

## SMEs – Maximising Public Sector Contract Opportunities

The public sector spends over £220 billion a year on procurement, equivalent to ten per cent of GDP. It is therefore essential that Government uses this leverage to establish a stable procurement policy framework and a competitive marketplace so that all businesses, large or small, can plan ahead for their engagement with the public sector.

Real progress has been made over the last few years in encouraging small and medium-sized enterprises (SMEs) to participate in public procurement, and the Coalition Government has now set itself the goal of ensuring that SMEs win 25 per cent of all public sector business. However, barriers to SME participation remain, particularly around the issue of excessive process and documentation.

The benefits to be gained from tapping into the SME economic powerhouse are huge. SMEs constitute 99.9 per cent of businesses in the UK, employing 59 per cent of the private sector workforce and accounting for 52 per cent of business turnover. They are potentially major suppliers to Government, but often face substantial hurdles in winning public sector contracts – even though they play a vital role within local economies and in creating jobs.

Public sector procurers generally accept the many advantages of working with SMEs, who can often offer increased flexibility, adaptability and innovation. SMEs are well suited to delivering local services in addition to contributing to the delivery of innovative products and services, either as prime contractors for smaller contracts or as sub-contractors for larger contracts. SMEs can also bring particular benefits to local economies, especially when those SMEs are voluntary sector organisations based within their local area.

Most small businesses want to compete on equal terms with large firms on the basis of the quality of their product or service, rather than receive preferential treatment. By ensuring open and fair competition for public sector contracts while minimising the burdens on potential and successful bidders, Government will not only help SMEs directly but also save money for the taxpayer.

Engaging with more suppliers will bring greater competition to the marketplace, thereby reducing procurement costs. As SMEs typically have lower administrative overheads and management costs than larger firms, they can often offer lower prices and innovative solutions.

This guidance examines some of the key issues around SME engagement and seeks to provide an insight into the challenges and opportunities facing SMEs, together with advice and helpful actions.

### Transparency agenda

The Coalition Government has set out the need for greater transparency across its operations to enable citizens to hold public bodies and politicians to account. This includes commitments relating to public expenditure, intended to help achieve better value for money.

*As part of the transparency agenda, the Government has made the following commitments with regard to procurement and contracting:*

- All new central government ICT contracts over £10,000 to be published in full online from July 2010.
- All new central government tender documents for contracts over £10,000 to be published on a single website from September 2010, with this information to be made available to the public free of charge.
- New items of central government spending over £25,000 to be published online from November 2010.
- All new central government contracts to be published in full from January 2011.

### Delivering innovation

While the Government wants to deliver innovation, the truth is the public sector is often wary of it. Often the perception is that innovation equals risk, and so the playing-safe approach – ‘same again’ – gets chosen over the innovative approach.

But innovation does not necessarily increase risk. If the public sector would seek to procure on the basis of outcome, not output specifications, this would leave the door open for far greater innovation. Encouraging innovation can take many forms, for example giving advance notice of long-term procurement plans and announcing within all calls for competition that innovative solutions will be accepted.

Suppliers can also help themselves by anticipating from the outset that their innovative offering might be considered as high risk; providing a comprehensive risk assessment and mitigation plan with their proposal will help remove any doubts in the mind of the procurer.

### Sub-contracting

The supply chain of first-tier contracts is the place where most SMEs find opportunities. If Government were to expect prime contractors to make their sub-contracting opportunities accessible through open advertising, then this would not only increase competition but also release new and innovative solutions for the benefit of all concerned.

Unfortunately, when operating within supply chains SMEs often find their margins are squeezed and their flexible and innovative approaches are rarely exploited. They also often suffer unfavourable terms and conditions and can face disproportionate delays in payment. Government needs to support SMEs through its contracts with prime contractors, by ensuring SMEs are not disadvantaged and are paid promptly by the primes. One ground-breaking initiative has been the Olympic Delivery Authority service CompeteFor, which has been highly successful in opening up the ODA's prime contractors' supply chains.

