

Buying from the boutiques

The government is eager to increase the amount of goods and services it buys from small and medium-sized enterprises. **Mark Smulian** attends a round table on the opportunities, the challenges – and the solutions



Tom Hampton

“We will promote small business procurement, in particular by introducing an aspiration that 25 per cent of government contracts should be awarded to small and medium-sized businesses.”

That comes from the Coalition Agreement: ministers are certainly committed to giving more work to small and medium-sized enterprises (SMEs). And there are plenty of reasons to employ small businesses, which can be more nimble, innovative, specialised and cost-effective. However, the desire to use SMEs can conflict with the government’s efforts to drive down procurement costs – which are based, in part, on aggregating contracts and seeking economies of scale – and could lead to increased risk. Smaller businesses can be more vulnerable to financial shocks or staffing changes; and if an SME delivering a government contract goes bankrupt, lacks the expertise to cope with change or loses crucial staff, service delivery could be jeopardised.

To explore how civil servants can take practical steps that both drive up SME procurement, and improve the efficiency and effectiveness of public services, CSW teamed up with not-for-profit IT specialist SME Eduserv to run a round table on the topic. The event attracted a broad range of senior officials – including Stephen Allott, the crown representative for SMEs at the Cabinet Office, who argued that buying from SMEs can increase value for money. On his second day in the job, Allott recalled, he was told that “we cannot spend any more money on giving business to SMEs. It has to be better value”. He added that while people often say buying from SMEs is

good for the country’s economic growth, the key thing for the government is looking for better value.

Many panel members argued that SMEs can indeed provide keener prices, innovative technology, or easy access to their senior staff. Mike Beaven, the Government Digital Service’s deputy director for transformation, said he had come across “staggering examples” of SMEs offering to meet a specification for less than 10 per cent of a larger rival’s price. This impressed panellists – but some argued that SMEs have merits in addition to sharp prices.

Simon Lydiard, head of corporate procurement at the Department for Transport, stressed innovation. “One can often get from SMEs thinking that you would not get from an established business,” he said. “When you are doing business with a large business, particularly in consultancy, you will be buying from a cookbook, while SMEs have to have something different.”

Stephen Shaw, a strategic commercial manager at the Department of Health’s procurement centre of excellence, agreed: “The flexibility SMEs offer is an advantage, as they can tailor to your requirement,” he said, adding that the trend towards specifying outcomes rather than the exact work to be undertaken is likely to make SMEs more attractive as they can sometimes offer “a totally different solution” from that expected.

Spending more through SMEs could, it was argued, also help government marshal its buying power to benefit the wider economy. As Shaw noted: “Small businesses reinvest money time and again, while with large companies it often goes out of the UK.”

Standing from left:

Jonathan Kalermera, Pensions Advisory Service; Mike Beaven, Cabinet Office; Gavin Copeland, Centre for Defence Enterprise; Stephen Shaw, DH; Kevin Webb, Eduserv; Richard Hassett, Cabinet Office; Rachel Berrisford, DfT; Ed Zedlewski, Eduserv; Colin Cook, Scottish Government; Anil Kanani, DEFRA

Seated from left: Arfan Chaudhry, UKTI; Melanie Coe, DEFRA; Simon Lydiard, DfT; Stephen Allott, Cabinet Office; Louis Hyde, Cabinet Office

When innovation’s a specification

Gavin Copeland, external relations and communications manager at the Centre for Defence Enterprise, said his need for the latest technology makes it “almost essential to go to an SME, because the cutting edge technology coming out of universities is going to be in a start-up”. SMEs are inventive in many fields but the digital industry is a particularly fertile area, other participants noted.

Colin Cook, deputy director for digital at the Scottish Government, noted their value in the fields of IT and culture. “They are essential in digital, where SMEs have been able to experiment, and larger organisations have tried to analyse things in classic ways and not spotted the opportunities,” he said. “In any of our creative industries, I would say ‘look to SMEs’.” The UK now benefits from “this great burgeoning tech industry, with a lot of people setting up supply chains of small firms”, Mr Beaven added.

Buying from SMEs can provide further advantages for relatively small arms of the public sector, said Jonathan Kalermera, head of corporate services at the Pensions Advisory Service. “If we work with big organisations it is hard to get them to take us seriously,” he said. “With big firms we get trainees, but with an SME you get the guy who started the business.”

