

Smaller supplier... better value?

The value for money that small firms can offer



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Since the last edition of this booklet two things have changed; pressure on public bodies to achieve efficiency in public procurement has increased, and so have the demands to improve the diversity of the supplier base. The aim of this booklet is to show that these two aims are mutually reinforcing. Removing barriers to the participation by small businesses in the public procurement market helps you achieve efficiency.

Opening the market to a wider supplier base means that:

- you will not miss out on potential suppliers who may be more competitive
- you might find innovative solutions you might otherwise have missed
- you will avoid the danger of the market stagnating through an ever decreasing number of large suppliers
- simplifying the procurement process and removing unnecessary obstacles can help to make your life easier.

But don't take our word for it – this new edition is underpinned by research commissioned by the Small Business Service (SBS), which backs up the benefits which are cited in this booklet. The case studies included prove the point and will, we hope, whet your appetite to look at further case studies in the full report¹.

The Office of Government Commerce (OGC) and SBS have been working together to give you the tools to carry forward this important agenda. Progress is being made in a number of areas:

- a simplified national Pre-Qualification Questionnaire (PQQ) for sub-EU threshold procurements
- a national opportunities portal to help businesses find opportunities in a single place
- guidance on supply chain management which helps explain how, in those procurements when it is more efficient to work through prime contractors, you can ensure the supply chain is managed efficiently and encourages small businesses
- regional training events for public sector procurers and Small and Medium Enterprises (SMEs)
- actions to improve the skills of small businesses
- working to improve our understanding of the share of public procurement won by SMEs
- a Public Procurement Toolkit for social enterprises to help them compete effectively for public sector business.²

All of these are available or will come on stream in the lifetime of this booklet. The www.supplyinggovernment.gov.uk website will keep you updated.

¹ Copies of the Small Business Service report *A Study of the Benefits of Public Sector Procurement from Small Businesses* published in August 2005 are available from www.dti.gov.uk/publications/

² Available to download or order at www.sbs.gov.uk/

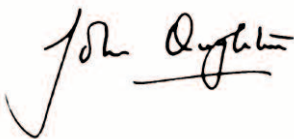
In addition, SBS, working with the Office of the Deputy Prime Minister (ODPM), local government and small businesses, has developed the ‘Small Business Friendly’ Concordat³ or statement of principles that local government will follow when doing business with small business. SBS will monitor the impact of the Concordat and encourage its take up and compliance by local authorities and also consider how best it could be developed across the wider public sector.

Those authorities who have invested the effort to make opportunities more accessible are pleased with the results as can be seen from the recent evaluation of the pilots in the West Midlands⁴ led by OGC and the London Borough of Haringey⁵ led by SBS, and the benefits that can be achieved in cost savings and regeneration, as well as contributing to the development of small businesses who are the engine of economic growth.

We at the OGC and the SBS have produced this booklet jointly. The OGC is an Office of HM Treasury, and one of its key strategies is to achieve effective competition for government business by simplifying access to the government market place. The SBS is an Executive Agency of the Department of Trade and Industry and is dedicated to helping small firms and representing their interests.

John Oughton

Chief Executive of OGC



Martin Wyn Griffith

Chief Executive for the SBS



“SMEs represent a powerful engine for economic growth”



³ Copies of the Concordat can be found at the ODPM website: www.odpm.gov.uk

⁴ See the www.supplyinggovernment.gov.uk website for more information on the West Midlands pilot

⁵ See the www.haringey.gov.uk website for more information on the London Borough of Haringey pilot

Why you should read this booklet

Help achieve better value for money by using small businesses that can often provide:

- better quality services
- and innovative solutions
- at better value for money.

You can help small firms overcome the obstacles that can make it difficult for them to win public sector business by:

- being prepared to explain the process and making requirements clear and unambiguous, avoiding jargon
- advertising opportunities as widely as possible and ensuring advertisements are clear and concise and give a full description of the goods or services sought
- taking into account the nature, size and risk of specific procurements, as well as any risks associated with individual suppliers
- being prepared to provide meaningful feedback, even to successful bidders, ensuring that any feedback is as helpful as possible.

This new edition provides evidence to support these assertions and real life case studies of small firms working successfully with public sector bodies.

What is a small firm?

This guide is concerned mainly with procurement from small enterprises with up to 50 employees. A diverse group of businesses fall into this category, ranging from sole traders to substantial, established firms – including start-ups, black and minority ethnic businesses (BMEs), voluntary and community organisations (VCOs) and social enterprises.

At the start of 2004 there were an estimated 4.3 million businesses in the UK, of which only around 6,000 were large businesses (more than 250 employees). In fact firms with fewer than 50 employees accounted for over 99% of all businesses. The majority of UK businesses therefore fall into the small firms category, and small firms account for around 37% of UK private sector business turnover and 46% of employment.

