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Winning UK Tenders: An SME Growth Guide for 2013-15

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Introduction: A great time to be an SME

The Coalition Government took office in 2010 at a time of significant economic turmoil and low confidence among UK businesses.

In their five-year policy programme, launched in May 2010, the Coalition highlighted the importance of enterprise and sustainable business growth to the rebalancing of the UK economy, and the need to do more to help UK firms succeed:

“The Government believes that business is the driver of economic growth and innovation, and that we need to take urgent action to boost enterprise, support green growth and build a new and more responsible economic model. We want to create a fairer and more balanced economy, where we are not so dependent on a narrow range of economic sectors, and where new businesses and economic opportunities are more evenly shared between regions and industries.”

– The Coalition: our programme for government (2010)

Since the publication of this document, there has been substantial progress in placing small and medium-sized enterprises (SMEs) at the heart of a revitalised UK economy. As recent headlines show, there really has never been a better time to be an SME in the UK:

BUSINESS BANK UNVEILS FIRST
£300m
INVESTMENT FOR SMES

CONFIDENCE HITS
THREE
-YEAR
HIGH: FSB

CORPORATION
TAX CUT TO
20%

PQQ
REMOVED FOR
SMALL
CONTRACTS

450,000 SMEs
REMOVED FROM NATIONAL
INSURANCE PAYMENTS

SMEs
TO BENEFIT FROM
TAX-FREE
ISA UPGRADES

GOVERNMENT
ON TRACK
TO MEET SME
PROCUREMENT TARGETS

UK ECONOMY GROWS
0.6%

Part 1: Two years on

Small and medium-sized enterprises are the backbone of the UK economy. They make up 99.9% of UK businesses and account for approximately 14 million private sector jobs.¹

As such, the Government is eager to ensure that SMEs are given every possible opportunity to succeed in these tough economic times. By opening up opportunities for SMEs, the Government hopes to stimulate growth, create jobs and help the UK succeed and prosper in a competitive global economic environment.

In 2011, the Coalition Government set itself a challenge:

“By 2015, 25% of all Government business will be awarded to SMEs”

This is an ambitious undertaking, and according to the Cabinet Office’s most recent report, *Making Government business more accessible to SMEs: Two Years On*, it is one which looks set to be achieved by the 2015 deadline.

So what has changed for small firms in the UK looking to do business with Government over the past two years?

Gross Domestic Product

According to recent figures from the Office for National Statistics (ONS), GDP grew by 0.6% in the second quarter of 2013, coinciding with recent reports from the Federation of Small Businesses (FSB) showing that SME confidence is rising.

The new figures were welcomed by all industry sectors in the UK; however, SMEs in particular are drawing positivity from confirmation that the recovery is slowly gaining traction. According to the latest SME Risk Index released by Zurich, a global insurance company, 38% of SMEs in the UK believe that the economic situation will continue to improve, up from just 20% in the first quarter of the year. In addition, Zurich report that the perceived level of business risk faced by SMEs has fallen from 44.55 to 43.41 points.

¹ References and sources throughout this White Paper are taken from the Cabinet Office Making Government business more accessible to SMEs: Two Years On report

Mystery Shopper

In the 18 months since its launch, over 300 complaints have been investigated through the 'Mystery Shopper' scheme – a Cabinet Office initiative that asks businesses to flag up bad public procurement practice.

The first Mystery Shopper progress report revealed:

- 80% of all cases raised issues with the procurement process, in particular the Pre-Qualification Questionnaire (PQQ)
- In 38% of those cases, SMEs cited lengthy and complex PQQs as a major concern, as they disadvantage SMEs by placing too much emphasis on financial guarantees and requirements

Cabinet Office Parliamentary Secretary Chloe Smith said of the Mystery Shopper scheme:

“We want more businesses to use this service to raise complaints so we can name and shame the parts of the public sector still doing procurement in the clunky old style.”

Pre-Qualification

In response to the findings of the Mystery Shopper scheme, and after consultation with SMEs, the Government announced plans to ensure that PQQs would no longer be used for goods and services contracts worth less than £100,000.

A PQQ is used to identify those suppliers that are most capable of performing a contract. This is done by assessing the financial status and technical or professional ability and integrity of potential suppliers, considering issues such as their experience and the qualifications of their staff.

The PQQ has often been cited as a barrier to SMEs doing business with Government, as it often excludes SMEs from pursuing certain contracts due to its mechanical approach to scoring. Removing this barrier should be another positive step towards opening up opportunities for SMEs.

National Insurance

Perhaps the single most positive announcement for SMEs made during his Budget 2012 statement was Chancellor George Osborne's surprise revision of the National Insurance contributions paid by SMEs.