In some cases, though, SMEs’ size can present a risk. Anil Kanani, head of the food industry competitiveness and growth team at the Department for the Environment, Food and Rural Affairs, was

Participants & their concluding comments

Stephen Allott, crown representative for SMEs, Cabinet Office: "The change I would like to see is to move from a default 'big is beautiful' position, because if you buy big you don't have to justify it, to a system where contract size has to be evidenced to show best value for the taxpayers."

Mike Beaven, deputy director, transformation, Government Digital Service, Cabinet Office: "We should be working with colleagues in procurement to get them up to speed with the types of outfits we want to work with."

Rachel Berrisford, procurement, supplier relationship and data management manager, Department for Transport: "We've been talking about investing in procurement but the need is to invest more in the contract management function as well. I think if we put all investment in procurement functions, there is a danger they do not listen to what contract managers are saying."

Arfan Chaudhry, assistant director, support to business, Defence and Security Organisation, UK Trade and Investment: "Even once people get on a website they can find 64 pages to read [to bid for government work]. Big companies with bidding teams have people who can do that, but most people in SMEs are wearing two or three hats."

Melanie Coe, procurement adviser, Department for the Environment, Food and Rural Affairs: "There are pages of terms and conditions to rationalise; we are not getting there very quickly."

Colin Cook, deputy director, digital, Scottish Government: "We need to recognise the potential that government spending power has to deliver quality outcomes, particularly in developing markets and delivering sustainable economic growth."

Gavin Copeland, external relations and communications, Centre for Defence Enterprise: "It needs transparency; have an open door that they can come through."

Richard Hassett, project lead, supplier engagement SMEs, Cabinet Office: "Look to be innovative in the way you procure."

Louis Hyde, programme manager, Government Digital Service, Cabinet Office: "There are lots of great small companies that I want to do business with, and I find it difficult to do business with them. It's a question of developing relations around the procurement piece."

Jonathan Kalermera, head of corporate services, Pensions Advisory Service: "The mountain of paper we think mitigates risk is actually just creating an audit trail of risk, and is not helping us get value for money."

Anil Kanani, head of Food Industry Competitiveness and Growth Team, Department for the Environment, Food and Rural Affairs: "It's the complexity of the bid process, of what SMEs would have to put into specifications, that limits their ability to deliver. So we should try to simplify a process that is too complicated."

Stephen Shaw, strategic commercial manager, procurement centre of excellence, Department of Health: "Speed is critical, as is simple documentation. We are still too complex and we have got to rationalise it."

Kevin Webb, government sales director, Eduserv: "I'd like to see customer-driven events where SMEs are invited to come to show themselves and explain what they do."

Ed Zedlewski, deputy chief executive, Eduserv: "There is a serious appetite to work with SMEs in government but to do that still requires more cultural change, not just in procurement but also in delivery and among all of those involved in decision-making."

Also participating

Simon Lydiard, head of corporate procurement, Department for Transport.
Matt Ross, editor, *Civil Service World* (chair).

concerned about whether smaller companies could handle changing circumstances. "If legislation changes, will they have the expertise or capacity to change?" he asked. "With larger companies there is the feeling they can contract out the expertise or will have it somewhere in the organisation. There is a perceived risk."

If SMEs are well chosen and managed, participants commented, the additional risk can actually be quite small – and the high-profile service failures of big names such as G4S and Southern Cross demonstrate that scale doesn't always bring security. Perceptions persist within the civil service that smaller players can be more vulnerable to service failure; but Allott said while "the civil service is very conscious of risk", he isn't aware of any authoritative research into the topic.

Bite-sized chunks

To get all the advantages of working with SMEs, civil servants need to tackle some of the barriers that limit small businesses' ability to win government work. Most SMEs can't take on big contracts, for example – but procurement policies are pushing departments to combine orders and win economies of scale. "Sometimes 'big is beautiful' and best value comes from aggregation, and sometimes 'small is beautiful'. The trick is to know when," said Allott. "Government has been busy aggregating, under the influence of [retailer] Philip Green, and we have not really spent time figuring out when is 'small is beautiful' – and I think that is one of the critical challenges for civil service."