“At the start of 2004 over 99% of all businesses had fewer than fifty employees”



So what could be holding small firms back?

Many potential suppliers, including small firms, may be discouraged from tendering for public sector contracts because of a number of perceived or real barriers.

These include:

- not being able to find out about opportunities
- believing that the processes involved in bidding are unnecessarily complex and costly
- current trends in public sector procurement towards larger and longer contracts, and rationalising the number of suppliers, meaning that smaller businesses often find the resulting contracts too large for them
- believing that public sector procurers perceive a risk of contracting with diverse forms of business, like social enterprise, where their value can be misunderstood and overlooked.

Although small firms feel these challenges most keenly, research has shown they are also issues of concern to many medium-sized enterprises, having up to 250 employees. This booklet therefore addresses the issues faced by 'Small and Medium Enterprises' in general.

What can small firms offer?

Much could be gained by enabling more SMEs to compete. The benefits to the public sector can include better levels of service, innovative business solutions and increased competitiveness in the longer term. In return SMEs could gain by having greater access to a large and stable market.

“there is evidence that the impact of more competition for goods and services and for ideas, and extra movement in and out of employment, both of which are enhanced by smaller firms, increase productivity growth in the economy (as well as benefiting the government procurer).”⁶



SMEs – better value for money?

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SMEs may offer better value for money than larger suppliers:

Better value for money

- Bringing in more suppliers will often bring greater competition to the market place, so reducing the costs of procurement from all suppliers
- SMEs have lower administrative overheads and management costs than larger firms. Depending on the nature of the procurement, this can result in lower prices.

Better quality of service

- SMEs have short management chains and approval routes, so they can respond quickly to changing requirements. SMEs may also be highly focused on particular markets making them particularly responsive to changes in those markets
- Being a large customer of a small business means your business is important to the SME. This can result in a better, and often more personal, level of service and in a better relationship with the supplier
- The SME may also be more willing and able to tailor a product or service to meet specific customer needs than a large firm that sells an established offering
- Many SMEs, including social enterprises, VCOs and BMEs, supply higher quality specialist products or services than larger suppliers, either because larger suppliers are discouraged by the limited demand, or because the SME has skills, originality and commitment in that field that are greater than those found in their large company competitors.

“Especially conspicuous, across a wide range of markets, is the ability and willingness of small firms to ‘go the extra mile’, in terms of commitment and service delivery.”⁷



Innovation

- SMEs can bring innovation through, for example: the early exploitation of new technology, providing products or services in new or underdeveloped markets, or by using innovation to differentiate themselves from established market players.

“In EU league tables of innovation performance, UK smaller companies rank more highly than UK large firms, implying that removal of obstacles to smaller companies may be especially beneficial in the UK.”⁸

What are social enterprises?

Social enterprises are businesses that trade with a social purpose, using business tools and techniques to achieve social aims.

Successful social enterprises operate in sectors across a range of public services including waste management, transport, manufacturing, leisure, education and care. In common with other SMEs, smaller social enterprises can offer cost effective, responsive and innovative solutions to procurement needs. They also face many of the challenges faced by small businesses highlighted in this guide.

Government believes they have an important role to play in helping to deliver and reform public services and is working through SBS’s public procurement strategy to open up social enterprise access to public sector markets.

The UK national umbrella body, the Social Enterprise Coalition has also collaborated with the Society of Procurement Officers to produce *More for your money: a guide to procuring from social enterprises*⁹ a short guide to achieving better outcomes from public sector procurement and how social enterprises can help in achieving this.

The guide explains:

- Why you should consider buying goods and services from a social enterprise
- What you can do to encourage social enterprises to compete successfully for contracts.

⁸ SBS report published August 2005 *A Study of the Benefits of Public Sector Procurement from Small Businesses*

⁹ To order this guide contact officemanager@socialenterprise.org.uk or call 020 7968 4893

SBS and OGC have researched the challenges faced by SMEs when bidding for public sector contracts. The most significant of these are highlighted below. We have also identified ways in which you can address each of the issues. Many of these represent general good practice, which should be applied when dealing with firms of all sizes.

The procurement process

THE CHALLENGES FOR SMEs

- SMEs perceive the process as long and complex and can therefore be discouraged from bidding
- Those new to the public sector market may not know what is involved and may have difficulty in understanding requirement documents and in constructing good quality proposals or tenders
- On the one hand, SMEs can find the cost of long tendering processes to be prohibitive
- On the other hand, an SME with limited resources may find procurement timescales too tight, and struggle to 'keep up' with larger competitors.

