

Smaller supplier...

...better value?



Office of Government Commerce



small  
business  
service

The purpose of the booklet is to raise awareness of the value for money that small firms can offer, to explore the issues that can make it difficult for them to win public sector business, and set out some ideas about how you can help. It is aimed at procurement professionals in the public sector.

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# Foreword



“Suppliers are playing an important part in government’s core business. Although more than 50% of the UK private sector workforce is employed in small firms, and the number of small firms is increasing, they are finding it increasingly difficult to compete for public sector contracts.

Government is committed to helping small firms because they represent such a powerful engine for economic growth. In January 2001 the ‘Think Small First’ initiative was launched. It is the first national strategy for supporting small firms in the UK, and asks every part of government to think about their role in supporting and promoting small firms and an entrepreneurial society. In the context of procurement, this must be within the overarching policy of value for money.

“SMEs represent a powerful engine for economic growth”

Handwritten signature of Martin Wyn Griffith in black ink.

Martin Wyn Griffith  
Chief Executive for the Small Business Service

Handwritten signature of Peter Gershon in black ink.

Peter Gershon  
Chief Executive of OGC

We at the Office of Government Commerce (OGC) and the Small Business Service (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 & Industry and is dedicated to helping small firms and representing their interests.”

# Introduction

## WHAT IS A SMALL FIRM?

For the purposes of this guide the Small Business Service definition of firms with up to 50 employees is used. A diverse group of businesses fall into this category, ranging from sole traders to substantial, established firms - including start-ups, ethnic-minority-led businesses and social enterprises. A further term associated with small firms is 'Small or Medium Enterprise' (SME) - this encompasses a wider range of businesses, having up to 250 employees.

At the start of 2000 there were an estimated 3.7 million businesses in the UK, of which only around 7,000 were large businesses (more than 250 employees). In fact, 99% of all businesses had fewer than 50 employees. The majority of UK businesses therefore fall into the small firms category, and small firms account for around 50% of UK business turnover.

## SO WHAT'S 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 government 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.

Although small firms feel the above challenges more keenly, research has shown they are also issues of concern to medium-sized firms. This booklet therefore addresses the issues faced by SMEs.

## 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 access to a large and stable market.

"At the start of 2000  
99% of all  
businesses



## SMEs – better value for money?

SMEs may offer better value for money than larger suppliers by:

### BRINGING GREATER COMPETITION TO THE MARKETPLACE

– this helps to drive costs down.

### LOWER COST

– SMEs have smaller administrative overheads and management costs than larger firms. Depending on the nature of the procurement, this may result in lower prices.

### 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.

### RESPONSIVENESS

– 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.

### FLEXIBILITY

– your contract is more likely to be important to an SME. They may therefore be more willing to tailor a product or service to meet specific customer needs than a large firm that sells an established offering.

### QUALITY OF SERVICE

– being a large customer of a small business means your business is important to the SME. This can result in better, and often more personal levels of service and in a better relationship with the supplier.

### SPECIALISM

– many SMEs survive by supplying specialist products or services that larger suppliers find unattractive, for example because of limited demand.



had fewer than  
fifty  
employees"

## The challenges for SMEs

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	WHAT YOU CAN DO
<ul style="list-style-type: none"> <li>■ SMEs perceive the process as long and complex and can therefore be discouraged from bidding.</li> <li>■ 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.</li> <li>■ On the one hand, SMEs can find the cost of long tendering processes to be prohibitive.</li> <li>■ On the other hand, an SME with limited resources may find procurement timescales too tight, and struggle to 'keep up' with larger competitors.</li> </ul>	<ul style="list-style-type: none"> <li>■ Explain the process, and what will be required to suppliers at the outset.</li> <li>■ Ensure the process is appropriate to the size and complexity of the requirement.</li> <li>■ Keep tender documentation concise and jargon-free.</li> <li>■ Ensure that the procurement is based on a sound business case to avoid an aborted procurement, or delays whilst funding is approved.</li> <li>■ Ensure that the project and budget have been fully approved.</li> <li>■ 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.</li> <li>■ 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.</li> </ul>