Under the new measures, the first £2000 of a firm's National Insurance contributions will effectively be waived, meaning that the smallest firms already paying less than £2000 in NI (thought to represent 450,000 organisations across the UK) have in effect been removed from the payment obligation altogether.

For most SMEs in the UK the biggest cost hindering their growth is recruiting additional staff. These changes represent a massive boost for sole traders in particular, who may be looking to take on their first employee but are worried about the financial ramifications of doing so.

Corporation Tax

Corporation Tax will also be cut, giving the UK the lowest corporate tax rate of all the major world economies. The cut, from 21% to 20% by April 2015, is a reaffirmation of Mr Osborne's pledge to make Britain 'open for business' and attract foreign investment into the UK.

Funding for Lending

The Funding for Lending scheme was launched in July 2012 in an attempt to increase lending and get the economy growing by offering banks and building societies funding at low interest rates on the condition that these be passed on to households and businesses.

Figures for the second quarter of 2013 show that lending to small UK firms increased by £1.6bn. This increase in lending is a positive step forward and a strong reversal of the trends of the previous quarters.

The next step for ministers is to capitalise on this positivity and build on it for the future. In an effort to do so, each pound lent to SMEs during the third and fourth quarters of 2013 will now allow the lender to access a draw-down of ten times that amount in 2014, a move designed to entice banks to do more to help businesses.

Business Bank

Details of the Business Bank were first announced by Business Secretary Vince Cable last year. The Bank aims to be a 'one stop shop' for Government finance support for SMEs. It will also control the Government's interests in a new wholesale funding mechanism, which will be developed to unlock institutional investment to benefit small businesses.

In April 2013, Mr Cable announced an initial £300m investment from the scheme to help boost smaller firms struggling to access finance. The money is the first deployment from this £1bn pot of new capital and will be invested alongside private investors to address long-standing gaps in the SME finance market.

These are just the main reforms to processes and policy created with the sole intention of helping SMEs become more successful and secure 25% of public sector business by 2015.

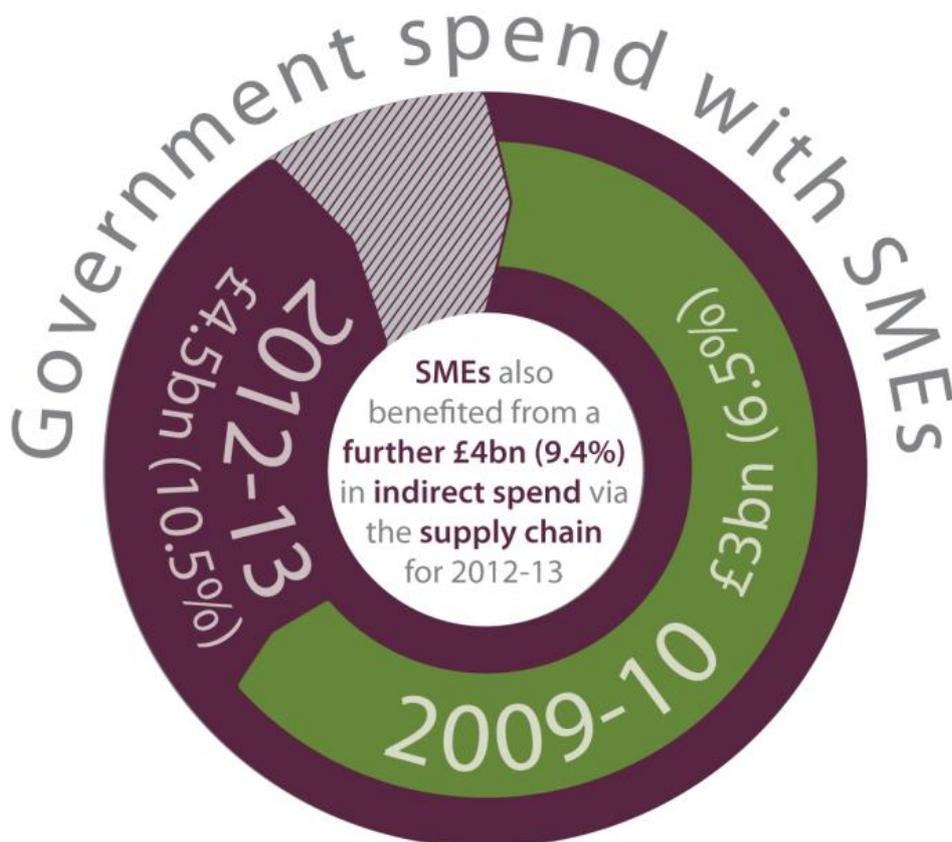
Part 2: The road to 25%

On 8 August 2013, the Government released its *Making Government business more accessible to SMEs: Two Years On* report, which outlines the progress made at the half-way point in the Coalition's drive to make SMEs a more central pillar of the public procurement supply chain.