WHAT YOU CAN DO

- Use OGC's standardised PQQ for low value requirements (see page 14)
- Explain the process, and what will be required, to suppliers at the outset
- Ensure the process is appropriate to the size and complexity of the requirement
- Keep tender documentation concise and jargon-free
- Ensure that the procurement is based on a sound business case to avoid an aborted procurement, or delays whilst funding is approved
- Ensure that the project and budget have been fully approved
- Set a realistic timetable, let suppliers know what it is and keep them informed of any changes. This allows them to assess their involvement and the cost of bidding. Try to avoid slippage as this introduces additional, unplanned costs for suppliers
- Bear in mind that companies new to the public sector may need longer to respond to requests for information than more experienced players. Take this into account in planning and be prepared for more requests for clarification.



CASE STUDY

In 2004 the Department of Constitutional Affairs (DCA) commissioned a review of the Community Legal Services (CLS). The procurement process began with the standard OJEU call for expressions of interest. Several potential suppliers were subsequently invited to submit fully costed proposals and invited to a briefing session. Written questions were taken from the shortlisted bidders and written responses were provided to all bidders. Following the submission of full proposals, a short list of potential suppliers were asked to attend a presentation, following which Matrix Research & Consultancy Limited (Matrix), a mature SME, was designated as preferred provider.

After Matrix was awarded preferred provider status, the DCA wished to revise the project brief. Involving more Matrix staff and changing the number of case studies accommodated this. Procurement from an SME in this case appears to have benefited from almost all of the characteristics that can be associated with such companies, namely more competition, better value for a given cost, innovation, responsiveness, flexibility and specialism in the civil justice field.



Where to find opportunities

THE CHALLENGES FOR SMEs

- Searching OJEU is difficult for suppliers that are not familiar with the specialised terminology used.
- SMEs may not have the resources to search OJEU regularly and may find some commercial OJEU-searching services expensive.
- Lower value procurements (below the EU threshold) may not be advertised widely, and there is no 'standard' place to look for them.
- SMEs' marketing resources are often limited, making it difficult to raise their profile with the large number of potential public sector customers.
- SMEs often do not know who to talk to about opportunities.

WHAT YOU CAN DO

- Publicise opportunities, particularly lower value ones, widely using the trade press
- Organisations such as Business Links and Euro Info Centres (EICs) can also be useful in publicising requirements and identifying local suppliers
- Make OJEU advertisements clear and concise and give a full description of the goods or services sought
- If you use supplier lists to select suppliers for procurements below the OJEU limit:
 - refresh them regularly
 - be open about the process
 - make it easy for suppliers to become listed.
- Publish contact details both for general procurement questions and specific opportunities
- Use your website (see page 10). It is an ideal way of making information available at low cost and consider including a 'Selling to...' guide giving potential suppliers the information they need to bid effectively.

The challenges for SMEs

- Ensure low value (below OJEU threshold) opportunities are advertised through the national opportunities portal when available. Check the www.supplyinggovernment.gov.uk website for further information
- Hold 'Meet the Buyer' events¹⁰
- Know your target market. Understand who is capable of bidding for your contract and whether there are SMEs in that market.

Where to advertise opportunities

WEBSITES

- OGC and SBS are jointly providing a national web portal, due to be available in early 2006, which aims to become the main gateway for businesses to access government opportunities for goods and services under £100,000 and to make it much easier for businesses and government buyers to do business. Further information can be found at www.supplyinggovernment.gov.uk
- Many public sector websites have a 'job opportunities' link, often on the home page, but far fewer have a 'doing business with' link and it is frequently less prominent. Why not set up a prominent 'doing business with' page? You can set out the types of goods and services you buy, give contacts for further information, explain your organisation's procurement policy and advertise your requirements. This will provide opportunities for SMEs interested in selling locally, or those with specialist products, to keep a watching brief on potential customers
- Good examples of the types of information a 'doing business with' page can contain can be found on the websites of the Department for Constitutional Affairs (www.dca.gov.uk) and the National Assembly for Wales (www.winningourbusiness.wales.gov.uk).



10 More guidance is available on page 19 of the *Small Business Friendly Concordat* available from www.odpm.gov.uk

Contracts are too big

The drive for greater efficiency in public sector procurement may lead to some small contracts being replaced by fewer larger (and longer) contracts. Big partnership-style contracts can bring benefits, sometimes in better value, but also in reduced procurement and contract management costs, single points of contact when problems arise, and a closer working relationship with the supplier. However larger contracts do not always deliver better value for money, and purchasing authorities need to consider the impact of procurement strategies on the supply base.

THE CHALLENGES FOR SMEs

- Small suppliers, who may have successfully contracted in the past, and provided good service, cannot bid for the larger contract, because of its size, or because it now combines services not all of which the SME supplies.

