



CabinetOffice

Strategic Communication

Getting full value from SMEs – Report

CABINET OFFICE

4 June 2015

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Crown Representative for Small and Medium Enterprise

The Coalition Agreement



“We will promote small business procurement, in particular by introducing an aspiration that 25% of government contracts should be awarded to small and medium-sized businesses and by publishing government tenders in full online and free of charge.”*

Re-iterated in the Mid Term Review:
“We will aim to ensure that 25% of government spend goes to SMEs”

**by value directly and in the supply chain*

The Prime Minister's speech 11 Feb 2011

"Today, we are announcing big changes to the way government does business."

"No one should doubt how **important** this is."

"It's important for getting to grips with our deficit – as it will help us tackle waste **and control public spending.**"

"...the system doesn't encourage **small and medium-sized businesses**, charities and social enterprises to compete for contracts...
...the very firms who can provide the competitive pressure to **drive down costs.**"

"... wherever possible, we're going to **break up large contracts into smaller elements**, so that **SMEs can make a bid** and get involved"



Has not been done and there is virtually nothing in the Capability material to explain when sub-lotting is possible



Poss Sept 2015 announcements: my Dec 2014 proposal

Matthew Hancock, Minister for the Cabinet Office, announced today:

“We have made great progress in getting full value from SME suppliers for the taxpayer. But we can do more. By 2020, at least 33% % of direct spend by value will go to SMEs.

We should buy from an SME every time they are the best value for money supplier. This will reduce the deficit, stimulate growth and help deliver the ambitious Digital by Default world-leading.

I am announcing today:

1. The Office of the Crown Representative for SMEs will become an independent unit in the Cabinet Office, outside the Crown Commercial Service, with a strengthened team to drive the next phase of our programme. The successful Mystery Shopper team will report to it.
2. We shall legislate to ensure contracts are “right-sized” using the powers under the Small Business Bill and the EU directive. Research shows that large contract sizes are most significant barrier to getting value from SMEs.
3. A radical acceleration of investment in the successful G-Cloud bringing together the G-Cloud Digital Marketplace, Contracts Finder and Crown Marketplace. The G-Cloud will cover
 - G Buy – Digital Marketplace
 - G Bid – Contracts Finder v 2.0
 - G Bay – the place for Government e-auctions
 - Crown Marketplace: the platform for Government buyers to access G Buy, G Bid and G Bay as well as CCS frameworks and the travel portal from their desk

Run rate sales through the G Cloud Digital Marketplace are over £500m. 49% of the spend goes to SMEs.

There is clear route forward to a major prize

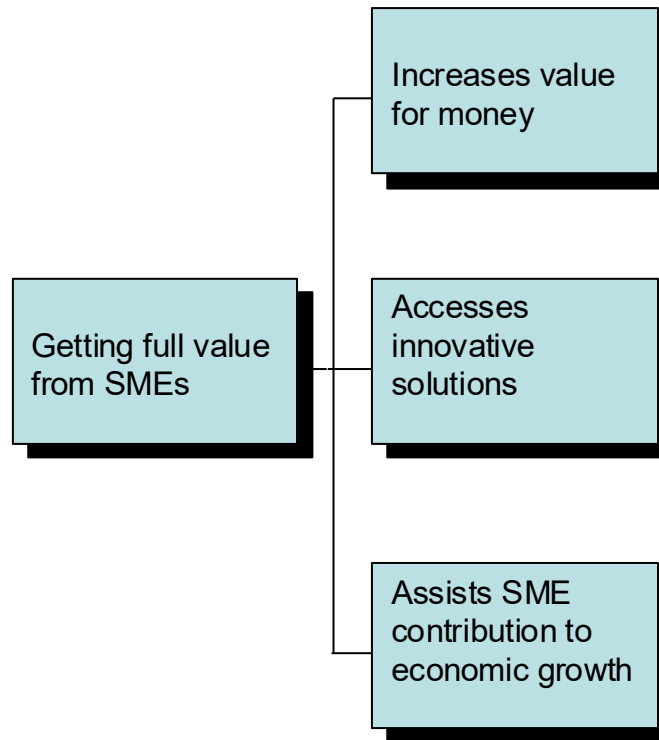
Highlight the successes: G Cloud, ICT dis-aggregation and exemplar departments such as DfT, HO and even HMT

Design a programme that builds on the successes that will deliver. It must include:

- Right sizing: answering the question “when is big beautiful and when is small beautiful”
- Getting the Best Bidders Bidding: supplier sourcing
- Sizing the Prize: measuring and delivering savings
- Winning the hearts and minds of civil servants on the ground
- Powerful, determined, well resourced and clearly directed implementation following Civil Service best practice
- Digital by Default – aggressive adoption of cloud and digital
- Transparency

