

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.

Contents

Foreword	3
Introduction	4
SMEs – better value for money?	5
THE CHALLENGES FOR SMEs:	
The procurement process	6
Where to find opportunities	7-8
Contracts are too big	9-11
Frameworks	12-13
Pre-qualification	14
Understanding the requirements	15
Lack of feedback	16
Cash flow	17
Summary	17
Checklist	18
Further information	19

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.



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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.

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.



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