WHAT YOU CAN DO

- Consider your procurement strategy, and in particular the scope of your procurements:
 - Are there elements best left outside the main contract?
 - Is it really a good idea to place all the work with one supplier – for example, would there be advantages in dividing it into lots? (If so, be clear about how the requirement is to be divided)
 - If new work may subsequently fall within the scope of the contract, is it practical to reserve the right to source this separately?
- OGC has produced a guide to aggregation, which explains that aggregation of demand need not necessarily lead to aggregation of supply, and discusses the key issues that will inform the decision-making process¹¹.

“Are there advantages in dividing the contract into lots?”

CASE STUDY

In the spring of 2004 Northumberland County Council's food supply contracts of about £3 million per year came up for renewal. The County Council decided to generate market interest and seek to broaden the supplier base for food supply by reaching out to small and local suppliers.

The Council encouraged many second tier suppliers to achieve approved supplier status by expressing an interest in the tender and completing the required documentation. The Procurement department liaised with the Regional Business Link Operator and the umbrella food supplier organisation Northumbria Larder to provide advice and to help businesses put tenders together and complete required tender documentation. The Council split the contract into lots, allowing businesses to bid for any combination of seven food categories and, for the majority of categories, four geographical areas of the County.

Following these measures four of seven food categories are now supplied by local SMEs and three by national companies. As would be expected the small local companies have advantages in supplying fresher, local products such as fruit and vegetables, bread and meat. At the end of the procurement exercise the Council is satisfied that best value is achieved.



The challenges for SMEs

Contracts are too big - Operating as a supply chain partner

Where SMEs are not in a position to be a prime contractor, there are opportunities for them to be sub-contractors, particularly where they can provide specialist or innovative products or services. The choice of specific sub-contractors is a commercial decision and usually rests with the prime contractor. It is however appropriate to consider the supplier's sub-contractor management arrangements and ensure there is visibility of the supply chain.

In large procurements smaller suppliers may express an interest, not because they are planning to be a prime contractor, but because they are interested in sub-contracting opportunities.

WHAT YOU CAN DO

There are things you can do to help make these opportunities more visible:

- Open supplier meetings provide a forum for potential prime contractors and sub-contractors to get together as well as find out more about the project
- Publishing the names of companies acting as prime contractors in a procurement, and details of awarded and upcoming contracts, can also aid potential sub-contractors by improving the visibility of subcontracting opportunities
- Where appropriate ask your main suppliers to show their track record in achieving value for money through the effective use of their supply chain, including how SMEs can gain access to their subcontracting opportunities
- Ensure that your main suppliers pay subcontractors on time and that payments flow down the supply chain
- Encourage main suppliers to adopt supply chain management practices that integrate, incentivise and reward good performance throughout the supply chain
- Be open to consortia bids from SMEs as this is one way in which small businesses can tackle large procurements

An OGC guidance document, "Supply Chain Management in Public Sector Procurement: A Guide", looks specifically at how the public sector can improve the way in which the supply chain is managed, both within a procurement exercise and when a contract has been awarded. The guide is available from the OGC website www.ogc.gov.uk, or the OGC Servicedesk.

Using lots

CASE STUDY

The Department for Work and Pensions, when letting their stationery and computer consumables contract, organised the contract into four lots. To encourage SMEs the department accepted national and regional bids as this allowed smaller organisations to bid for more manageable pieces of business. This resulted in a number of SMEs being successful and provided the department with specialist local suppliers offering value for money.

“Encourage main suppliers to adopt open supply chain management practices”

“Specialist local suppliers may offer value for money”



Framework agreements

Framework agreements offer convenience to purchasing authorities and deliver benefits including simplified ordering procedures, reduced procurement and contract management costs and lower pricing achieved through aggregation of demand. SMEs that have been awarded a framework agreement benefit from reduced bid costs, process efficiencies and ease of access to public sector business.

The widespread use of framework agreements presents a number of challenges for SMEs.

THE CHALLENGES FOR SMEs

SMEs often have particular problems bidding for framework agreements as:

- They do not understand them or how to bid for them
- They believe the scope precludes their involvement
- The aggregation of demand under framework agreements reduces future opportunities for those SMEs who are not party to a framework agreement.

WHAT YOU CAN DO

Things to consider when running procurements for framework agreements:

- Advertising widely to maximise the potential bidders
- Having a clear specification of your requirement
- Use of a PQQ to minimise initial work load on suppliers whilst clearly identifying future document requirements
- How to ensure equality of treatment for all potential suppliers irrespective of their size
- The optimum number of suppliers necessary to deliver the benefits of aggregation without eliminating choice and competition
- The optimum framework agreement duration to provide the best combination of price and product to meet your requirement
- Encouraging best practice in supply chain management and ensuring visibility of the supply chain.

