

**Scottish Procurement  
Directorate**

**BUYERS' GUIDE TO WORKING WITH  
SMALL AND MEDIUM SIZED  
ENTERPRISES**

Reference SPD 3  
Published March 2004



**SCOTTISH EXECUTIVE**

<b>Section</b>	<b>Contents</b>	<b>Page No</b>
<b>1.</b>	<b>Introduction</b>	<b>2</b>
<b>2.</b>	<b>Checklist for Procurement Staff</b>	<b>2</b>
<b>3.</b>	<b>Assisting SMEs To Bid For Scottish Executive Contracts</b>	<b>3</b>
	<b>3.1 Where to find opportunities</b>	<b>3</b>
	<b>3.2 The bidding process</b>	<b>3</b>
	<b>3.3 Limited capacity</b>	<b>5</b>
	<b>3.4 Limited resources</b>	<b>5</b>
	<b>3.5 Trends towards rationalisation</b>	<b>6</b>
	<b>3.6 Protection of intellectual property rights</b>	<b>6</b>
	<b>3.7 Risk-averse buyers</b>	<b>6</b>
<b>4.</b>	<b>Benefits of Contracting with SMEs</b>	<b>7</b>
<b>5.</b>	<b>Sources of Information</b>	<b>7</b>
	<b>5.1 The Scottish Executive</b>	<b>7</b>
	<b>5.2 Scotland and the United Kingdom</b>	<b>8</b>
	<b>5.3 Europe</b>	<b>8</b>

## **1. Introduction**

1.1 This guidance document is intended to raise awareness of SMEs amongst procurement staff. The aim is to ensure that, wherever possible and, consistent with the need to secure value for money, suitably qualified SMEs have the opportunity to compete for Scottish Executive business. The barriers to business that SMEs face and how SMEs can be assisted in bidding for work are outlined to ensure that SMEs are not unduly discriminated against in the procurement process.

1.2 The definition of an SME is described a business with less than 250 employees. It is estimated that there were 3.86 million active businesses in the UK at the start of 2002, 99.1% of which employed less than 50 people and 99.8% less than 250 people.<sup>1</sup> In Scotland in 2002 there were some 252,255 businesses employing 2.36 million people, of these businesses 97.5% employed fewer than 50 people and 98.7% less than 250.<sup>2</sup>

1.3 The issue of quotas for SMEs, i.e. ensuring that SMEs are awarded an agreed percentage of all public sector contracts, is often raised in the UK, but while inclusion of SMEs in competitive tendering exercises should have the benefit of increased competition, quotas would act against the principle of Value For Money (VFM).<sup>3</sup> and also act against Procurement legislation.

1.4 Scottish Executive Procurement Policy states –

*It is Government policy to take steps to remove barriers to participation by SMEs. There are many ways in which this can be done, such as improving access to procurement opportunities and information, which do not discriminate against larger firms and which help to improve VFM by increasing competition.*

1.5 Many examples of how to open up opportunities for SMEs to compete for contracts are also found in the document “Best Value Making Choices” Consultation Report<sup>4</sup>

1.6 However, given the nature and often comparatively large size of public sector contracts there will inevitably be circumstances when SMEs will have the best opportunities to tender for contracts as part of a consortia, as opposed to as a main contractor.

## **2. Checklist For Procurement Staff**

A number of barriers have developed over time which could deter suppliers from bidding for public sector contracts. These could be balanced by following the checklist below:

<b>Do</b>	<b>Don't</b>
Consider optimum scope of contract to ensure VFM – Use of frameworks, lots etc.	Automatically consolidate contracts into the largest mass possible
Set a realistic timetable	Change timescales if possible

<sup>1</sup> Source: Small Business Service: <http://www.sbs.gov.uk/content/statistics/tablesmestats.pdf>.

<sup>2</sup> Source : Scottish Executive Corporate Sector Statistics 2001 <http://www.scotland.gov.uk/stats/scs-00.asp>.

<sup>3</sup> Quotas are used in the US where Under the “Small Business Act”, 23% of prime federal contracts are reserved for small businesses.