Why SMEs are important to this Government

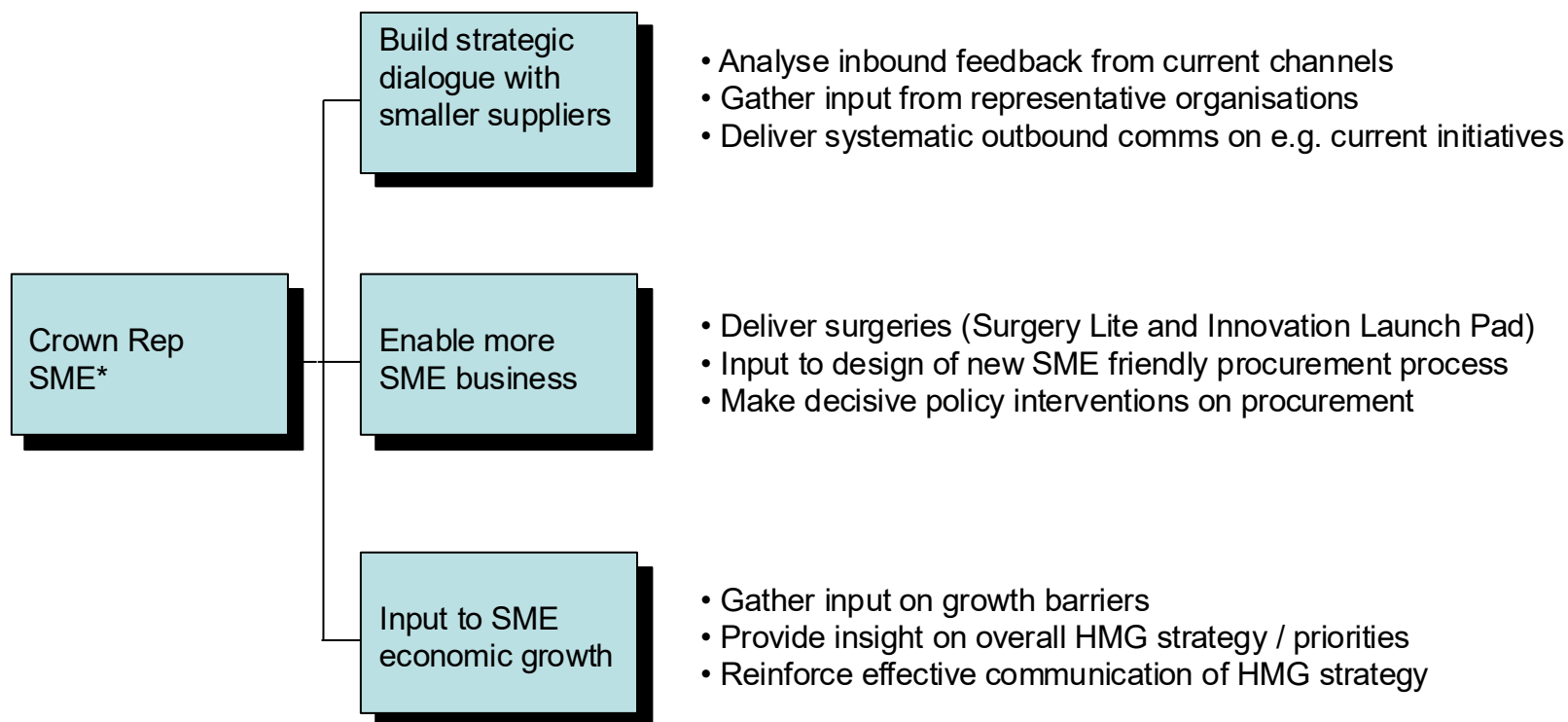
My chart from 2011 **still true today.**



Crown Representative for SME: who am I?

"His task will be to build a more strategic dialogue between HM Government and smaller suppliers – giving those suppliers a **strong voice** at the top table."

press release 11 February 2011



G Cloud customers are voting with their wallets ...

£ M, quarterly spend, financial years

G 6 went live 2 Feb 15

49% of spend goes to SMEs

50% savings are typical*

1,852 suppliers

19,996 cloud services

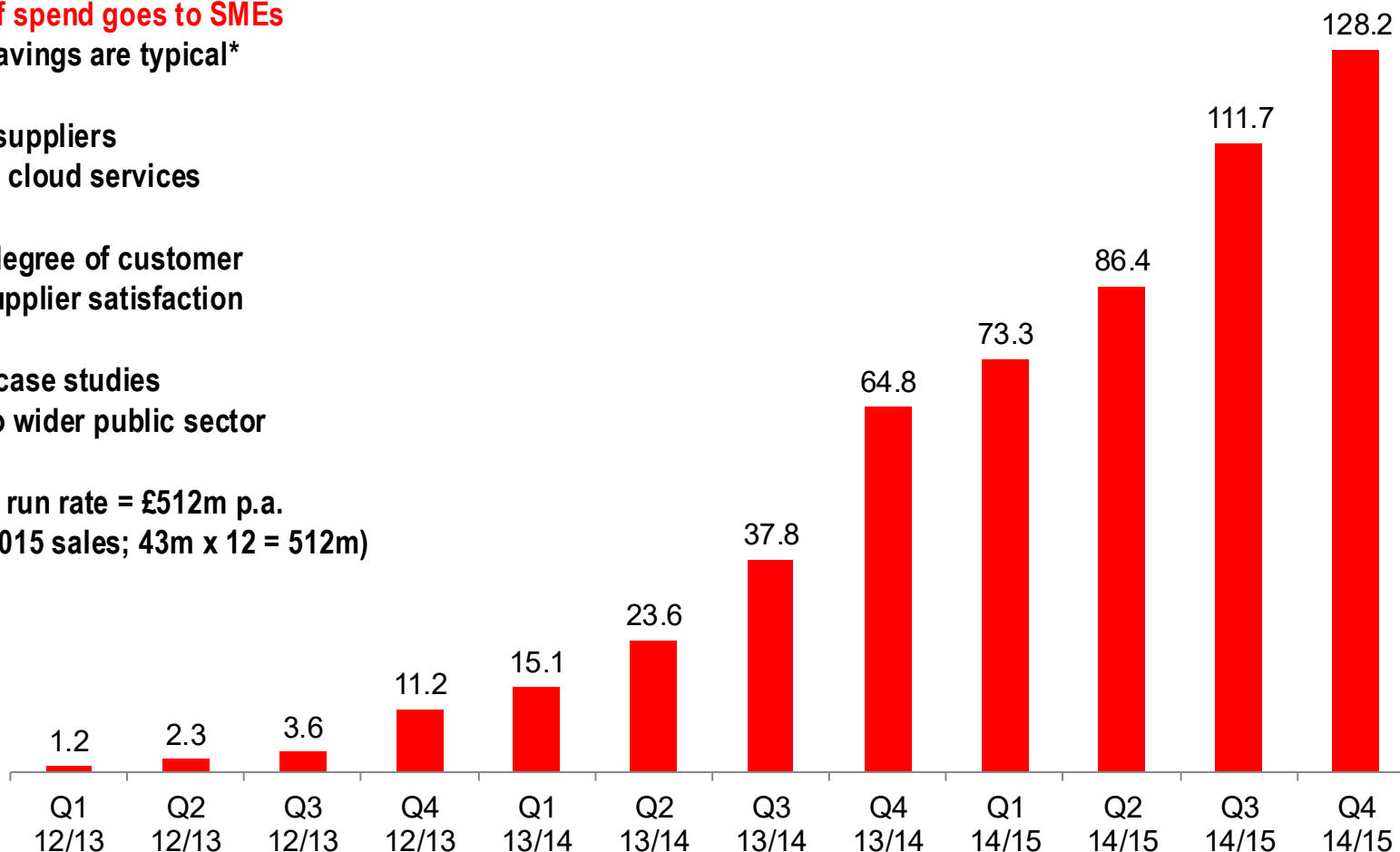
High degree of customer
and supplier satisfaction

Many case studies

23% to wider public sector

Latest run rate = £512m p.a.