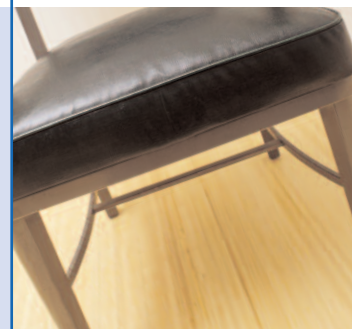
Before ordering from a framework agreement consider whether best value can be obtained by conducting a separate procurement as:

- Short-term market conditions may mean you could get better value by buying elsewhere
- There may be clear advantages to using small, local suppliers; or
- New innovative solutions and suppliers may not be represented on existing framework agreements.

“SMEs were able to provide flexibility in meeting requirements for special items”

CASE STUDY

In seeking suppliers of office furniture the Inland Revenue set up a framework arrangement that included large and small enterprises. Large furniture suppliers were able to bring economy of scale savings for standard office furniture, and SMEs were able to provide flexibility in meeting requirements for special items such as reception and conference room furniture and specialist seating. The latter items are typically specified to a higher standard and will vary from order to order. In doing this the Inland Revenue achieved value for money in both standard and specialist items of furniture.



The challenges for SMEs

Pre-qualification

If you do not select the right suppliers at the pre-qualification stage, you close off potentially excellent, innovative solutions later. On the other hand, simply relaxing the selection criteria will allow more suppliers (including SMEs) to get through, with each supplier having a reduced chance of winning the business. Some suppliers may weigh their chance of winning against the costs and decide it is not worth continuing – and these are more likely to be SMEs because cost of sale is more significant to them.

THE CHALLENGES FOR SMEs

- SMEs may be relatively young and may not therefore have an extensive track record
- They may not be able to provide several years of audited accounts
- They may also, by virtue of their size, have limited capacity
- These factors can count against them at pre-qualification if evaluation is weighted heavily in terms of large, established companies, or if contract limits (derived from a percentage of turnover) are rigorously applied.

WHAT YOU CAN DO

- To reduce the administrative burden on SMEs use the simplified Pre-Qualification Questionnaire (PQQ) developed by OGC, when running a competitive procurement for low value (ie, sub-OJEU) requirements. This PQQ asks simple questions to establish suppliers' suitability to tender and operates on a 'self-certification' premise where suppliers confirm that they can provide information to validate their responses at a later stage (i.e. tender) if requested. The PQQ and accompanying guidance on the evaluation of submitted PQQs (for purchasers) is available from the OGC website www.ogc.gov.uk or the OGC Servicedesk. (For requirements of a higher complexity and financial value a more comprehensive PQQ is also available on the OGC website).
- Be aware that government advice (see below *) is to request only two years of accounts or, if these are not available, other appropriate information, such as management accounts.
- It is important to select suppliers that are financially sound and capable of delivering the solution. However, this does not necessarily mean the largest suppliers with the most extensive track record.
- Take into account the nature, size and risks of specific procurements, as well as any risks associated with individual suppliers (for example, health and safety records are a particular issue in construction, but may be of lesser concern in, for example, consultancy services). For example:
 - Does it matter if the estimated value of the procurement is more than x% of turnover if the company is growing rapidly?
 - Does it matter that it is a very young company if it has the right products and there is a limited need for ongoing support or services?
 - Does it matter if it is a small company, if it has sufficient skilled staff to meet your requirements without becoming overstretched?
 - Does it matter if the company's experience is all in the private rather than public sector?

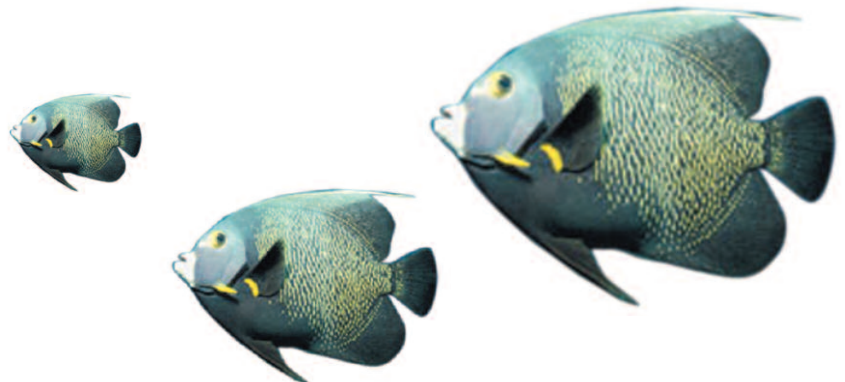
* Revised guidance can be found in 'Supplier Financial Appraisal Guidance' (which supersedes the sections on financial appraisal in CUP Guide 60). Government guidance on the commercial (non-financial) assessment of suppliers can still be found in CUP Guide 60. Both guides are available from the OGC Successful Delivery Toolkit: www.ogc.gov.uk/sdtoolkit/reference/ogc_library/procurement/cupguidance.html

CASE STUDY

In early 2002 the SBS invited several companies to bid for the publicity, marketing and distribution of the Agency's CONNECT programme – a series of interactive best practice programmes on CD-ROM. The tender, valued at £500,000 per year for two years, entailed the on-going promotion and development of twenty four modules for use one-to-one, in company, in multi-company seminars, or in networks.

