

# **Small Business Access to Public Procurement Processes**

**Briefing Paper  
October 2021**

## Feedback is King

### Issue

Almost half of small businesses that explore public sector contracting for the first time don't win a contract, with many never to return to the public sector market again.

Although success isn't necessarily expected for first time bidders, it is important that they have full transparency on their bid, the process and how it could be improved going forwards.

Too often business feel that public sector opportunities are either too difficult to spend the time and resource applying for, or that the public body in question already knows their preferred bidder. Neither perception, no matter how misguided, encourages businesses to return and bid again for a public sector contract.

One key but often missing element in ensuring this, is the quality of feedback given on bids. This can be crucial to not only improving transparency of the public sector market, but also giving businesses concrete evidence of where they could improve for future bids.

Too often however this feedback is missing altogether (despite regulatory requirements stating that feedback must be given), incomprehensible, or so generic that the business can't possibly begin to make changes to improve their chances next time.

Business must be made to feel that the process is open and transparent, and that they have a fair possibility of winning that public sector contract. Providing quality feedback is integral to this process.

### Data

- SMEs new to public sector opportunities (1-9 bids)
  - 57% reported that feedback was not detailed enough.
  - 9% reported receiving no feedback at all.
  - 62% disagreed that the feedback helped them to understand and improve
  - 66% disagreed that the feedback identified strengths and weaknesses
- SMEs with experience of public sector procurement (>9 bids)
  - 47% reported that the feedback was detailed.

### Recommendations

Public sector bodies must be required to provide formal feedback to all failed bids.

This feedback must detail key reasons why the bid failed, and possible areas for improvement in the future. This would take the form of giving three key areas for improvement, which the business can then use to better inform their bids in the future.

Public sector departments and bodies must be sufficiently resourced and trained to ensure that the feedback given to unsuccessful business is of a high quality, that can be used to better inform and prepare the business next time.

FSB strongly believes that debrief letters should remain mandatory, and clear standards set for the type of constructive feedback sent to SMEs.

## SME bidding practices in Public Sector Contracts

### Issue

There is a vast untapped potential of SME suppliers missing from public sector supply chains. Making better use of SME suppliers would bring benefits for both SMEs and the public sector, by reducing over-reliance on large single providers, and incubating the disruptive power of SMEs in public sector procurement.

Despite the publication of opportunities on government portals, take-up of these opportunities by SMEs is very low. Even in sectors which have a heavy SME reliance, such as construction, there remains a vast untapped pool of SMEs.

It is often too easy for government departments to use large businesses that act as aggregators, when the department could, with the right training and process, attract SMEs into the supply chain directly and disaggregate opportunities.

Bringing more SMEs closer to the centre of public sector procurement may also reduce waste and expenditure of departments, as the public sector becomes less reliant on large businesses acting as aggregators (cutting out the middleman).

SMEs new to public sector contracting have a far lower success rate and perceive the feedback that they receive, to be less useful than their more experienced counterparts. Too many SMEs that explore public sector contracting are initially given a negative experience, meaning few return.

For Government to hit its target of spending every £1 in £3 with SMEs by 2022 (with the original target set for 2020), it must focus its efforts in ensuring that those SMEs with little or no experience are encouraged to return to public sector contracting.

### Stats

- Only 1 in 5 SMEs bid for a public sector contract in the last 3 years.
- Only 2 in 5 SMEs in construction bid for a public sector contract in the last 3 years.
- SMEs new to public sector opportunities (1-9 bids)
  - 49% failed to secure a single contract in the last 3 years.
- SMEs with experience of public sector procurement (>9 bids)
  - 11% failed to secure a single contract in the last 3 years.

### Recommendations

We recommend that this be addressed by requiring public contracting authorities to give 3 clear areas for improvement in relation to unsuccessful bids, that businesses can then act upon.

FSB strongly believes that debrief letters should remain mandatory, and clear standards set for the type of constructive feedback sent to SMEs.

Lowering technical barriers, and introducing aspects such as Passporting should be encouraged, to help SMEs new to public sector contracting bid for more contracts, quickly and easily without the need to duplicate multiple items of information.

Passporting would form the backbone of a "tell us once" system which would require business to submit relevant information for bids once to a centralised system, which would then be used to populate and inform future bids across the public sector.

## Public Sector Transparency

### Issue

An overarching theme among businesses exploring public sector procurement is the belief that it is too difficult, and too opaque to spend the time and resource preparing and bidding for a public sector contract.

Many SMEs see the public sector as a closed system that requires its own set of expertise just to be successful in the bidding process. SMEs themselves do not have the dedicated teams or resources to focus specifically on public sector contract bids.

There are also stark differences in procurement practices across the public sector (Local authorities especially) meaning businesses have no clear sense of what expectations or requirements are needed for procuring in the public space.