(Mar 2015 sales; 43m x 12 = 512m)

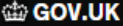


* Source: GDS research



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... because G Cloud solves a valuable problem elegantly



Digital Marketplace
[Home](#) [Log in](#) [Create account](#)

BETA This is a [beta service](#) – please send your feedback to enquiries@digitalmarketplace.service.gov.uk

Digital Marketplace

A simpler way to buy and sell digital services in the public sector

The Digital Marketplace can help you find and compare cloud services for your next technology project. Once you've compiled a list of requirements, you can tailor your search to find the right fit for your organisation. Read the [buyers' guide](#) or the [suppliers' guide](#) if you'd like to know more.

Find services using your requirements

Add keywords, eg 'email' or 'accounting'

Show services

Browse cloud services

[Infrastructure as a Service](#)

Infrastructure is the hardware that makes software work. It's the networks, hosting facilities and servers on which platforms and software depend. Infrastructure as a Service (IaaS) is infrastructure you can order and run entirely over the internet, without having to pay for your own hardware.

[Compute](#), [Content Delivery Network \(CDN\)](#), [Other](#), [Storage](#)

[Platform as a Service](#)

Platform as a Service (PaaS) technologies are software platforms that provide a basis for building other services and applications. With PaaS, you can set up, order, pay for and manage platforms in the cloud.

[Application Deployment](#), [Components](#)

[Software as a Service](#)

Software as a Service (SaaS) is an application or service that can be run over the internet or in the cloud. Examples of SaaS include web-based email services, customer relationship management (CRM) software and analytics tools.

[Accessibility](#), [Agile Tools](#), [Analytics](#), [Antispam](#), [CAPTCHA](#), [Asset Management](#), [more...](#)

[Specialist Cloud Services](#)

Specialist Cloud Services (SCS) support your transition to SaaS, PaaS and IaaS. Examples of SCS include cloud strategy, data transfer between providers or day-to-day support of cloud-based services.

[Information Management and Digital Continuity](#), [Service Integration and Management Services \(SIAM\)](#), [Specialist Cloud Services](#)

G Cloud offers buyers:

1. Fast, simple, easy
2. Compliant by Default
3. Best VFM suppliers of
4. Digital Government components

a week or two rather than 6 months

which happens in background

radically opening up to new suppliers who have an easy journey

so you have all you need to build digital services

My policy recommendations

- 1. Make Getting Full Value a key element of Civil Service Capability Building (viz. right sizing, bidder sourcing, procurement design skills and SME contract management)**
 2. Commission a Report from the Crown Rep SME on progress so far and recommendations for the future to be published in September 2015.
 3. Make the Office of the Crown Rep SME independent of the Crown Commercial Service. Mystery Shopper should report to it. Set it up as a well started proper programme like New Models.
 4. Re-state the Get Full Value goal. Test awareness and understanding internally systematically. Make the Get Full Value goal a management objective for the Chief Executive Officer
 5. Size the Prize: mandate the CCS and each department to analyse and publish (by Nov 2015) the potential savings from GFV and their plan to deliver those savings.
 6. Hold monthly progress reviews with the MCO, No 10 and the Crown Rep SME
 7. Upgrade the Crown Rep SME web presence
 8. Make Contracting Authorities publish monthly supply chain prompt payment performance for their top 20 suppliers.
 9. Report SME savings quarterly as part of Cabinet Office savings reporting
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- 1. Aggressively accelerate G Cloud growth (see separate strategy on digital projects)**
 2. Build a central Government bidder sourcing function to Get the Best SME Bidders Bidding
 3. Make procurement G Cloud by Default – downsizing CCS and abolishing most frameworks
 4. Make Civil Service Learning Digital by Default forthwith
 5. Treat the top 20 Digital SMEs as Strategic Suppliers
 6. Hold an annual Crown Rep SME summit in key categories (IT, FM, CCL and Construction) detailing the purchase pipeline, the SME savings plans and latest developments
-
- 1. Implement the EU directive on Sub-lot or Explain by making it a requirement to publish the sizing rationale and evidence for all procurements and make the rationale subject to Mystery Shopper challenge**
 2. Commission McKinsey to design the “Right-Sizing” manual
 3. Use the Cabinet Office controls process to discipline Sub-lot or Explain.
 4. Target communications at civil servants rather than suppliers / the public



Right-sizing is now required by law. Here are the factors:

- a. Nature of purchase: fixed spec production parts or tooling
- b. Rate of change in the supply market
- c. Economies of scale in manufacture and distribution
- d. Balance of supplier and buyer power in the 4 box matrix
- e. Need for supply base capacity development
- f. Mission criticality
- g. Supply base concentration

Right sizing is a critical commercial capability

How is this taught today in CCS?

Are the training materials adequate?

(IIAPS, White Paper: **Developing Competence in Procurement & Supply Management: The Two Options**
(www.iiaps.org)

8 key steps for Crown Commercial Service (when not using digital)

1. Understanding the goal is “Getting Full Value from SME suppliers” which is the official statement of SME policy - see Gov.UK

<https://www.gov.uk/government/publications/2010-to-2015-government-policy-government-buying/2010-to-2015-government-policy-government-buying#appendix-1-making-sure-government-gets-full-value-from-small-and-medium-sized-enterprises>

2. Buying the Right Thing: great pre-market engagement

3. Right sizing: knowing when Big is Beautiful and when Small is Beautiful

4. Designing Optimal Lotting structures for frameworks / tenders

5. Getting the Best Bidders Bidding (sufficient pre-market engagement)

6. Getting them to Do Good Bids (enabling bidder training)

7. Winning the hearts and minds of the customers

8. Ensuring first time SME suppliers and first time buyers from SMEs take extra care to make their first projects are successful



APPENDIX

What is a SME?

