

# Delivering Best Value with SMEs

## Opening doors to SMEs

Ron Burges introduces the first in a series of articles on how public authorities can help SMEs while still helping themselves achieve best value.



**S**elling to the public sector is often considered too difficult and such opportunities too remote by many companies that could and should be considering the public sector a key potential client.

This series of articles, which will appear within *Government Opportunities (GO)* over the coming months, is designed to help companies in identifying and tendering for new business opportunities with the UK public sector, and to help public sector authorities deliver best value for money through engaging more effectively and efficiently with small and medium-sized enterprises (SMEs).

First, let me dispel a few myths:

- SMEs cannot win public sector contracts

Not true – local government alone is estimated to have over 800,000 suppliers, the vast majority of whom are SMEs.

- The public sector is remote

Not true, public sector organisations are all around you – local government covers every area of the UK, the MoD has over 200 establishments across the country, there are hundreds of NHS trusts and government departments such as HM Revenue and Customs with offices nationwide, colleges and universities are to be found in every major town and city, as are social services and countless numbers of non departmental public bodies.

So why is there among the small business community the

perception that small businesses cannot sell to the public sector?

Well, a lot of the reason lies with the perception of what constitutes an SME. The European Commission definition is of an organisation with fewer than 250 employees and less than €50 million turnover. In other words, 99 per cent of all companies in the UK and Europe are SMEs. Without supplies and services from SMEs the public sector would grind to a halt.

When talking about small companies not getting a chance to enter the public sector marketplace, we are in fact really talking about micro-SMEs, companies with fewer than ten employees and a turnover of less than

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€2 million. These are the companies that in general, for one reason or another, find it very difficult to enter the public procurement arena.

In fact, the European Commission has recognised that the broader category of 'SME' is not appropriate when trying to identify those at the very small end of the market spectrum, and has since 1 January 2005 adopted a new definition which includes precise financial thresholds for these micro-enterprises.

Thus the EC now recognises the essential role of micro-businesses and their importance in the development of the Community's economy.

*Now that we know who we are talking about, let us look at the problems faced by these micro-businesses, which will be the engines of the nation's future growth and prosperity:*

- Contracts let by public bodies are too large for small and micro-businesses.
- Public sector opportunities that do exist are either not advertised or are not advertised openly.
- The process of application is too cumbersome and time-consuming.
- The requirements that have to be met are expensive and onerous.
- Subcontractor opportunities are impossible to identify or access.

*And this is the public sector buyer's perception:*

- Small businesses represent too much risk.
- They cannot be relied upon.
- They have no track record.
- They are too small for the type of contracts on offer.
- They do not respond to opportunities.
- They do not understand how the public sector buys, nor wish to spend the time learning.

All good arguments, whether from a supplier or a buyer perspective.

So how do we develop processes and practices that can be employed by both small and micro-businesses and the public sector to overcome these problems and allow dynamic micro-SMEs to offer their innovation and unique user benefits to the

public sector, as well as letting the public sector benefit from high-quality, innovative small businesses?

There is no doubt that public sector organisations could ease the tendering process to encourage small businesses to bid for their contracts.

Often no-cost process changes liberate public procurement opportunities for small and micro-businesses and provide added value for the public sector – a true win/win scenario.

One such change involves a simple process that my company, BiP Solutions Ltd – publisher of GO, has been advocating for some time and which has now been adopted by the Ministry of Defence; one which not only saves them time and money but also allows SMEs to more easily identify contract opportunities suitable to their size.

One of the biggest problems businesses face comes when they see a contract notice but cannot gauge whether or not it is too big for them. Often they make the mistake of not pursuing it because they believe it is too big, or else they do pursue it and waste precious time chasing something beyond their capabilities. For many it is a lose-lose scenario.

Let us first look at how public sector contracts are valued. We often refer to contracts that are sent to the Official Journal of the European Union as high value; well, that is often not the case.

What contracts am I talking about? Most central government bodies must notify the European Union of contracts valued at above approximately £93,000. For most non-central government public bodies this figure is £144,000. Both totals are exclusive of VAT. The important point to note is that this figure is not the annual total value of the contract, but the total potential value of the contract for the life time of that contract.

So a contract for a central government body with a value of £120,000 for three years is really only worth £40,000 a year: a sum well within the range of most micro-SMEs.

## The MoD now value-band all defence contract announcements using the following codes:

Category A:	£400,000,000 and above
Category A1:	£250,000,000 to £400,000,000
Category B1:	£100,000,000 to £250,000,000
Category C:	£20,000,000 to £100,000,000
Category D:	£10,000,000 to £20,000,000
Category E:	£5,000,000 to £10,000,000
Category F1:	£685,000 to £5,000,000
Category H1:	£93,000 to £685,000
Category I1:	£40,000 to £93,000
Category J1:	£20,000 to £40,000

When you consider the annual value and not the total value you see that many opportunities which appear at first sight to be high value and beyond the abilities of micro-SMEs are in fact well within their capability.

The difficulty still remains, though, of finding out exactly the value of these contracts.

As I said earlier, there is a very simple and effective way round this problem, and it is a way that has been adopted by the MoD after being proposed to them by BiP Solutions, as official publishers of MoD contract information.


Value-banding is cost-free and proven to save both suppliers and buyers time and money.

The MoD have found that value-banding has reduced the number of expressions of interest they have to deal with as large companies can clearly identify small contracts which are not really of interest to them and small companies can stop wasting time applying for large contracts outwith their capabilities.

The adoption of value-banding is a win for all parties. It increases appropriate competition for public contracts and at the same time it saves small companies from wasting the most costly resource they have – time – on chasing contracts that are inappropriate to their business, allowing them instead to identify and concentrate on those that are.

Value-banding is a simple solution that should be

adopted by all public bodies – it costs nothing, yet realises huge benefits to all parties. If the MoD can do it, and it saves them time and resources, then all public bodies should introduce the same system.

Contract opportunities suitable to micro-SME businesses will then soon become visible. This one simple process change, if introduced across the public sector, could revolutionise access to public contracts for micro-SMEs. 

Next month: An insight into other process changes which could deliver benefits to both suppliers and public sector buyers.



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## What's your view?

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