One way to tackle this problem is encouraging prime contractors to subcontract work to SMEs. Kevin Webb, Eduserv's government sales director, said one option is to use large contractors which have relationships with an SME supply chain – but "there is a danger that the prime contractor becomes a systems integrator across the top of the SME community," he added, leading to the loss of some of the potential benefits of using SMEs in the first place. "It's a very fine balance."

Where SMEs voluntarily come together, said Eduserv's deputy chief executive Ed Zedlewski, it's possible to retain those benefits whilst creating an organisation big enough to handle major contracts. "We work hard with SMEs with complementary skills, in relationships we have formed and where we understand the risk, rather than in a forced marriage with the SME community," he said. "But how do you convey that collective value of your relationships with SMEs to a buying community? That is not easy."

Another solution is to divide jobs up into smaller pieces. But this must be done carefully, said the Scottish Government's Cook, who noted that the process of breaking a contract into small chunks "requires a thorough understanding of the market. If you do it wrong you may prevent SME involvement, as they may not cope with all the rabbit holes you have created".

There were mixed views on this approach. Arfan Chaudhry, assistant director of support to business at UK Trade and Investment's Defence and Security Organisation, wondered: "Are you not creating more risk by breaking contracts down? And, dare I say it, have we the commercial skills to do it?"

The government's shift towards aggregation, and its tendency to repeat rather than rethink existing practices, present the civil service with "a risk of failure of imagination", Lydiard felt. "People think they have to continue to do business in the way they always



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Allott: Government must learn when 'small is beautiful'

have through greater aggregation and bigger contacts," he said. "There is almost a default position that: 'We have got these contracts and we can re-procure them'. I cannot emphasize highly enough that we have to challenge conventional thinking."

The smarter buyer

The complexities and demands of the current public procurement process deter some SMEs from even bidding for work. Beaven remarked that if they have good private markets, many don't want to "bother with these extra hoops" required to sell to government.

Eduserv's Zedlewski agreed that in his experience it is "not easy to sell to government: there are significant hurdles to overcome, and compared to the commercial world processes tend to be quite onerous" – particularly for small firms with limited time to invest. In dealing with some departments, he went on, "I sense a lack of confidence in making decisions." This adds cost to the process: "A decision can be very protracted. It takes many months then comes back, and you regurgitate the same issues over and over again – and meantime a huge cost has been built up."

Lydiard argued that, to support SME procurement in ways that improve value for money, civil servants will both have to make procurement simpler, and de-emphasise rigid adherence to formal buying processes in favour of developing a deep understanding of the market and designing a procurement system to suit. Asked if procurement departments have the time and resources to take this more labour-intensive approach to buying, Allott suggested that the potential savings from greater SME procurement might justify the required investment in expert staff: "It will need a lot more work to make a business case to expand the procurement headcount, but there will be cases where that will be true and we have gone too far in cutting headcount."

In part, EU procurement rules may make it harder for SMEs to win public contracts – and Allott suggested that he'd received legal advice that it is unlawful for buyers to insist that main contractors hand a proportion of the work to SMEs. Only business-critical provisions can be inserted, he said, though this could cover helpful requirements such as asking for short and robust supply lines.

Other rules that insist on equal treatment of bidders can affect buyers' ability to distinguish between providers, said Louis Hyde, a programme director at the Government Digital Service. "It needs a level playing field, but if there are 50-60 companies I cannot see all of them," he commented. "If I see five, why should I choose those five? You feel hamstrung."

The challenges demand wider thinking on civil service procurement and contract management skills, Lydiard said; procurement should no longer be seen as an end in itself, but as part of the overriding objective of successful contract management and delivery. "We should not see the end as the contract: it is seeing [the project] through to delivery," he said. "One needs the ability to understand, analyse and interrogate the market place such that we get the best out of it."

Balancing risk and accountability on one side with innovation and better value on the other will never be straightforward as the government tries to drive up SME procurement – but if civil servants can find the time and effort required to tackle the barriers that limit SMEs' ability to compete against the big boys, the rewards will be more than worth the investment. ■



Tom Hampson

Zedlewski: SMEs can collaborate, but avoid 'forced marriages'