	Staff	Turnover, €m
Micro	<10	<2
Small	10 to 49	2 to 10
Medium	50 to 249	<50

SMEs must be “autonomous”. There is a complicated definition of autonomy but it means not owned nor controlled by another enterprise

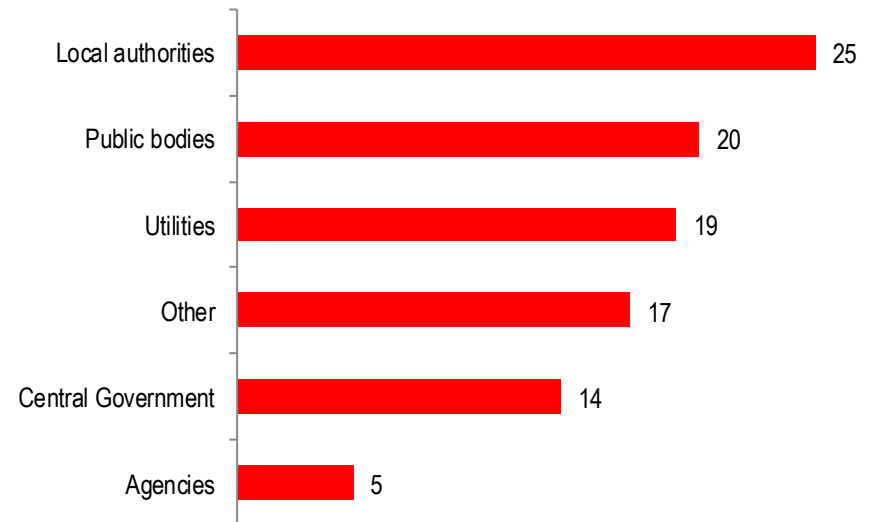
Recent EU research looked at SME public procurement

This is the final report of the assignment concerning the “Evaluation of SMEs’ access to public procurement”.

The assignment was undertaken by GHK as leader of the European Policy Evaluation Consortium (www.epec.info), in cooperation with TXT e-solutions s.p.a., Milan, within the framework contract for the provision of studies and other supporting services on Commission evaluations (ENTR/04/093-FC-Lot 1). The evaluation was commissioned by the Directorate E “Promotion of SMEs Competitiveness”, Unit E4 – “SME Policy Development” of the Directorate-General, EU Commission.

September 2010

PUBLIC MARKETS COVERED %



Questions asked in the EU report

Main evaluation questions

§ “To what extent have specific procedures like cutting into lots, tenders looking for innovative solutions and eProcurement practices helped to address market gaps in SMEs’ access to public procurement?”

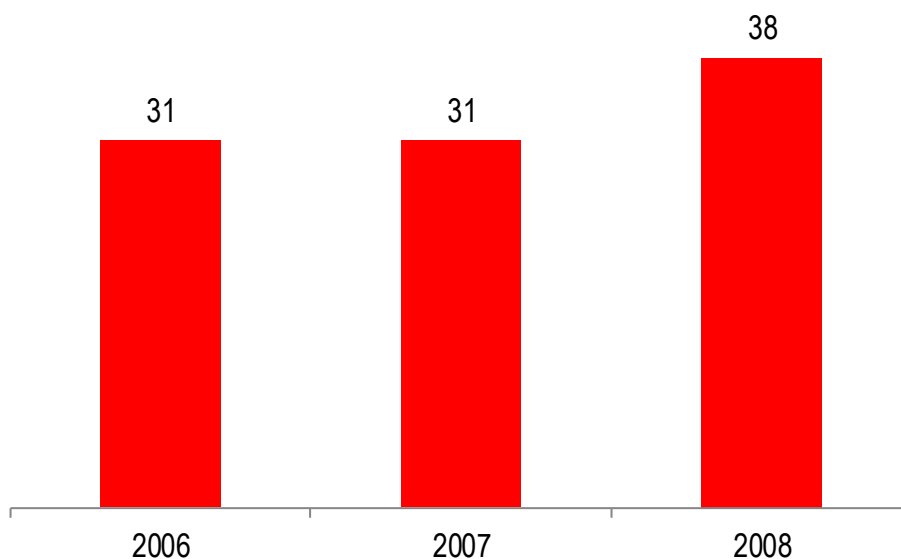
§ “What other measures could be envisaged?”

§ “Are there any aspects/means/actors that render certain aspects of the practices described in point 1 more or less effective than others, and – if there are – what lessons can be drawn from this?”

§ “What aspects of the practices described in point 1 are the most efficient or inefficient, especially in terms of resources that are mobilised by stakeholders during the different phases of the process? What does this represent in terms of administrative burdens on stakeholders and/or other actors?”