### CompeteFor

CompeteFor was set up by the Olympic Delivery Authority, the Regional Development Agencies and the Devolved Administrations to advertise the contract opportunities arising through the London 2012 Olympics supply chain.

The portal encourages suppliers to open up their sub-contracting opportunities, posting all available contracts throughout the supply chain on

CompeteFor. All tier one suppliers are asked to advertise all their new sub-contracting opportunities on the site, offering buyers and prime contractors a simple way of engaging with suppliers they would otherwise struggle to access. Once a supplier completes an online profile they can apply for any appropriate opportunity, whether as a prime or as a sub-contractor.

The success of CompeteFor in exposing sub-contractor opportunities could easily be repeated through other public authorities implementing the same simple process. As the portal is open to all public authorities to use, there is no additional cost incurred by either suppliers or buyers.

With departments being required to report annually on the value of their contract spend with SMEs, the utilisation of the CompeteFor model could help deliver the Government's aspiration for 25 per cent of all public sector contracts to be let to SMEs. Bearing this policy in mind, it is important that SMEs identify themselves as such when tendering for Government business.

The CompeteFor service has also developed and delivered programmes to assist SMEs in understanding the tendering process, and held events specifically aimed at bringing public sector buyers and private sector suppliers together. Registration on CompeteFor is free – visit <https://www.competefor.com>

### Low-value contract opportunities

Establishing open and fair competition for public sector contracts helps ensure best value for the taxpayer. The EC Treaty principle of transparency requires even contract opportunities below specified threshold values to be advertised sufficiently widely to ensure such open and fair competition.

However, advertising practice within the UK regarding tenders below these thresholds varies considerably. The public procurement process for low-value contracts can also often be excessively bureaucratic, and the cost of preparing tender bids is proportionally heavier on SMEs than on bigger companies. As a result this can discourage innovative SMEs, thereby frustrating an opportunity to improve public sector procurement capability.

Accordingly, the procurement process needs to be simplified and to become more open and transparent in order to help SMEs participate in low-value contract opportunities.

Today most public authorities publish their low-value tender notices over £20,000 on their websites; with literally thousands of such sites, most businesses will look to use a contract information consolidation service such as [www.tendermatch.co.uk](http://www.tendermatch.co.uk)

Tendering opportunities thought especially suitable for SMEs or consortia of SMEs are usually flagged by the use of value bands or by their average annual value. If you are only interested in local public sector contract opportunities, visit the websites of the public authorities in your area to find their low-value contract notices or visit the Supply service website at [www.supplygov.co.uk](http://www.supplygov.co.uk)

### High-value contract opportunities

In order to increase SME access to public sector procurement opportunities, the public advertising of tender opportunities above thresholds set by the European Union Procurement Directives ensures value for money for the public sector and the taxpayer, and contributes to an open and competitive market for businesses. The thresholds are periodically updated, but as of January 2010 were set at the levels shown in the table below.

	SUPPLIES	SERVICES	WORKS
Entities listed in Schedule 1 <sup>1</sup>	£101,323	£101,323 <sup>2</sup>	£3,927,260
	€125,000	€125,000	€4,845,000
Other public sector contracting authorities	£156,442	£156,442	£3,927,260
	€193,000	€193,000	€4,845,000
Prior Information Notices (Regulation 11)	£607,935	£607,935	£3,927,260
	€750,000	€750,000	€4,845,000
Small lots (Regulation 8 (12))	£64,846	£64,846	£810,580
	€80,000	€80,000	€1,000,000

1 Schedule 1 of the Public Contracts Regulations 2006 lists central government bodies subject to the WTO GPA. These thresholds will also apply to any successor bodies.