<sup>4</sup> Best Value Making Choices Volume 1: A Manager’s Guide to the Strategic Framework for Best Value, Procurement and Competitiveness.

<b>Do</b>	<b>Don't</b>
Advertise contracts in accessible media	Use only high access cost media
Include specific procurement contacts in adverts	
Refer to Potential Suppliers list when sourcing	
Explain process in PQQ/ITT documentation	Expect suppliers to be familiar with procurement policy and processes
Simplify format	
List evaluation criteria	
Assess risk of using SMEs	Automatically rule SMEs out of competition
Consider variable invoicing within VFM	
Where appropriate consider IPR	Automatically assume IPR should rest with the Scottish Executive
Provide feedback to help companies to improve their performance	

### **3. Assisting SMEs To Bid For SE Contracts**

There are steps that can be taken to facilitate SMEs bidding for business and initially these can be addressed by reviewing the perceived barriers listed below.

#### **3.1 Not knowing where to find out about opportunities or who to contact**

15% of UK government contracts fall below EU thresholds and do not have to be advertised in the Official Journal of the European Union (OJEU).<sup>5</sup> These are the contracts that SMEs are most likely to be interested in, but they are also the contracts that are often most difficult to find out about. Buyers can take the following action:

- Aim to advertise opportunities widely and in places where access costs are low so that SMEs can easily find what opportunities may be available to them;
- Publish contact details for specific procurement opportunities so that potential suppliers can speak to someone if they are unclear about contract scope etc;
- Use a variety of sources to compile an open tender list for below OJEU procurements e.g. the Scottish Procurement Directorate (SPD) intranet includes an excel spreadsheet that holds information on all suppliers that have shown an interest in doing business through the SPD site.

#### **3.2 Expectations that the bidding process will be unnecessarily complex and costly and unfamiliarity with the processes and documentation involved**

Procurement processes should place the minimum possible burden on suppliers, consistent with genuine competition, value for money and any legal obligations. In defining the scope of the contract and the procurement strategy, the buyer should ensure that the range of goods and/or services to be included in the contract are such that it will provide the best opportunities for value for money (VFM):

- Are there some parts of the contract that could be treated separately more effectively? Small/niche requirements may be more attractive to SMEs;

<sup>5</sup> Source : Small Business Service Press release, 14 May 2003

- Explain the process. Make sure potential suppliers are aware of the various steps involved – the timetable, pre-qualification questionnaire (PQQ), ITT, legal and financial requirements. Relay procurement policy and include points of contact for contracts;
- Clarify the format, content and timing of the response required. It is important not to assume that all suppliers will be familiar with the tendering process used. Outline how you expect their response to be laid out in notes associated with the Invitation To Tender documents e.g. Instructions to Tender;
- Stick to the timetable. SMEs have limited resources and need to use these carefully. A much higher proportion of their resources will be tied up in bidding for contracts than for large companies and unreliable timetables can cause them severe resource problems;
- List and prioritise evaluation criteria for the award of contract.

### 3.3 Limited capacity by virtue of size

When preparing the PQQ/tender documents, assess the risk of awarding the contract to an SME. Is it appropriate to rule out potential suppliers on the basis of their size/background?

- **Where appropriate**, ensure evaluation criteria will not result in SMEs being automatically ruled out of competitions, company size/ experience may not be a significant indicator of their ability to carry out a contract;
- Carry out a risk assessment. Is the risk of using an SME containable?;
- Consider the use of lots i.e. sub-divide a single requirement for services relating to a project into lots. For services included in Part A of the EU procurement directives, where the total value of these contracts exceeds EU thresholds, EU rules apply. However, it is permissible to waive this requirement for a lot/group of lots with individual values of less than £51,785 (for services) providing the lot/group of lots have a total value of less than 20% of the whole project. Where it is appropriate to use lots, the smaller contracts may be more attractive to SMEs;
- Consider setting flexible payment terms within the VFM framework and set against the deliverables of the contract when the ITT is drafted. Due to their lower costs, some companies may be able to offer better terms but may require flexibility of payment schedules due to their size/ability to obtain credit;
- Government Procurement Cards (GPC) have been in use for several years now and GPC2 has been launched resulting in these cards being available for use in central and local government and by the NHS. GPCs have the benefit to SMEs of ensuring fast payment. GPC can only be used by public sector bodies who use SEAS as their financial programme for purchases up to £1,000. (Other non-SEAS public sector bodies set their own limit).