SME percentage of public procurement has started to rise

% of contracts won by SMEs, EU 27



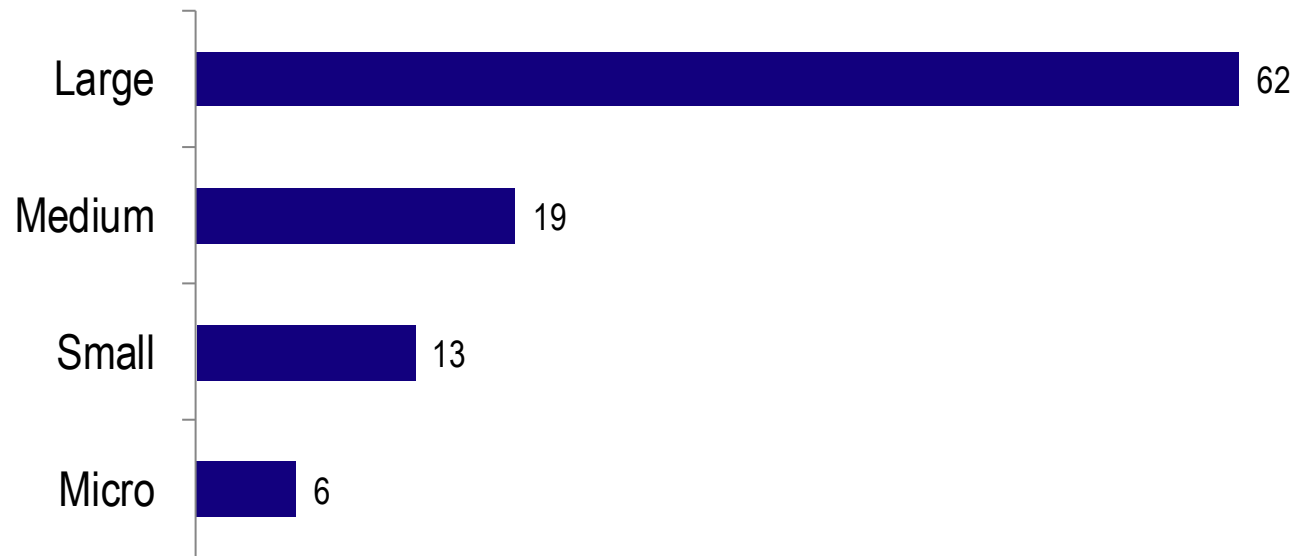
Source: Evaluation of SMEs' access to public procurement



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But large suppliers dominate public procurement

% of public sector contracts won by company size, EU 27, 2008



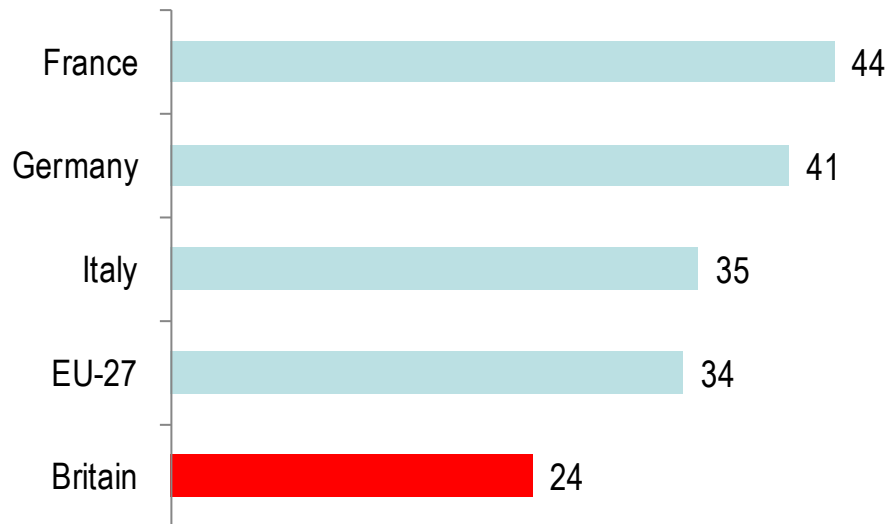
Source: Evaluation of SMEs' access to public procurement



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The UK performs badly in public procurement from SMEs

% of public sector contracts won by SME, 2006 to 2008



Britain is bottom of the big EU countries and 24th out of the EU 27

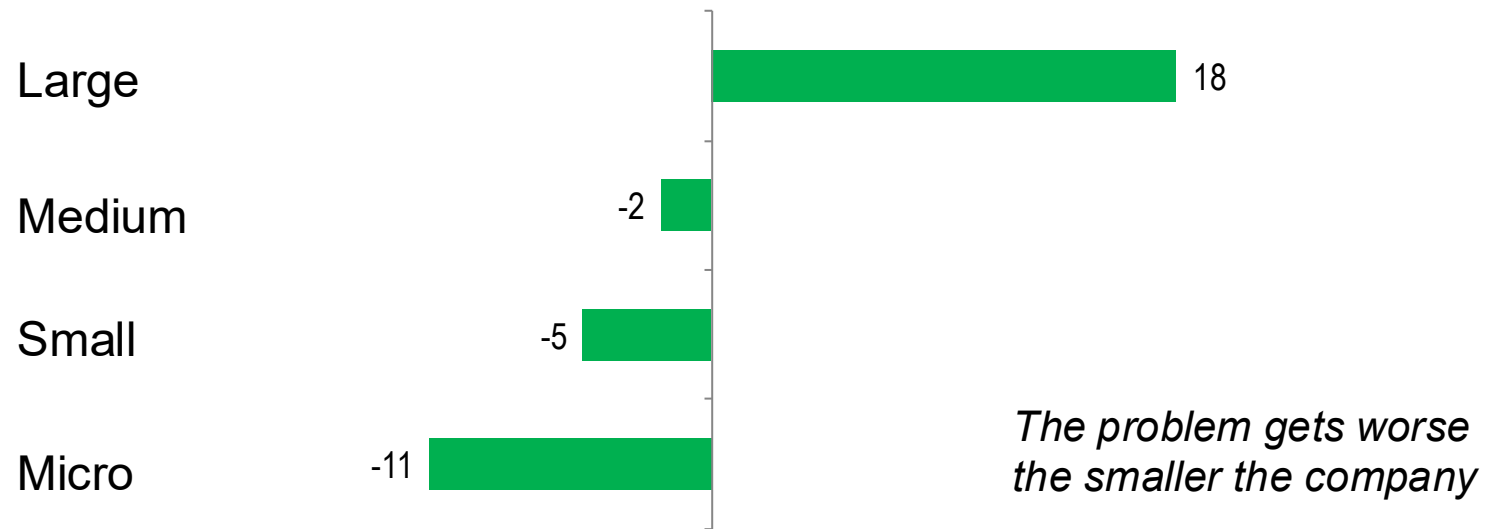
And, the UK has been getting worse

07/08 versus 05/06

Increasing SME share	Decreasing SME share
France	United Kingdom
Germany	Austria
Italy	Sweden
Spain	Poland
Belgium	Hungary
Netherlands	

