

# Public Procurement

removing the **barriers** to **SMEs**

THE EDUCATION SECTOR

NORTHERN IRELAND ASSEMBLY

THE HEALTH SECTOR

CROSS BORDER AGENCIES

PUBLIC CORPORATIONS

CENTRAL GOVERNMENT

LOCAL AUTHORITIES





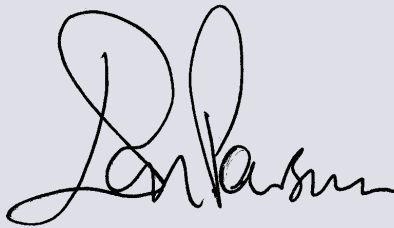
# A GUIDE TO PURCHASERS

## FOREWORD

Public procurement policy recognises the importance of SMEs both for the vital contribution they make to the economy of Northern Ireland and to public procurement in general. Policies at UK and European level similarly recognise this.

There are nevertheless perceived and real barriers faced by SMEs in doing business with the public sector. While there is no simple remedy for helping SMEs to participate more fully in public sector business I would encourage purchasers to work with businesses and better equip them for competing for public sector contracts.

This Guide and the companion Guide for SMEs will go a long way towards assisting SMEs to do business with the public sector.



**IAN PEARSON MP**

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## INTRODUCTION

The European Commission in its 1998 publication *Public Procurement in the European Union* recognised the importance of small and medium sized businesses both from the general benefit of national economics and also in public procurement. The Commission's definition of what constitutes small and medium sized business is based on a combination of the following criteria: number of salaried workers, turnover, balance sheet and independence. A business is considered to be medium sized if it has between 50 and 250 employees and small if the workforce is less than 50. A diverse group of businesses fall into this category, ranging from sole traders to established firms and include start ups, partnerships, ethnic-minority-led businesses and social enterprises. For ease of reference in this Guide that group is referred to as SMEs (Small and Medium sized Enterprises).

In Northern Ireland there are estimated to be 85,000 small or medium sized businesses employing some 450,000 people.

The public sector in Northern Ireland spends approximately £1.6bn each year on public procurement out of a total budget of £7bn. Suppliers play an increasingly important part in delivering the core business of the Northern Ireland public sector. Industry representatives have, however, indicated to Ministers and officials the concern within industry that small and medium sized firms are missing out on public sector business. In addition, they have highlighted the barriers that discourage these firms from competing for this business.

This Guide examines the barriers small and medium sized businesses face in participating in public sector tender competitions and suggests measures that purchasers might take to reduce or eliminate these barriers.

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## SO WHAT'S HOLDING SMALL BUSINESSES 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; and
- 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 businesses feel the above challenges more keenly, research has shown they are also issues of concern to medium-sized firms.

## WHAT CAN SMEs 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.

### 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 down costs.

#### 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 commodity.

### **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 through 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.

## **THE CHALLENGES**

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Research has identified 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 purchasers can address each of the issues – the challenges for Purchasers. Many of these represent general good practice, which should be applied when dealing with firms of all sizes.

## **THE PROCUREMENT PROCESS**

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### **THE BARRIERS**

- 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.

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- 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.

## REMOVING THE BARRIERS

- Provide a point of contact.
- 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.

## WHERE TO FIND OPPORTUNITIES

### THE BARRIERS

- Searching OJEU is difficult for suppliers that are not familiar with the specialised terminology used.
- SMEs may not have the resources to search the OJEU regularly and may find some commercial OJEU-searching services expensive.
- Lower value procurement (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.

## REMOVING THE BARRIERS

- Publicise opportunities, particularly lower value ones, widely using the provincial newspapers and where appropriate develop websites to include tender opportunities.
- 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.
- 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. 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.

## Websites

Almost all public sector organisations have websites with various links. 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.

## 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-

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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 best value for money, and contracting authorities need to consider the impact of procurement strategies on the supply base.

## THE BARRIERS

- Small suppliers, who may have successfully contracted in the past and provided good service, cannot bid for the larger contract.
- The result of this trend is that more business is placed with a reduced number of large suppliers.

## REMOVING THE BARRIERS

- 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?

## 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.
- The award notice published in the OJEU or posted to the contracting authority's website will be a source of information for small firms interested in sub-contracting.

- 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.

## **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 contracting 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 BARRIERS**

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).
- Frameworks often last for long periods which inhibits new or diversifying businesses from entering the market.

### **REMOVING THE BARRIERS**

When establishing framework arrangements consider:

- Advertising widely to maximise the potential bidders.
- The benefits of including small suppliers – particularly for more specialist items and niche products or services.
- 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.
- Whether use of the concept will deliver best value for money or whether better value could be obtained by a separate procurement.

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- Splitting the contract into lots to encourage small or specialised businesses.
- Reducing the contract duration to 18 months/2 years.

## 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 BARRIERS

- 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.

### REMOVING THE BARRIERS

- Be aware that government advice is to request only two years of accounts or, if these are not available, other appropriate information.
- 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).

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 that 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?

## **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 BARRIERS**

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.

### **REMOVING THE BARRIERS**

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 outputs 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.

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## 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 BARRIERS

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

### REMOVING THE BARRIERS

- Remember that it is a requirement under the UK procurement regulations 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 best 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 BARRIERS

- Cash flow can be a particular problem for SMEs.

### REMOVING THE BARRIERS

- Consider whether staged 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.

the  $\mathbb{R}^n$ -valued function  $\mathbf{f}$  is a solution of the system (1) if and only if  $\mathbf{f}$  is a solution of the system (2).

Let us assume that the matrix  $\mathbf{A}$  is nonsingular. Then the system (2) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}). \quad (3)$$

Let us assume that the matrix  $\mathbf{A}$  is singular. Then the system (2) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}) + \mathbf{C}\mathbf{f}, \quad (4)$$

where  $\mathbf{C}$  is a matrix of order  $n$  such that  $\mathbf{C}\mathbf{A} = \mathbf{0}$ . Let us assume that the matrix  $\mathbf{A}$  is nonsingular. Then the system (4) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}) + \mathbf{C}\mathbf{f}. \quad (5)$$

Let us assume that the matrix  $\mathbf{A}$  is singular. Then the system (5) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}) + \mathbf{C}\mathbf{f}. \quad (6)$$

Let us assume that the matrix  $\mathbf{A}$  is nonsingular. Then the system (6) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}) + \mathbf{C}\mathbf{f}. \quad (7)$$

Let us assume that the matrix  $\mathbf{A}$  is singular. Then the system (7) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}) + \mathbf{C}\mathbf{f}. \quad (8)$$

Let us assume that the matrix  $\mathbf{A}$  is nonsingular. Then the system (8) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}) + \mathbf{C}\mathbf{f}. \quad (9)$$

Let us assume that the matrix  $\mathbf{A}$  is singular. Then the system (9) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}) + \mathbf{C}\mathbf{f}. \quad (10)$$

Let us assume that the matrix  $\mathbf{A}$  is nonsingular. Then the system (10) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}) + \mathbf{C}\mathbf{f}. \quad (11)$$

Let us assume that the matrix  $\mathbf{A}$  is singular. Then the system (11) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}) + \mathbf{C}\mathbf{f}. \quad (12)$$

Let us assume that the matrix  $\mathbf{A}$  is nonsingular. Then the system (12) can be written in the form

$$\mathbf{f}' = \mathbf{A}^{-1}(\mathbf{B} - \mathbf{A}\mathbf{f}) + \mathbf{C}\mathbf{f}. \quad (13)$$

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