### 3.4 Limited resources for finding opportunities or for responding to ITTs and other contract letting documentation

As the bidding process will take up more of their resources than that of a larger company, it is important that SMEs can plan accordingly to make sure resources are available at appropriate stages in the bidding process.

### 3.5 Trends towards rationalisation of requirements into larger and longer contracts

There is a tendency towards consolidation of contracts and the use of framework arrangements:

- In forming the procurement strategy, consider what degree of consolidation will provide optimum VFM in supply of the goods and/or services required;
- For framework contracts, consider how these are perceived by SMEs. Frameworks could be more attractive to SMEs if they include specialist items and niche products or services;

<b>FRAMEWORKS</b>	
Advantages	Disadvantages
Pricing – Economies of scale	Understanding what they are and how to bid for them
Reduced procurement costs	Reduce future opportunities to sell a range of goods/services when contract is let

- In some cases it may be more suitable for an SME to seek opportunities as a sub-contractor in a larger contract and, where this arises, SPD may help to facilitate these opportunities. For example facilitating a pre-tender meeting, publishing contractors awarded so SMEs can contact them or allowing consortia bids.

### **3.6 Concerns about protection of intellectual property and confidentiality of new ideas**

The buyer can take steps to allay concerns about confidentiality :

- Consider the implications of where ownership of Intellectual Property Rights (IPR) rest. It is common for buyers to try and ensure that any IPR arising during a contract belongs to them. This is not always of great importance, it may be more valuable to allow the supplier some access to IPR depending on the nature of the contract e.g. letting suppliers use research information once it has been used for its original purpose;
- Make standard Terms and Conditions (Ts & Cs) available e.g. on the web. Making Ts & Cs widely available may lessen the perceptions of how difficult it is to do business with the public sector and instead of only becoming aware of them during the bidding process, potential suppliers could consider them at an earlier stage;
- Provide contact points for the specific contract so that SMEs can discuss these concerns.

### **3.7 The belief that government buyers are risk-averse**

Government buyers are often thought to be risk averse, therefore:

- Be open, is public sector experience necessary? Would private sector experience be just as relevant to a particular contract;
- SMEs may be relatively new companies and lack the track record that larger organisations have. It is important to ensure that technical and financial thresholds are appropriate to the contract. Consider risk relative to financial standing on a contract by contract basis. Is risk real or notional? The current requirement for financial records from companies bidding for business is for one copy of the organisation's audited accounts (or equivalent) and the accounts of the group (if any) for the last two years, together with details of any significant changes since the last financial year end. It may be acceptable to simply request evidence of the

organisation's financial standing, giving those involved in the procurement discretion to decide whether organisations are sufficiently financially stable to be included in the tender evaluation process;

- Provide feedback to SME bids, so that they can see why their bid succeeded or failed and can use this information to the benefit of their business.

#### **4. Benefits of Contracting with SMEs**

Procurement staff should be aware of the benefits that contracting with an SME may offer as they have characteristics that may give them advantages over larger organisations. For example:

- Lower overheads – small companies will not usually have running costs as large as those associated with larger organisations;
- Flexibility – their size lends them to being able to tailor solutions more effectively;
- Innovation – greater potential for taking a new approach to requirements;
- Specialist – many small companies are set up to cater for niche markets which may better match requirements;
- Service – relative to large organisations, your business will represent a much larger proportion of an SMEs turnover and they may value you more as a customer and provide a better service ;
- Future increased competition – Rather than limiting competition to a few large companies, who may be familiar with each others mode of operation, inclusion of smaller companies may lead to an increase in competition.