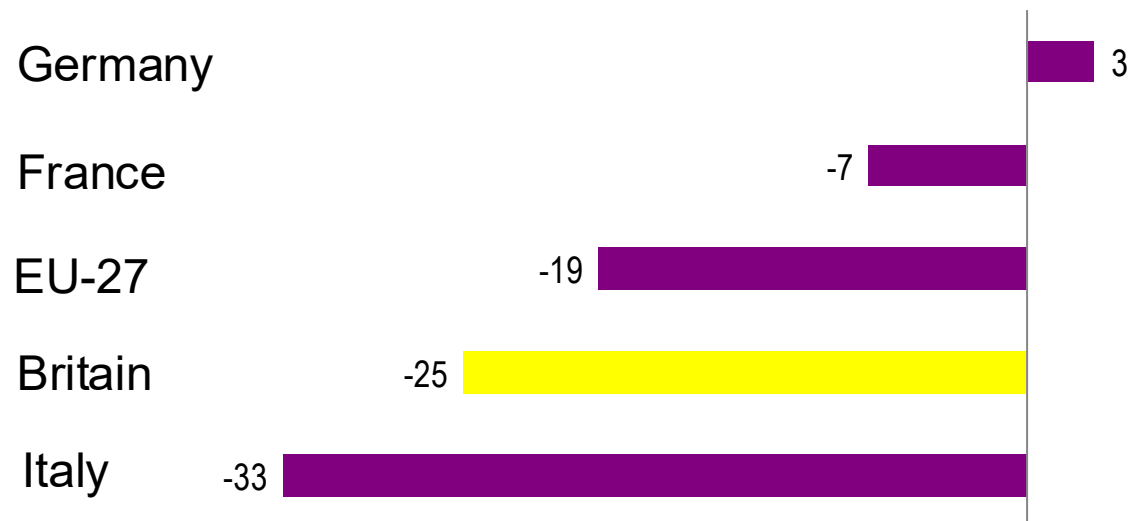
Relative share of spend compared to role in the economy

EU-27, %, 2006 to 2008



United Kingdom is low down the list

Relative SME share of procurement vs. the economy, %, 2006 to 2008

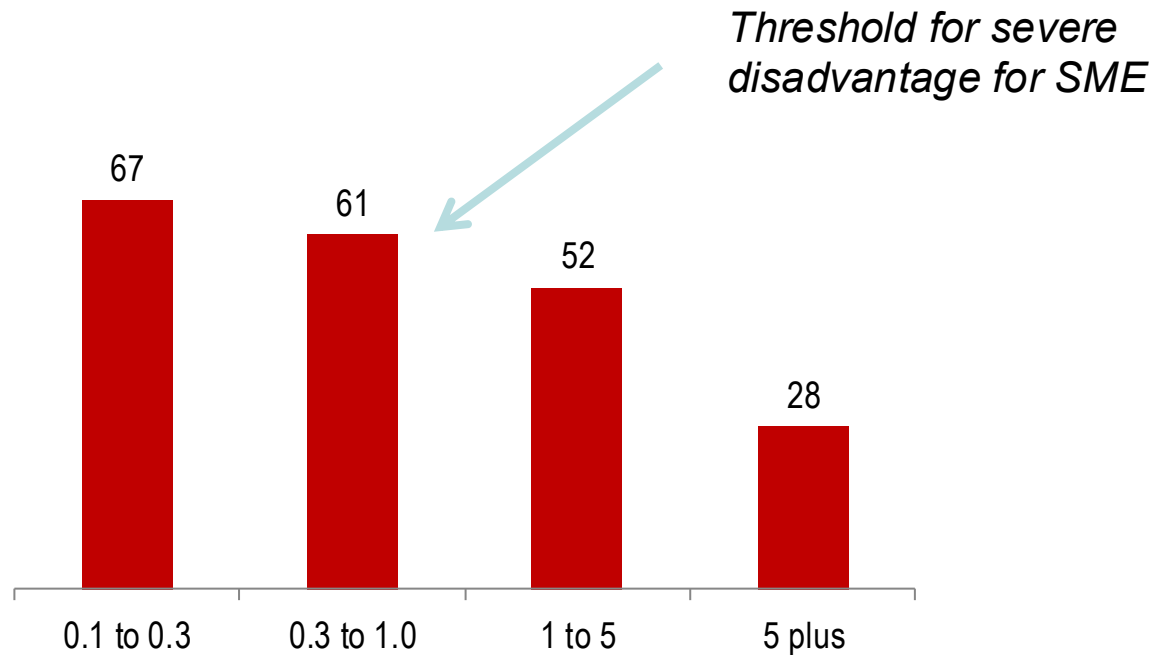


Why is this? What are the possible causes?

1. The type of buyer (central Govt., local Govt. etc.)
2. The type of things purchased (works, goods or services)
3. The tender procedure chosen (open or restricted)
4. The tender criteria (pure price or best value which is like the “economically most advantageous tender” (“EMAT”))
5. The overall contract value

Contract value correlates closely to SME share

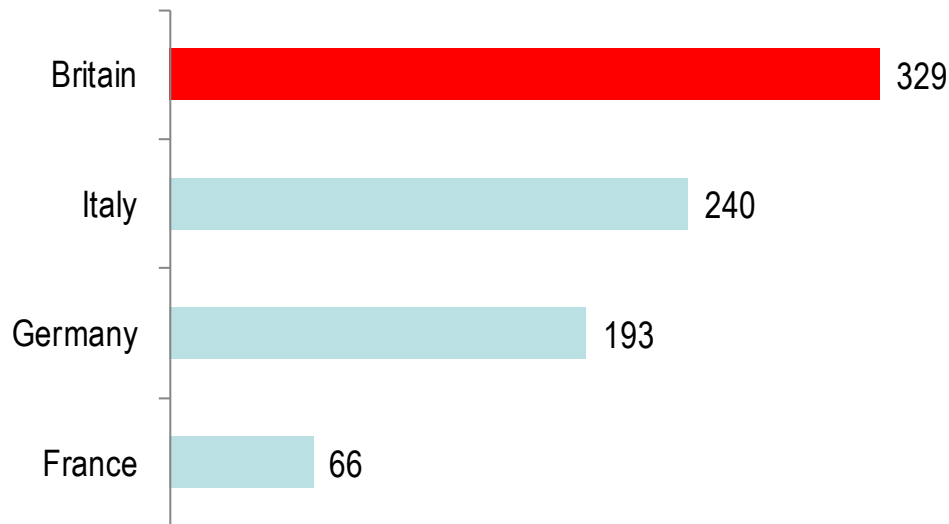
€m, % by value won by SME, 2008



Source: Evaluation of SMEs' access to public procurement

Britain has large contract values relative to Europe

€k, average contract value, 2008



Britain's large contract values correlate to the low SME percentage

The key findings and the answer to our question today

“The large size of contracts is widely seen as the most important barrier to SMEs accessing public procurement”