# The challenges for SMEs

## WHERE TO FIND OPPORTUNITIES

### THE CHALLENGES FOR SMEs

- Searching OJEC is difficult for suppliers that are not familiar with the specialised terminology used.
- SMEs may not have the resources to search OJEC regularly and may find some commercial OJEC-searching services expensive.
- Lower value procurements (below the EC 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, Euro Info Centres (EICs) and Regional Supply Networks can also be useful in publicising requirements and identifying local suppliers.
- Make OJEC 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 OJEC limit:
  - refresh them regularly;
  - be open about the process;
  - make it easy for suppliers to become listed.
- Produce a 'Selling to...' guide giving potential suppliers the information they need to bid effectively.
- Publish contact details both for general procurement questions and specific opportunities.
- Use your website (see page 8). It is an ideal way of making information available at low cost.
- Hold 'Meet the Buyer' events.
- The additional costs of these actions can be offset by finding a supplier able to offer better value for money.

# The challenges for SMEs

## WHERE TO FIND OPPORTUNITIES

### WEBSITES

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 the page can contain can be found on the websites of Southampton Council ([www.southampton.gov.uk](http://www.southampton.gov.uk)) and the National Assembly for Wales ([www.winningourbusiness.wales.gov.uk](http://www.winningourbusiness.wales.gov.uk)).



# The challenges for SMEs

## CONTRACTS ARE TOO BIG

The drive for greater efficiency in public sector procurement has resulted in a trend to replace many small contracts with 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 necessarily deliver better value for money, and purchasing authorities need to consider the impact of procurement strategies on the supply base.

THE CHALLENGES FOR SMEs	WHAT YOU CAN DO
<ul style="list-style-type: none"> <li>■ Small suppliers, who may have successfully contracted in the past, and provided good service, cannot bid for the larger contract.</li> <li>■ The result of this trend is that more business is placed with a reduced number of large suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>■ Consider your procurement strategy, and in particular the scope of your procurements.                             <ul style="list-style-type: none"> <li>• Are there elements best left outside the main contract?</li> <li>• 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).</li> <li>• If new work may subsequently fall within the scope of the contract is it practical to reserve the right to source this separately?</li> </ul> </li> </ul>

"Are there advantages in dividing the contract into lots?"

# The challenges for SMEs

## CONTRACTS ARE TOO BIG

### OPERATING AS A SUPPLY CHAIN PARTNER

Although SMEs may not be in a position to be a prime contractor, there are opportunities for them to be sub-contractors, particularly where they can provide specialist 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.

There are other things you can do to help:

- 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. 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.
- Some departments publish the names of companies involved during a procurement, which can also aid potential sub-contractors.
- Be open to consortia bids from SMEs as this is one way in which small businesses can tackle large procurements.
- Encourage main suppliers to adopt supply chain management practices that integrate, incentivise and reward good performance throughout the supply chain.



"Consider  
sub-contractor  
arrangements"

## The challenges for SMEs

### USING LOTS

#### CASE STUDY

The Department for Work and Pensions, when letting their stationery and computer consumables contract, organised the contract into 4 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.

"Specialist  
local suppliers may offer  
value for money"



# The challenges for SMEs

## FRAMEWORKS

As with large contracts, frameworks can bring benefits including economy of scale pricing, simplified ordering, reduced procurement and contract management costs, and greater flexibility to the purchasing authority. For the same reasons, frameworks can be particularly beneficial to SMEs that have secured contracts. However, the widespread use of frameworks can cause considerable difficulties to many SMEs.

### THE CHALLENGES FOR SMEs

SMEs often have particular problems with frameworks:

- They often do not understand them or how to bid for them.
- They often find them too big to bid for.
- Frameworks reduce future opportunities as more orders are placed with the framework supplier(s).



## The challenges for SMEs

### 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.

### WHAT YOU CAN DO

Things to consider when running a framework procurement include:

- Advertising widely to maximise the potential bidders.
- Considering the benefits of including small suppliers - particularly for more specialist items and niche products or services.
- Considering the optimum number of suppliers (too many – lose economy of scale, too few – reduce choice).
- Encouraging supply chain management and visibility of the supply chain.
- Considering whether use of the resulting framework should be mandatory. There may be occasions when better value could be obtained by a separate procurement.

And when ordering...