Direct and indirect spending with SMEs

The report shows that the steps outlined in the previous part of this White Paper have already resulted in spend steadily increasing. In 2009-10, just 6.5% of Central Government's direct procurement spend went to SMEs. Spending with SMEs has since increased from £3bn in 2009-10 to £4.5bn, a total of 10.5%, in 2012-13.

In addition, new figures provided by major government suppliers indicate that SMEs have benefited from a further £4bn (9.4%) in indirect spend through the supply chain in 2012-13.



Breakdown by department

Over the past two years, twelve Government departments have shown an increase in direct and indirect spend with SMEs. The departments showing the most significant improvement since the Coalition Government set out its aspirations are as follows:

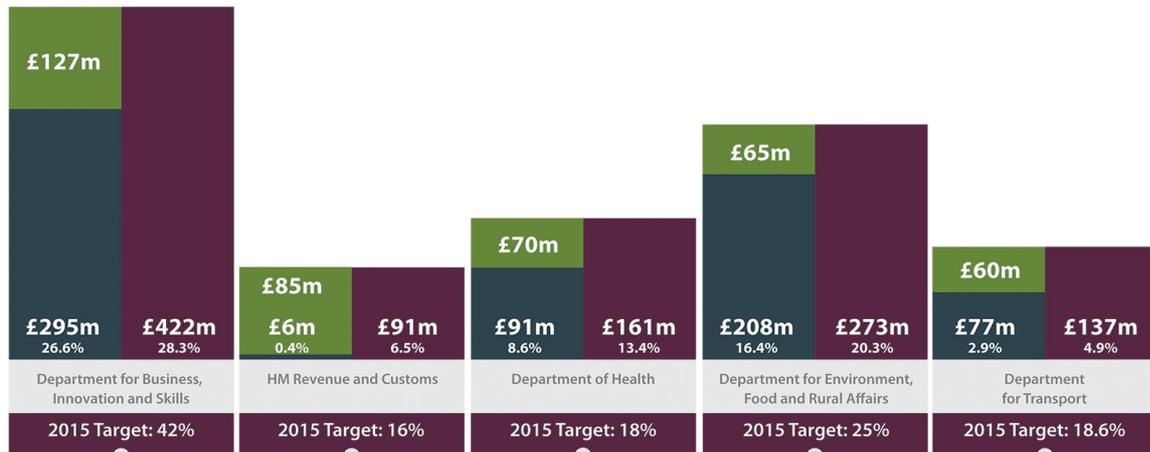
Total spend by Whitehall departments



Top 5 departments by direct spend increase

(% figures represent share of spend awarded to SMEs)

2011/12 2012/13 £ Increase



Steps taken towards target

SME PARTNERSHIP
HANDLED CONTRACT
TO DELIVER **£1m**
SaaS SOLUTION

57% OF SUPPLIERS APPOINTED TO **£30m** COURIER SERVICES FRAMEWORK ARE SMEs

TWO SMEs APPOINTED TO **£60m** NATIONAL PATIENT QUESTIONNAIRE FRAMEWORK

£15m FLOWING TO **SMEs** VIA RELETING ICT CONTRACTS

£500m FLOOD DEFENCE PROCUREMENT OPENED UP TO **SME BIDS**

Based on spend increase from 2011-12 to 2012-13, the Whitehall department to most improve its dealings with SMEs is the Department of Business, Innovation and Skills, showing a £127m spend increase over the time period. Other big improvements came with HM Revenue and Customs with £85m more spent directly with SMEs, the Department of Health with £70m, the Department for the Environment, Food and Rural Affairs with £65m, and the Department of Transport with £60m.

In terms of direct spend with SMEs, the top five departments in 2012-13 were as follows:

| Department | Spend with SMEs | 2015 target |
|---|-----------------|-------------|
| Department for International Development | 31.9% | 35% |
| Ministry of Justice | 31% | 38% |
| Department for Business, Innovation and Skills | 28.3% | 42% |
| Department for Communities and Local Government | 25% | 27.5% |
| Foreign and Commonwealth Office | 20.5% | 25% |

Defence procurement overview

The defence sector in the UK is massive and represents one of the most lucrative and important areas for SMEs to be involved in. According to the *Two years On* report, the MOD accounts for 45% of all Central Government spend.