This is why it is imperative that public sector contracting is as transparent as possible, and easily accessible in terms of its communications and language to small businesses. However, too often the same styles and requirements that are used to communicate with large businesses (who have dedicated teams) are applied when writing opportunities for small businesses.

Following the end of the transition period and the publication of the Green Paper: Transforming public procurement, Government must take the opportunity to reshape and reset the relationship between public sector procurement and SMEs.

### Data

Of those SMEs with a view of public sector procurement

- 72% of SMEs disagreed with the statement that the process for publishing and publicising public sector procurement opportunities tends to be clear and transparent
- 85% of SMEs disagreed that the process for publishing and publicising public sector procurement opportunities is uniform and consistent across different parts of the public sector
- 77% of SMEs believe that the frameworks for applying for public sector contracts are not simple nor easy to navigate
- 76% of SMEs agreed that the lack of Dynamic Purchasing Systems discourages them from pursuing public sector contracts

78% of SMEs said that the requirement to fill out separate bespoke supplier application forms discourages them from pursuing public sector contracts

### Recommendations

We would like to see the introduction of an SME playbook in a similar style to the playbooks focusing on the construction industry and issued to all government departments. This would help improve the standard of procurement teams who are seeking to engage with SMEs. The Playbook itself would set out best practices for engaging with SMEs and setting out procurement opportunities designed to be SME friendly.

There must be greater uniformity across the public sector in terms of standard practice towards SMEs. This could be achieved through a shared centralised resource. Part of this centralised resource would constitute a passporting system that would allow businesses to upload information to a central database that could then be used to populate prospective bids. This information would also improve the quality and outreach of communication regarding potential opportunities to businesses.

The public sector must lead the way on payment terms, ensuring that no contract exceeds a 30-day payment term, and that payment terms are cascaded down throughout the supply chain. Giving small

business this visibility and guarantee of payment increases their confidence and willingness to be involved in public sector supply chains.

## Money Matters

### Key Issue

There is a major disconnect between what the public sector believes is an achievable size of contract for an SME, and what businesses will typically aim for when venturing into public procurement.

Many businesses venturing into the public procurement space for the first time will target low value contracts.

As businesses gain more experience in the public sector market, they then target higher and higher value contracts, until they hit a ceiling where it becomes too difficult for SMEs to bid for contracts over that amount.

These businesses then return to the private sector where it is easier to bridge this gap, however very few then return to the public sector once they have scaled up.

The public sector market should provide a potential route for small businesses to continue to grow as a businesses, however too many businesses are falling through the gaps.

For Government to reach its target of spending every £1 in £3 with SMEs by 2022 (with the original target set for 2020), we must ensure that businesses who are experienced in public sector work continue to be involved in the market, and have opportunities that match their ambitions to grow.

### Key Data

- 89% of public sector contracts applied for by SMEs were below £100,000 in the last 3 years
- 48% of public sector contracts applied for by SMEs were below £25,000 in the last 3 years
- Only 10% of SMEs applied for a public sector contract above £100,000 in the last 3 years
- SMEs in the construction sector more regularly surpass the £100,000 threshold, with 22% of SMEs in this area bidding for contracts between £100,000 and £1m
- Only 50% of opportunities advertised as being SME-suitable on Contracts Finder are below £100,000<sup>1</sup>
- The highest value contract opportunity on Contracts Finder marked as suitable for SMEs has a contract value of £20bn (although this is a DPS), with a further 17 contracts suitable for SMEs above £1bn

### Recommendations

Many businesses (other than in the construction sector) struggle to bid for contracts above £100,000. This is also the threshold where the Public Contracts Regulations begin (£122,976) for suppliers & services. Government should explore increasing this threshold, to allow more businesses to bid for contracts about this threshold without having to comply with a much stricter set of criteria set out in the regulations.

Government must redouble its efforts to disaggregate contracts, to bring them closer in line with SME bidding practices i.e. under £100,000. This will mean increased resourcing for departments to manage an increased number of contracting opportunities.

Contracts advertised as suitable for SMEs should genuinely be suitable for SMEs. Given that almost 90% of SMEs bid for contracts under £100,000 it is unclear exactly how many SMEs would be able to fulfil a £20bn contract. DPS and Framework opportunities on Contracts Finder should be advertised with a range of values of potential awards withing the DPS or Framework.

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<sup>1</sup> August 2021

Government must crack down on third party websites and businesses proclaiming to have exclusive access to public sector opportunities and require these sites to state that the same opportunities can be accessed for free via the government's own portal.

## Methodology

This report is based on FSB members' experiences and views on procurement practices. FSB undertook a mixed method approach for the research consisting of a quantitative online survey and a small number of third-party sources, mentioned in the report. The survey was nationwide in its reach and members were invited to participate in the survey via email and social media channels. The survey was administered by the research agency Verve and was in the field from 18<sup>th</sup> of September 2020 – 1<sup>st</sup> October 2020. The survey questionnaire was completed by a total of 1,451 small businesses. The survey findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK). All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not add to 100 per cent