The SBS received six proposals one of which was from Redwaters Limited, a consultancy then of six employees. Redwaters Limited was awarded the contract even though it was a small business that had been established only the previous year. The associated risk was accepted by the SBS because of the superior quality of service and commitment underlying the Redwaters Limited bid and the personal commitment and known abilities of the Managing Director.

The outcome was a striking success. The proportion of the Business Link network using the CONNECT programme increased from 33% to 90% and the number of views per year achieved 30,000 against a target of 9,000. This is an example of a small business drawing on the previous experience of leading individuals, being able to provide a level of innovation which exceeds that normally available from the mainstream market, combined with the special personal commitment and service which is often associated with such businesses.



The challenges for SMEs

Understanding the requirements

You will only get good, well-structured and innovative bids if suppliers understand your requirement, and you are not over-prescriptive about how it should be met.

THE CHALLENGES FOR SMEs

Problems here include:

- Lack of clarity over what is wanted
- Requirements that focus on the solution rather than the outcome the solution is to deliver, with the result that innovative bids are excluded
- Over-specification of the requirement or inappropriate requirements for standards conformance – this makes solutions expensive to deliver.

WHAT YOU CAN DO

General guidance on producing requirements applies to suppliers of all sizes. When drawing up requirements:

- Make requirements clear and unambiguous, and avoid jargon
- Focus on the outcomes required, not on how they are to be delivered (the ‘what’ rather than the ‘how’)
- Avoid over-specifying the requirement
- Specify standards where they are necessary, rather than including a standard list as routine
- Be clear on what the supplier has to do in responding to the requirement – the types of information required, the format of the response, the deadline for receipt
- Let them know your evaluation criteria, and their relative importance – that way they can focus on what is important to you
- Provide a contact point for suppliers requiring further information. Ensure the contact point is staffed, ideally by the same people, and all enquiries get a response.

“Make requirements clear and unambiguous”



CASE STUDY

The National Health Service Procurement and Supply Agency (PASA) has let national framework agreements with suppliers for staff to fill temporary vacancies. NHS Trusts are not obliged to use these suppliers, but they are widely used as they eliminate the local transaction costs of ensuring the quality of the temporary staff and determining price at each booking.

One such framework agreement, let for a period of three years with the potential for a further one year extension, is for the supply of various categories of temporary ancillary staff, covering catering, driving, maintenance, security, domestic services, stores and portering. PASA created a national specification to provide a more level playing field between national and smaller, local suppliers. They also allowed bids from smaller suppliers to supply only certain regions, or even only certain named Trusts.

The advertisement for expressions of interest was widely disseminated, including advertisements in journals likely to be accessed by smaller suppliers. 144 expressions of interest were received. Following a PQQ the subsequent bidding process was fairly complex, involving some six or seven documents with 66 pages of conditions defining the contract. However, PASA gave firms guidance on these where this was requested, specifically in the form of a supplier conference where a walk-through of the documents took place with subsequent clarifications where requested. Of the 33 agencies awarded contracts, 22 were SMEs.

PASA has recorded many advantages to the NHS from this widening of the supplier base. Prices have fallen by 15% on average and up to twice that in some local markets. The NHS Trusts also report that smaller, local firms tend to provide a more personalised service, being more often willing to “go the extra mile” to meet urgent or special staff requirements. This illustrates how broadening the market, in this case at very little cost to the procurer, can achieve both very significant, continuing cost savings and improvements in quality.



The challenges for SMEs

“Getting feedback is vital”

Lack of feedback

Realising the benefits SMEs can bring will only happen if they submit good, well-structured bids. Getting feedback on why a bid was unsuccessful is vital in allowing a company to improve its bid technique, and to increase its chances of being successful in future.

THE CHALLENGES FOR SMEs

SMEs have complained that, when they have been unsuccessful, feedback has either not been provided or is not particularly helpful.