“Breaking down tenders into lots is commonly seen by stakeholders as one of the most important tools that help SMEs access public tenders”

“The results [of the regression analysis] confirm that the higher the contract value, the lesser the likelihood that an SME will win that contract”

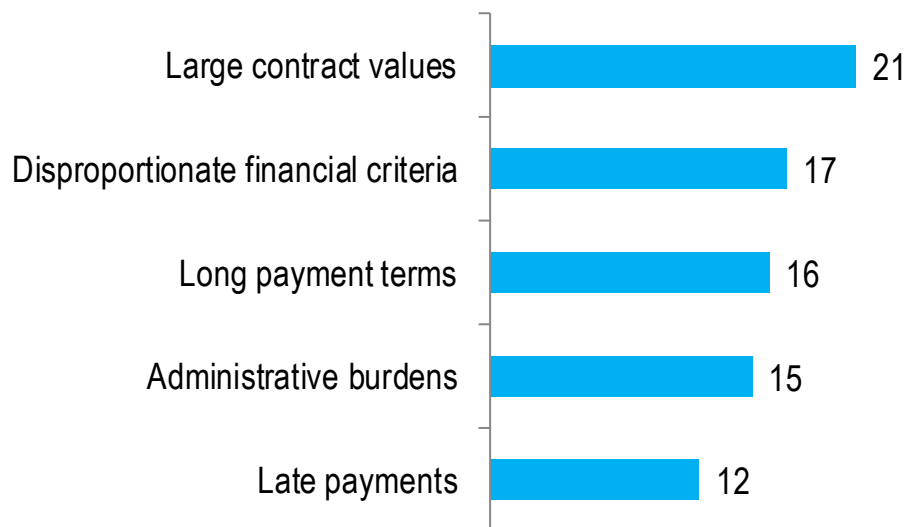
Source: Evaluation of SMEs' access to public procurement

The impact of other factors

Factor	Impact on SME
Contract size	Very negative
Use of EMAT criteria	Moderately negative
Type of tender procedure	Neutral

What do the SMEs say themselves about their problems?

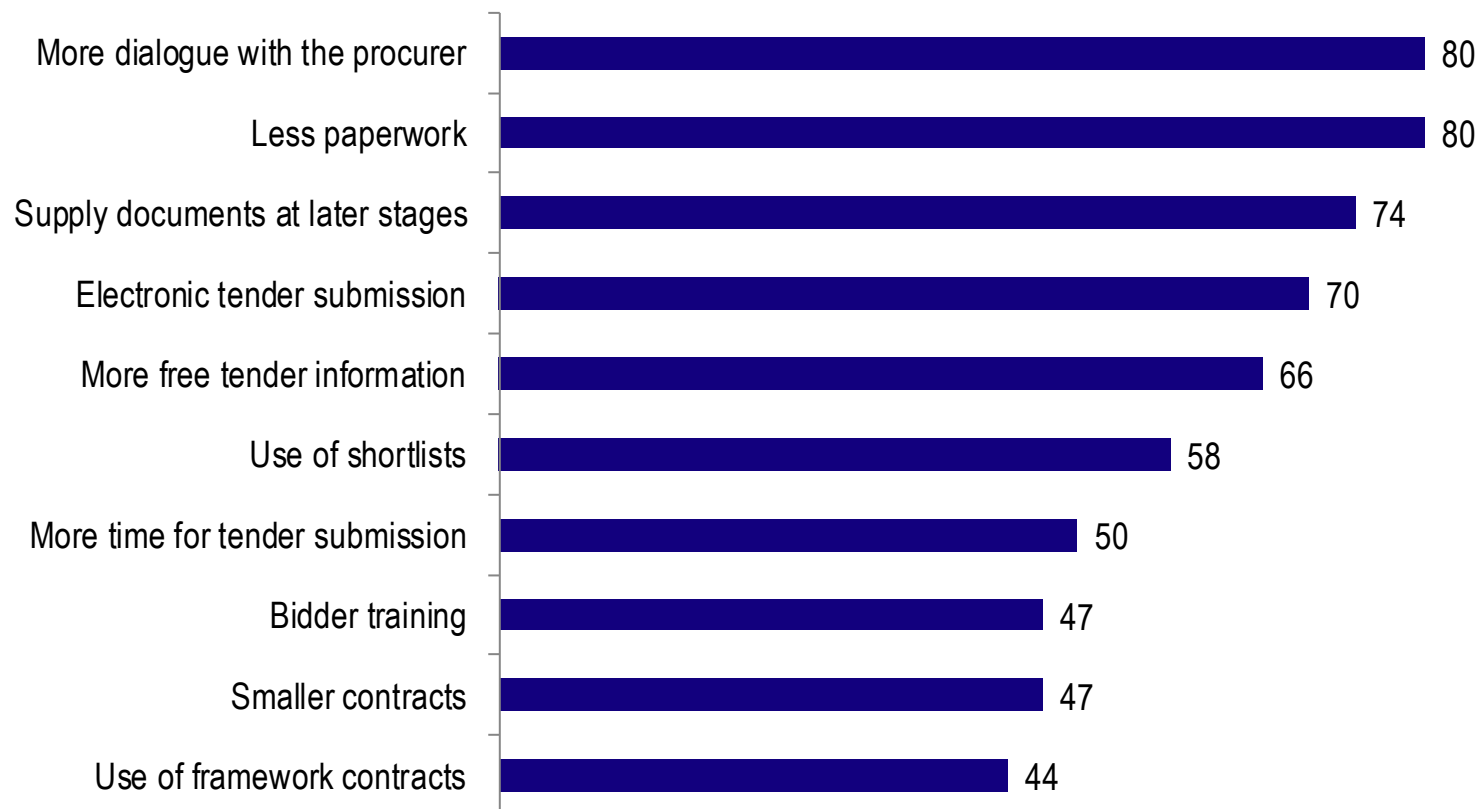
Difference in problem assessment between micro and large suppliers, %



Large contract values are the biggest difference in factors between large and micro enterprises

What do SMEs say would help?