For 2012/13, direct MOD spend with SMEs was 5.4% of all procurement spend, accounting for approximately £1.1bn. In addition, a further 9.8% of MOD spend, representing almost £2bn, was awarded to SMEs indirectly via the defence supply chain.

As outlined in the Better Defence Acquisition White Paper released in June 2013, the MOD will require its larger contractors to provide an annual report outlining their sub-contractor procurement processes and the steps they have taken to encourage greater involvement of SMEs in their supply chains, meaning more transparency and greater opportunities for small firms to profit from the defence industry.

Part 3: Next steps for SMEs

The Coalition's *Two Years On* report also outlines some of the next steps on the journey to meeting the 25% SME spend target in two years' time.

The aims for the next half of the programme include:

Further improvements to the tendering process

According to the report, the Government is looking to build on improvements already made to the tendering process by focusing on minimal data requirements, allowing SMEs to submit basic information in order to speed up the procurement process, simplify the procedure and reduce the cost and resource incurred in bidding for public sector contracts.

Training for civil servants

As well as seeking to educate SMEs on improving their chances of winning public sector business, the Government is also looking to improve the knowledge of its procurement officers and bidding managers in order to make them more 'commercially astute'. The aim is to increase their engagement with the supplier market, making them more able to gain value for money and apply better commercial judgement in their procurement decisions.

SMEs and MOD procurement

To address the challenge of getting more SMEs involved in defence procurement – a sector commonly associated with large suppliers and major, complex projects – the MOD has put a range of activities in place which will continue for the coming years.

As outlined in 2012's National Security through Technology White Paper, these measures include:

- An MOD SME forum which provides SMEs with a direct route to raise issues to Ministers and senior officials
- A dedicated outreach programme which focuses on raising awareness of defence market opportunities to new suppliers
- The promotion of the Small Business Research Initiative to encourage innovative ideas and solutions which align with MOD needs

Winning your share of the opportunities

MOD DCO is dedicated to helping SMEs to become more successful. Here are our top five tips to help your business grow and win its share of the increasing opportunities available with the public sector:

Take care

When bidding for public sector contracts, the devil is in the detail. A small mistake can have a big cost, and could be the reason your SME loses out on a contract which could change the firm's fortunes.

Be sure to give yourself time to study the tender documentation, evaluate all the questions and do the necessary research; and then write, rewrite and write each answer again until it is as complete and accurate as can be. Give examples, provide evidence and take care not to sell yourself short.

Be innovative

There are three ways in which a public sector body can make purchasing efficiencies: get the same service for a lower price; get a different service for a different price; or get an enhanced service, but be willing to pay more to get more if need be.

Sally Collier, Government Deputy Chief Procurement Officer, explains that an SME must be able to prove that it can offer at least one if not all of these alternatives in order to be successful:

“Government is receptive to hearing about your ideas to do things completely differently. Government does want to hear your innovative solutions.”

SMEs are naturally more flexible, more agile and more adaptable to the needs of a client than large organisations with lots of bureaucracy behind them. This is what can set you apart from your competitors, and this is what can ultimately benefit your business.

Talk to buyers

If you see an advert or a contract opportunity and think to yourself, 'Why are they buying it like that?', then the best thing to do is ask!

If your SME can do something differently, compete in a different way or provide a different service to accomplish the same task, then Government wants to hear from you.

Innovation will get you far in procurement, but speaking to the buyer and finding out their perspective is the first step.

Remember: the award decision isn't always the end

If your company hasn't been successful in its bid, this needn't be the end of the process. Options are available for you to challenge the award decision or else seek further clarification and information on the decision.

If you have been unsuccessful, you can only improve. Challenge the decision if possible, but at the very least seek further information on why your bid did not meet the award criteria. In addition, you can learn from those who did win. The Cabinet Office will provide you with best practice examples and information on why certain firms were selected over others. It could be vital information to improve your next bid.

It all starts with the right opportunities

MOD DCO is the official source of UK MOD contracts – giving you instant access to all of its contract opportunities, of all values, in one place. Access to DCO is completely free and registered suppliers can search for opportunities 24/7 and receive a daily email alert notifying you of opportunities matching your company's business activity.

As well as providing free access to all UK MOD contract opportunities, MOD DCO is also your gateway to the following key services:

- MOD Defence Contracts Bulletin (MOD DCB) magazine
- Over 100% more UK & ROI defence-related contracts
- Over 800% more European defence-related opportunities
- Over 6000% more Global defence-related opportunities
- Focused defence market intelligence and archives of previous defence agency contract awards

Start winning more defence business today

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