WHAT YOU CAN DO

- Remember that it is a requirement under EU procurement directives to provide feedback and it should always be given if requested, even for contracts below the EU threshold
- Bear in mind that SMEs unfamiliar with the public sector may not know they are entitled to feedback so it is a good idea to let them know it is available
- Feedback should be as helpful as possible, though obviously without giving any details of competing bids
- Poor quality or non-existent feedback can reinforce a belief already common amongst suppliers that the public sector selects its suppliers on the basis of lowest cost not value for money
- A new supplier may also benefit from feedback even when it is successful – it can be helpful to know which aspects of its bid were seen as strongest, and whether there were any weaknesses.

Cash flow

THE CHALLENGES FOR SMEs

- Cash flow can be a particular problem for SMEs.

WHAT YOU CAN DO

- Consider whether stage or interim payments (linked, for example, to work done) are appropriate
- The public sector is obliged to pay suppliers within 30 days of receiving a valid invoice, but even within such targets, paying as soon as possible can help an SME's cash flow. Think about making use of the Government Procurement Card as a mechanism to ensure prompt payment to suppliers
- Consider whether advance payments could be used. There are some circumstances when these can be offered to VCOs and other organisations. Further information on advance payments can be found in section 16.1 of the Government Accounting manual www.government-accounting.gov.uk

A Study of the Benefits of Public Sector Procurement from Small Businesses

(SBS report published August 2005)

This study was undertaken by NERA Economic Consulting for SBS to help strengthen the analytical base for the promotion of public procurement from SMEs.

The study reviewed the statistical data available on three issues: the role of SMEs in the economy as a whole, government procurement by sector of the economy, and the extent to which SMEs currently supply central and local government. The study also contains a review of the literature on the contribution of SMEs to economic activity and economic growth.

Apart from direct financial savings, where every market is different, it was not generally found practicable to put explicit monetary values on special benefits of SMEs. However, the consistency and firmness of the views of many procurers provide strong support for continued measures to encourage public sector procurers to consider the scope for widening procurement from SMEs in their particular area.

Many of the case studies used throughout this booklet are summaries of some of those included within the report. Please refer to the full report for further details. Several other informative case studies are also recorded in the report, including a wide range of IT contracts and sub-contracts, for public and private sector procurers, illustrating the very strong role of SMEs in that field. Copies of the report are available from www.dti.gov.uk/publications/



Summary

This booklet has outlined the advantages of dealing with small firms, as well as exploring some of the barriers they can experience when competing for public sector contracts. It has also identified some things that can be done to enable those SMEs offering value for money to secure contracts. This summary is followed by a checklist, which sets out a number of questions to be considered when devising a procurement strategy or letting a contract. The final section contains contact details and web links for further information.



Procurement strategy

- What will be the likely effect of your procurement approach on the market?

Advertising opportunities

- How easy is it for prospective suppliers to find out about your commercial requirements?
- Can prospective suppliers find the right contact in your organisation?
- How will you make sure that the best potential suppliers will know about your contract opportunity? Do you know how to reach them?
- Have you considered the full range of supply options available in your procurement including the value offered across a diverse SME supplier base including social enterprises, VCOs and BMEs?

Capability and financial assessment

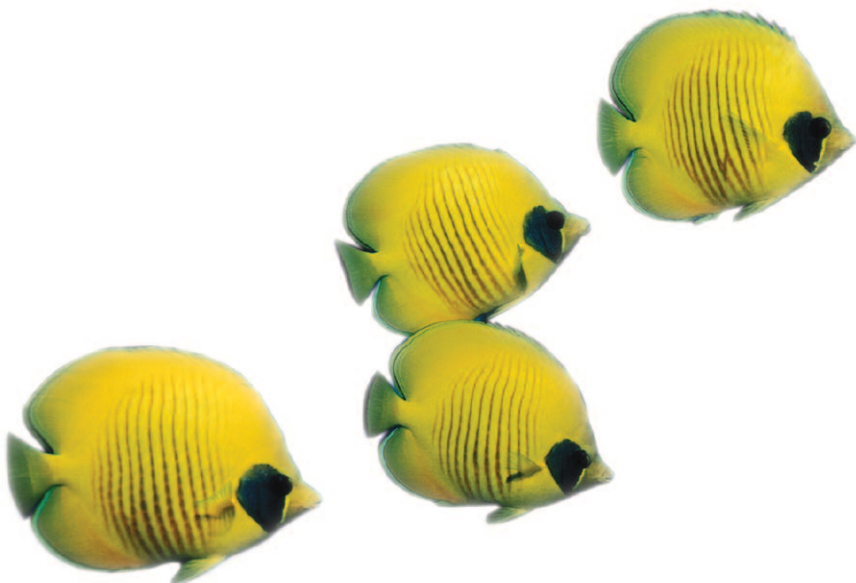
- Do assessments of capability and financial standing take into account the nature of the requirement and risks associated with each supplier?

