



The Royal Academy
of Engineering

Review on the role of SMEs in public procurement

Response from the Royal Academy of Engineering to the Office of Government
Commerce and the Department for Business, Enterprise and Regulatory Reform

August 2008

Introduction

This response has been developed on the basis of input from our Fellows and the findings of a series of regional seminars on industry-academia interactions hosted by the Academy. This response draws mainly on the experience of our Fellows in the establishment, management and financing of high-tech, high growth-potential SMEs.

The Academy believes that a major problem facing SMEs is market access and the lack of access to public procurement opportunities, particularly accessing the "first step on the ladder" of sales. The public sector constitutes a significant part of the marketplace and can provide important sales opportunities to small innovative businesses. However, procedural and systemic barriers create difficulties for early-stage businesses trying to access public contracts.

1. Barriers

- 1.1 SMEs tend to have very limited sales teams, and are therefore only likely to apply for contracts where there is a simple sales process with a reasonably high probability of success and some ability to influence the requirements of the contract; flexibility of contracts is particularly important for SMEs.
- 1.2 SMEs with little sales knowledge and modest resources find it difficult to qualify for approved supplier lists. It is also very difficult for small, undercapitalised early-stage businesses to access public contracts, yet the financial robustness of the supplier will often be a selection criterion.
- 1.3 Many public procurement processes include extensive questionnaires and the requirement for companies to adhere to numerous policies (for example on environmental impact), many of which are inappropriate or unreasonable to expect an SME to have.
- 1.4 On a national and European level, there have been increasing moves towards placing larger contracts, which often lie outside the scope of SMEs' capabilities.

2. Recommendations

- 2.1 The Academy believes it would be beneficial to have the goal that a minimum of 30% of public sector business should be placed with SMEs, either directly or through subcontracts. However, the practicality of a 30% target is questionable as there is currently not enough SME capacity to deliver this target or willingness in the public sector to offer this amount of business. In our view, a more sensible strategy would be to set a 10% target initially, with the aim of increasing to 30% over a suitable time period. Strict market conditions used to achieve the 30% target could be relaxed once the target is achieved and stable.
- 2.2 The UK should examine the US Small Business Innovation Research model which determines quotas for procurement from SME suppliers. In the Academy's opinion, the success of the US scheme constitutes a major factor in the contrasting rates of growth between 'high growth-potential' SMEs in the US and the UK/Europe. The Academy believes that it should be possible to create a UK equivalent of the Small Business Initiative that is compliant with single market state aid and competition legislation.

- 2.3 Government should use procurement to stimulate a degree of technology pull rather than specifying safe, already-tested solutions. This would underline commitment to research and innovation, increase the flow of opportunity for leading edge SMEs, and help promote emerging technologies.
- 2.4 We recommend the committee also investigate processes by which SMEs can collaborate to submit combined tenders. This would increase their ability to meet many of the contract requirements as well as spreading risk.

3. The IT Sector

- 3.1 For national procurement of IT systems, we recommend a procurement model whereby the client works with a 'systems architect' to develop their requirements, select a developer and manage the development contracts. SMEs could bid for the 'systems architect' role.
- 3.2 This model would provide the following benefits:
- The framework would allow SMEs to propose innovative solutions.
 - The 'systems architect' could formalise and analyse the customer's requirements using modern techniques; this would greatly reduce changes to requirements during the development period.
 - Projects would be more likely to achieve their budgets and timescales.

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