- Identify requirements early – frameworks are sometimes used because there is no time to run a separate procurement.
- Ensure that you have time to consider all sources of supply, which may be a framework, or may equally be an SME with a particularly novel solution or better fit to the requirement.
- Do you always have to use the framework?
  - Short-term market conditions may mean you could get better value by buying elsewhere.
  - Are there clear advantages to using small, local suppliers?

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

# 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	WHAT YOU CAN DO
<ul style="list-style-type: none"> <li>■ SMEs may be relatively young and may not therefore have an extensive track record.</li> <li>■ They may not be able to provide several years of audited accounts.</li> <li>■ They may also, by virtue of their size, have limited capacity.</li> <li>■ 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.</li> </ul>	<ul style="list-style-type: none"> <li>■ Be aware that government advice, recently updated (see below *), is to request only two years of accounts or, if these are not available, other appropriate information.</li> <li>■ 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.</li> <li>■ 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).</li> </ul> <p>For example:</p> <ul style="list-style-type: none"> <li>• Does it matter if the estimated value of the procurement is more than x% of turnover if the company is growing rapidly?</li> <li>• 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?</li> <li>• Does it matter if it is a small company, if it has sufficient skilled staff to meet your requirements without becoming overstretched?</li> <li>• Does it matter if the company's experience is all in the private rather than public sector?</li> </ul>

\* 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 website: [www.ogc.gov.uk](http://www.ogc.gov.uk).

# 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	WHAT YOU CAN DO
<p>Problems here include:</p> <ul style="list-style-type: none"> <li>■ lack of clarity over what is wanted.</li> <li>■ requirements that focus on the solution rather than the outcome the solution is to deliver, with the result that innovative bids are excluded.</li> <li>■ over-specification of the requirement or inappropriate requirements for standards conformance - this makes solutions expensive to deliver.</li> </ul>	<p>General guidance on producing requirements applies to suppliers of all sizes. When drawing up requirements:</p> <ul style="list-style-type: none"> <li>■ Make requirements clear and unambiguous, and avoid jargon.</li> <li>■ Focus on the outputs required, not on how they are to be delivered (the ‘what’ rather than the ‘how’).</li> <li>■ Avoid over-specifying the requirement.</li> <li>■ Specify standards where they are necessary, rather than including a standard list as routine.</li> <li>■ 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.</li> <li>■ Let them know your evaluation criteria, and their relative importance – that way they can focus on what is important to you.</li> <li>■ 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.</li> </ul>

“Make requirements clear and unambiguous”

## The challenges for SMEs

### 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 EC procurement directives to provide feedback and it should always be given if requested, even for contracts below the EC 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.

"Getting  
feedback  
is vital"

# The challenges for SMEs

## 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.



### 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.

# Checklist

## 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?

## 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 output 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?
- For non-EC procurements, are supplier lists refreshed regularly and visible?



## Further information

- ‘Tendering for Government Contracts’ - this SBS/OGC publication gives guidance to firms on the tendering process and is a useful document for potential suppliers. It is available from the [www.businesslink.org](http://www.businesslink.org) and [www.ogc.gov.uk](http://www.ogc.gov.uk) websites.
- The Office of Government Commerce (OGC) is an Office of HM Treasury, and was established in April 2000 with the aim of improving the commercial performance of central civil government. It publishes guidance on best procurement practice including guidance on financial and commercial evaluation and sector-specific guidance including construction and IT.  
[www.ogc.gov.uk](http://www.ogc.gov.uk)  
Service desk: 0845 000 4 999  
Email: [ServiceDesk@ogc.gsi.gov.uk](mailto:ServiceDesk@ogc.gsi.gov.uk)
- The Small Business Service (SBS) is an Executive Agency of the Department of Trade and Industry, and was established in April 2000 with the aim of making the UK the best place in the world to set up and run a business. It also operates the Business Link network that provides information and advice to small firms at a local level.  
[www.sbs.gov.uk](http://www.sbs.gov.uk) and [www.businesslink.org](http://www.businesslink.org)
- Regional Supply Networks provide a mechanism for putting purchasers into contact with suppliers. The website [www.rsn.org.uk](http://www.rsn.org.uk) provides contact details.
- 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 OJEC and an Alerting Service for Tenders Electronic Daily.  
For details of the EIC network see the EIC website.  
[www.euro-info.org.uk](http://www.euro-info.org.uk)