The procurement process

- Is the procurement timetable realistic?
- Are requirements clear and outcome based?
- Are tender and other documents concise and in plain language?
- Is it clear how to respond to them?
- Do suppliers know who to contact to discuss their concerns and your requirements?
- Are evaluations clearly based on value for money not lowest cost?
- Is feedback always offered, and given where requested?
- Are supplier lists refreshed regularly and visible?

Further information

- The **Office of Government Commerce (OGC)** works with public sector organisations to help them improve their efficiency, gain better value for money from their commercial activities and deliver improved success from programmes and projects. Our priorities are to support the delivery of:
 - The public sector's £21.5bn annual efficiency gains by 2007/08
 - £3bn savings by 2007/08 in central Government procurement
 - Improvement in the success rate of mission critical projectsFurther information on OGC's activities can be found at: www.ogc.gov.uk
You can also contact the OGC Service Desk about all aspects of OGC's business:
Telephone: **0845 000 4999** Email: ServiceDesk@ogc.gsi.gov.uk
- The **Small Business Service (SBS)** is an Executive Agency of the Department of Trade and Industry (DTI) and is instrumental in taking forward the Government Action Plan for Small Business. The plan is structured around seven strategic themes - each one of which has a range of actions and initiatives aimed at achieving the Government's small business objectives. Details of most of those initiatives are available from www.sbs.gov.uk
- **Euro Info Centres (EIC)** have been set up throughout the UK by the European Commission to provide information and services for business. These include a full library service of OJEU and an Alerting Service for Tenders Electronic Daily. For details of the EIC network see the EIC website. www.euro-info.org.uk
- To find out more about social enterprises including where you can identify them in your region or sector of business, contact the **Social Enterprise Coalition** on officemanager@socialenterprise.org.uk, call **020 7968 4893**, or visit their website at www.socialenterprise.org.uk
- The www.supplyinggovernment.gov.uk website gives advice and guidance to businesses and UK central & local government procurement professionals.



Useful publications and websites

- **Tendering for Government Contracts** is an SBS/OGC publication which gives guidance to firms on the tendering process and is a useful document for potential suppliers. Available from www.sbs.gov.uk
- **A Study of the Benefits of Public Sector Procurement from Small Businesses** was undertaken for SBS to help strengthen the analytical base for the promotion of public procurement from SMEs. Available from www.dti.gov.uk
- **A public Procurement Toolkit for social enterprises** is available from www.sbs.gov.uk
- The **Small business friendly Concordat** is a voluntary, non-statutory code of Practice for Local Government. Available from www.odpm.gov.uk
- Further information about the **West Midlands Procurement Pilot** is available from www.supplyinggovernment.gov.uk
- For further information on the **London Borough of Haringey Pilot** is available from www.haringey.gov.uk
- **More for Your Money** is a guide to procuring from social enterprises. Available from www.socialenterprise.org.uk
- The guide to **Aggregation** explains that aggregation of demand need not necessarily lead to aggregation of supply, and discusses the key issues that will inform the decision-making process. Available from www.ogc.gov.uk
- **Supply Chain Management in Public Sector Procurement: A Guide** looks at how the public sector can improve the way in which the supply chain is managed both within a procurement exercise and when a contract has been awarded. Available from www.ogc.gov.uk
- A **simplified PQQ** has been developed by OGC for use when running a competitive procurement for low value (ie, sub-OJEU) requirements. Available from www.ogc.gov.uk
- **Supplier Financial Appraisal Guidance** has been developed by OGC to give advice on how to conduct the financial appraisal of suppliers bidding for significant public sector contracts. Available from www.ogc.gov.uk
- **The Government Accounting manual** can be accessed on-line from: www.government-accounting.gov.uk/
- **Think Smart Think Voluntary Sector** is a joint Home Office/OGC publication which gives good practice guidance on the procurement of services from the Voluntary and Community Sector. Available from www.ogc.gov.uk or www.homeoffice.gov.uk
- **Working with the Third Sector** is a National Audit Office report examining how government departments and other funders can best work with the third sector to achieve value for money in public services. Available from www.nao.org.uk
- **The Compact on relations between government and the voluntary and community sector** is a framework for partnership working between Government and the voluntary and community sector. The report and further information is available from www.thecompact.org.uk

**About OGC**

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OGC Service Desk

OGC customers can contact the central OGC Service Desk about all aspects of OGC business.

The Service Desk will also channel queries to the appropriate second-line support. We look forward to hearing from you.

You can contact the Service Desk 8am - 6pm Monday to Friday

T: 0845 000 4999

E: ServiceDesk@ogc.gsi.gov.uk

W: www.ogc.gov.uk

Press enquiries

T: 020 7271 1318

F: 020 7271 1345

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