission, does not mean that funding will be granted. All proponents whose projects are approved for TPC funding will be so notified in writing.

I acknowledge that any approved projects will be the subject of public announcements.

(Signed) Signature

Date:

Printed name

Title

[Name of firm]



Annex C: Statement of Work (SOW)

Proponents will be expected to report the project status on a regular basis against the submitted SOW. Claims for payment will also be related to the progress of work, and clients must therefore notify TPC of any material changes to the work as set out in the SOW. All costs, etc. must be calculated by government fiscal year (April 1 to March 31).

As a minimum, the SOW should identify the information detailed below. Please note that depending on the characteristics of the project, additional information may be requested.

STATEMENT OF WORK (SOW)

- 1.0 Description of the Work
- 2.0 Major Activities
- 3.0 Project Schedule and Milestones
- 4.0 Cost Breakdown



Table A: Project Schedule and Milestones

ID	Activity Information	2000				2001				2002				2003	
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2
1	Activity One														
2	Milestone One														
3	Activity Two														
4	Milestone Two														
5	Activity Three														
6	Milestone Three														
7	Activity Four														
8	Milestone Four														
9	Activity Five														
10	Milestone Five														
11	Activity Six														
12	Milestone Six														
Page 1															



Table B: Cost Breakdown

PROONENT NAME: _____ PROJECT NUMBER: _____

FISCAL YEAR (ENDING MARCH 31)	ESTIMATED ELIGIBLE COSTS (\$000)						
	Direct Labour	Direct Materials	Subcontracts and Consultants	Other Direct Costs	Equipment	Overhead	Total
20XX							
20XX							
20XX							
Total							