2 With the exception of the following services, which have a threshold of £156,442 (€193,000)

- Part B (residual) services
- Research & Development services (Category 8)
- The following Telecommunications services in Category 5
  - CPC 7524 - Television and Radio Broadcast services
  - CPC 7525 - Interconnection services
  - CPC 7526 - Integrated Telecommunications services
- Subsidised services contracts under Regulation 34 (source: [www.ogc.gov.uk/procurement\\_policy\\_and\\_application\\_of\\_eu\\_rules\\_eu\\_procurement\\_thresholds\\_asp](http://www.ogc.gov.uk/procurement_policy_and_application_of_eu_rules_eu_procurement_thresholds_asp))

High-value contracts need not be the preserve of large companies. It is important to remember that the contract notice states the overall value of the contract, not its annual value. A contract that at first appears to be above the value an SME could supply may, when broken down by value per year of the contract duration, become a highly appropriate opportunity. Therefore always check the overall value and divide it by the duration to find the actual annual value.

For further information, visit [www.bipsolutions.com](http://www.bipsolutions.com)

### Contract award – new business

Utilising contract award notices to identify possible sub-contractor opportunities is a vital part of any company's marketing activity.

It provides a unique insight into potential supply chain opportunities, not only within a particular contract but also within future contracts won by the prime contractor. Once appropriate contract awards are identified, SMEs should open up dialogue with the prime contractors most relevant to their sector of industry.

Prime contractors should as best practice be open to such approaches concerning sub-contracting opportunities, giving more businesses the chance to supply to the public sector marketplace.

### Electronic engagement

SMEs must ensure they can do business electronically with Government, especially in the tendering cycle. The use of poorly performing software could severely disadvantage them when responding electronically to requests to tender. Investment in quality hardware and software and broadband connection is imperative when engaging in electronic tendering. SMEs should also ensure they can accept payment electronically.

### Capacity building

Small businesses need to recognise that they must develop the skills to complete the required tender documentation and demonstrate they have the expertise that procurers are seeking.

SMEs have had access to public sector tendering training for several years; however, take-up of the training packages available has been low despite their modest cost. All too often SMEs have not invested in ensuring they are 'bid ready'. Seeking out basic generic training is a good place to start, but SMEs will need more intensive coaching and mentoring if they are seriously interested in supplying to the public sector. Specific support programmes are available, such as BASE, BiP's Buyer and Supplier Engagement programme.

Through such training initiatives, businesses can learn to be more competitive and discover how they can refine and be flexible in their responses to tender opportunities.

For assistance and information, visit [www.bipsolutions.com/TrainingandDevelopment](http://www.bipsolutions.com/TrainingandDevelopment)

### Timescales

Timescales are often considered too short for small businesses to be able to respond and tender documents can be unclear. They often fail to focus on outcomes or to take into account the whole-life value of the product or service being procured.

SMEs are also often asked to provide historical financial information or accounts for the previous three years, which can rule many new start-ups and small firms out of the tender process.

This three-year level of financial information is not a requirement of the EU Procurement Directives, which give contracting authorities some flexibility to determine what level of information they require to satisfy themselves that the supplier has the requisite capacity to perform the contract. Government guidance is for contracting authorities to request two years of accounts or, if these are not available, other information demonstrating that the supplier's economic and financial standing should be sufficient for them to be financially capable of performing the contract.

## Pre-Qualification Questionnaires

Pre-Qualification Questionnaires (PQQs) are often different for each tender yet tend to ask for similar information, meaning that SMEs bidding for multiple contracts have to present the same routine details each time in different formats. There is growing support from Government for a core PQQ to be adopted across the public sector; this was a recommendation of Government in the December 2008 report 'Accelerating the Economic Engine'. For further information, visit [www.ogc.gov.uk/policy\\_and\\_standards\\_framework\\_pre-qualification\\_questionnaire\\_pqq.asp](http://www.ogc.gov.uk/policy_and_standards_framework_pre-qualification_questionnaire_pqq.asp)

In addition, PQQs tend to constrict SMEs from illustrating their specialist abilities or niche qualities or from showing how innovative they can be. This rigid structure can hinder innovative thinking and hold back progressive design. Many SMEs feel that PQQs should allow them to boost their bid by illustrating their unique selling point, their innovative ability or the added value that they can bring. Services such as Select, a free-to-access online PQQ, help SMEs compile an electronic PQQ and remove the need for compilation for each tender. Many public authorities now utilise the Select service when seeking expressions of interest.