% citing remedy



Source: Evaluation of SMEs' access to public procurement



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What do public procurers see as SME strengths?

1. More flexible
2. Quicker to react
3. Offer better prices than larger suppliers

Source: Evaluation of SMEs' access to public procurement

How to promote SME access in general

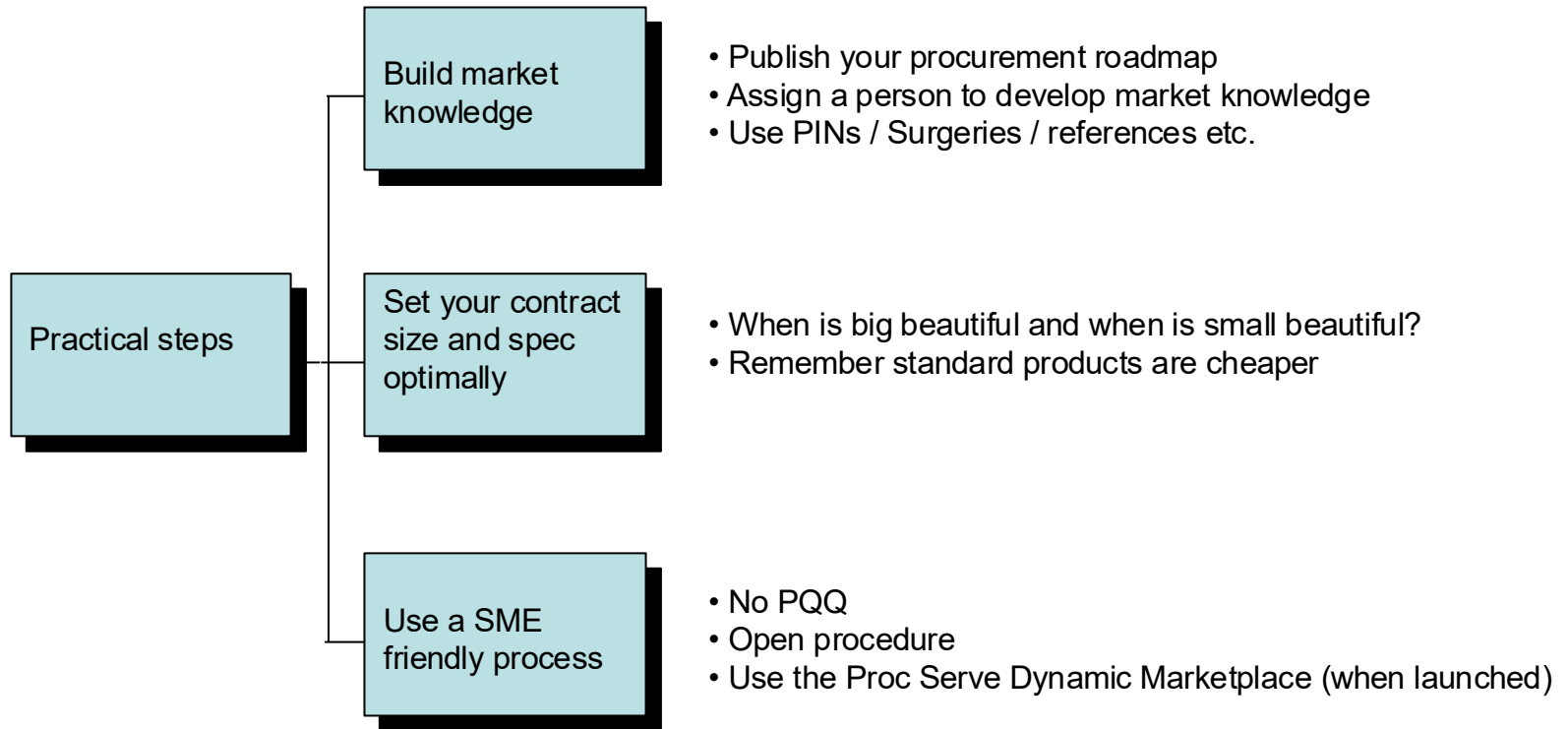
Main measures		Additional measures
Overcome the limited technical and financial capacities of SMEs		Information and communication
Improve the dialogue between SMEs and procurers		Training
Simplify the procurement procedure		Support tools
		Reduce admin/financial burdens
		Changes in tender design

The topic today

How can procurement professionals improve the way they work with SMEs?

How can procurement professionals allow more opportunities for smaller companies to compete for Government contracts?

Practical things for you to do



Rep Organisation meeting programme

Organisation	People	Status
Intellect	Sureyya Cansoy John Hoggard	5 April 2011
Civil Engineering Contractors Association	Alasdair Reisner	19 April 2011
Interim Management Association	Jason Atkinson Scott Pendry Raj Tulsiani	3 May 2011
CBI	David Cairncross Tom Thackray	4 May 2011
Business Services Association	Mark Fox Melanie Maxwell-Scott	4 May 2011
Management Consultancy Association	Alan Leaman	6 May 2011
Forum for Private Business	Alexander Jackman	6 May 2011
National Federation of Builders	Julia Evans	10 May 2011
British Chambers of Commerce	Adam Marshall	10 May 2011
British Venture Capital Association	Tim Hames	13 May 2011
Federation of Small Business	Mike Cherry	17 May 2011
Construction Products Association	Michael Ankers	1 June 2011

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