#### **5. Sources of Information**

Procurement staff should be aware of the following sources of information relating to SMEs.

##### **5.1 The Scottish Executive**

Companies can register their interest in selling by completing the simple [“Submit Your Details”](#) form on the website. Details will then be held in a [database](#) available from the SPD intranet. When procurement staff are looking for sources of supply the database will usually be one of the areas examined. The Scottish Executive does not operate approved lists of suppliers and registration of details does not guarantee that an organisation will be invited to bid for particular, or indeed any, requirements. Suppliers are encouraged to register as the database will be used as a source of information on potential suppliers.

Generally, the SPD website also explains many of the aspects that potential suppliers should consider if they wish to do business with the Scottish Executive.

The Scottish Executive is currently promoting e-procurement, it is expected e-procurement will cut transaction costs for suppliers by, among other steps, improving the accuracy of ordering and enabling fast payment of invoices.

##### **5.2 Scotland and the United Kingdom**

Support for new and early stage businesses in Scotland is largely a matter for Scottish Enterprise in respect of the lowland Scotland. Within the Scottish Enterprise area the

**Business Gateway** provides a single point of contact for businesses ([www.bgateway.com](http://www.bgateway.com)) to a consistent range of services geared towards potential business start-ups and growing businesses. In the Highland & Islands area, similar services are available from Highlands and Islands Enterprise [www.hie.co.uk](http://www.hie.co.uk)

EuroinfoCentre, <http://www.scottish-enterprise.com/euroinfocentre>, provides a UK and European public tenders members' service, including newsletter and members' booklet..

Small Business Service - [www.sbs.gov.uk](http://www.sbs.gov.uk) which contains information on testing the impact of regulations on small businesses.

Supplying Government - <http://www.supplyinggovernment.gov.uk/>

Small Business Research Initiative (SBRI). The SBRI was launched in April 2001 and is co-ordinated by the [Small Business Service](http://www.sbs.gov.uk) (SBS); it is designed to encourage more research and development within the public sector. A number of government departments are involved in this initiative, and will aim to get at least 2.5% of their Research and Development requirements from smaller businesses. The UK Research Councils are also aiming, in the slightly longer term, to reach these targets. The overall target is for £50 million worth of government research to be bought from smaller businesses by the year 2004. For more information on this initiative please visit the [Small Business Research Initiative](http://www.sbs.gov.uk) web site.

The Office of Government Commerce (OGC) has a priority to make the marketplace more attractive to new suppliers – and recently it has been concentrating attention on small firms. It recently published a booklet and video called "[Smaller supplier.....better value?](#)" which advises government on dealing with small firms.

For information on the use of Information and Communications Technology, SMEs can access [www.ukonlineforbusiness.gov.uk](http://www.ukonlineforbusiness.gov.uk), this site contains information to help SMEs knowledge of e-commerce including advice on building an e-business, regulation, funding and general advice.

The [NHS Purchasing and Supply Agency](#) is also focussing attention on this area by making more information available to suppliers.

Advertisements for many government contracts can be found in the journal "Government Opportunities", [www.govopps.co.uk](http://www.govopps.co.uk), (published by Business Information Publications Ltd). This service is available on a subscription basis.

### 5.3 Europe

The European Charter for Small Businesses –  
[http://www.europa.eu.int/comm/enterprise/enterprise\\_policy/charter/](http://www.europa.eu.int/comm/enterprise/enterprise_policy/charter/)

Europe wide - over the last few years government bodies have made progress at enabling SMEs to become involved in the tendering process. One site to help businesses identify possibilities to do business across Europe is [www.tradepartners.gov.uk](http://www.tradepartners.gov.uk)

Tenders that are above EU threshold values are advertised through OJEC, [Tenders Electronic Daily](#) which can be accessed free of charge, a more tailored service relating to these tenders

is available through “Tenders Direct” at [www.tendersdirect.co.uk](http://www.tendersdirect.co.uk) which is available on a subscription basis.