To access the free Select service, visit [www.delta-esourcing.com](http://www.delta-esourcing.com)

## Supplier accreditation

Accreditation remains a key issue for SMEs. There is a consensus that accreditation should not automatically be required; however, where the work or service being bid for does require accreditation, sensible levels should be set based on national standards.

Supplier accreditation requirements can be seen as a barrier to many SMEs. Additional accreditation criteria developed by individual procuring authorities can be many, diverse and costly, even within a particular sector, and do not always cross local authority boundaries. This can mean that a business can be qualified to bid for a particular tender with one public sector body, but not another just a few miles down the road. However, the achievement of a recognised accreditation standard can be important to small businesses, and can help put them on a level playing field with larger organisations without their incurring excessive cost.

For more information, visit [www.bipselect.com/accreditation.html](http://www.bipselect.com/accreditation.html)

## Contract aggregation

The practice of bundling a number of potential smaller contracts together into a single larger contract can effectively squeeze small firms out of the marketplace, but can also have benefits.

However, aggregation should only happen where it makes sense. The very fact that a number of contracts are bundled together means there are fewer contracts to be won, reducing companies' chances of winning new business. In addition, aggregation removes the scope for benchmarking competition and renders it difficult to compare the performance of different contractors providing similar requirements.

Firmer action should be taken by Government to ensure procurers give proper consideration to contract size, the development of lots and whether contract elements might be better left out and delivered as small individual contracts. If it is obvious from the contract notice that it encompasses aggregation on a scale beyond your company's means, then do not spend resource time seeking to compete.

## Approved supplier lists and framework agreements

Approved supplier lists and framework agreements are operated by many public sector procurers, enabling them to build a shortlist of sources or suppliers who can meet their needs. However, they may not be refreshed frequently or in a transparent way.

Frameworks and approved lists can work well for businesses and procurers by removing the need for repeated pre-qualification exercises. Many businesses, though, find it difficult to gain inclusion on approved supplier lists and difficult to gain contracts once included. The lists tend to be refreshed infrequently – in some instances only every four to five years – meaning that some businesses may be excluded from the marketplace for a significant period.

It is therefore imperative that SMEs identify where frameworks are in place and when they will be renewed. Often this can be achieved by looking at past contract notices, or if this fails by contacting the authorities in question. The cost of failing to carry out these checks could have an enormous impact on an SME's future; priority has to be given to undertaking this action.

## SME engagement

The concern that SMEs may not be winning a fair share of public sector contracts has received increased attention and there is a recognition that there needs to be measurement of SME involvement in tendering and supply.

Increased transparency in reporting how much spend goes to SMEs across the public sector will likely incentivise procurers to make a greater effort to diversify their supply base and actively seek to employ SMEs, as will publication of the number of contracts awarded to SMEs.

The Coalition Government has promoted the issue of SME engagement in public sector contracts to centre stage. There has never been a better time for SMEs to consider the public sector as a key customer. However, SMEs have to invest time and money in this market if they are to ensure they have a chance of success.

Register with the Supply National SME Engagement Programme at [www.supplygov.co.uk](http://www.supplygov.co.uk)

## Supply Events

**This is the year to take your business to the next level**

**Supply: The National SME Engagement Programme offers a range of workshops, seminars and conferences which will take you from the basics of understanding an advert to the development of the skills you require once you have won the contract**

[www.supplygov.co.uk](http://www.supplygov.co.uk)



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