

This guide has been produced by the Institute for Sustainability (the Institute) and Action Sustainability. It aims to provide guidance on how best to diversify supply chains to include more small and medium-sized enterprises (SMEs), with a specific focus on the construction industry.

The Institute and Action Sustainability have worked closely with Lend Lease, one of the world's leading fully integrated property and infrastructure solutions providers, who are taking a proactive approach to early engagement in relation to integrating SMEs within their development planning.

Why engage SMEs

| | | |
|-----|--------------------------------|---|
| 1.1 | Who should read this guide? | 5 |
| | Background | 5 |
| 1.2 | Supply chain diversity | 6 |
| 1.3 | Drivers for supplier diversity | 7 |
| 1.4 | The benefits | 8 |
| | Benefits | 9 |
| | Challenges | 9 |

How to engage SMEs

| | | |
|-----|----------------------------|----|
| 2.1 | The SME engagement process | 10 |
| | SME engagement strategies | 11 |
| 2.2 | Critical success factors | 12 |
| | Follow up | 13 |
| 2.3 | Overcoming the challenges | 14 |

Your toolkit

| | | |
|-----|---|----|
| 3.1 | "SME-friendly" procurement | 17 |
| | Balancing value and risk | 17 |
| 3.2 | Sample wording: | |
| | OJEU advertisement | 18 |
| | PQQ questions | 18 |
| | Method statements and tender questions | 19 |
| | Contract conditions | 19 |
| 3.3 | Evaluation and weighting criteria | 20 |
| 3.4 | Building SME relationships and capacity | 21 |
| | Engaging successful contractors | 21 |
| | Monitoring and reporting | 21 |
| | Conclusion | 22 |



1. Why engage SMEs



1.1 Who should read this guide?

This guide is aimed primarily at individuals working in procurement/supply chain or contract management roles within large organisations who either want or need to actively encourage SMEs to bid for work within their supply chain.

The term “large organisation” encompasses a range of public and private sector entities, including main building contractors, social landlords, local authorities, Local Enterprise Partnerships, developers and other property owners and client groups.

The guide is also applicable to quantity surveyors, bid managers and architects who are similarly motivated. Corporate responsibility and supplier diversity professionals may also draw on it for practical help on how to roll out their objectives within procurement departments.

Therefore this guide is aimed at commissioning organisations, rather than SMEs looking to up-skill and build capacity.

Commissioning organisations

Clients

First/second tier contractors

Advisors

However, for further information on low carbon opportunities for SMEs, visit:
www.instituteforsustainability.org.uk/latestpublications.html

Background

Even the best-prepared SME may find it difficult to secure contracts from large organisations.

It will be these organisations that play the biggest role in delivering a low carbon built environment and this represents a huge business opportunity for local SME supply chains.

It is therefore equally important that these large organisations are aware of the benefits of employing local supply chains and can structure their procurement strategies accordingly.

Such organisations are increasingly seeing the value of investing in local supply chain development and management as a cost-effective approach and one that promotes local economic growth.



1.2 Supply chain diversity

Supplier diversity and the engagement of SMEs within supply chains are becoming accepted norms on large construction projects. This is due in part to the success of early adopters and to the increasing amount of UK legislation encouraging the public and private sector down this route.

A range of early adopter organisations are implementing supplier diversity policies and programmes. In some cases these are stand-alone (eg Goldman Sachs, Skanska, Eversheds, HP and Motorola) and in others they are integrated into wider approaches to responsible (eg Greater London Authority, Transport for London) and sustainable (eg Balfour Beatty, Harrow Council) procurement. Both Skanska and Balfour Beatty are successfully using their supplier diversity credentials as “win themes” in major bids on an ongoing basis across the UK.

Example: Crossrail

Bidders for contracts have to submit information about supplier diversity at both the pre-qualification questionnaire (PQQ) and invitation to tender (ITT) stage and this features in the scoring mechanism. Successful bidders together with their supply chains then have to implement supplier diversity plans and monitor and report on the participation of different categories of supplier.

1.3 Drivers for supplier diversity

Key benefits – the “carrot”

- Access to a wider base of potential suppliers
- Better range of solutions
- More competition, and so keener prices
- Flexibility
- Innovation
- Local knowledge
- A culturally adapted approach.

Legislation and government initiatives – the “stick”

- EU treaty principles and procurement legislation
- Public Services (Social Value) Act 2012
- Localism Act 2011
- Best Value Statutory Guidance (September 2011)
- Equality Act 2010
- Health and Social Care Act 2012
- The Big Society
- UK government target (of 25% procurement from SMEs).

What is supplier diversity?

- An action undertaken by large organisations to ensure that relevant potential suppliers have a fair and equal opportunity to compete for their business.
- A concept that can be applied to any target group, such as SMEs, the black and minority ethnic community, social enterprises, the community sector or local firms.
- Potential suppliers compete to win based on merit.
- It does not guarantee work to specific business groups.

Example: London 2012 Games

Supply chain requirements led to at least 8,000 published procurement opportunities including many of relatively low value, 98% “British” procurement and a culture change in large construction companies which recognised the business benefits of supplier diversity.

Example: East London Line

Contractors adopted the principles of supplier diversity as a result of equality and supply chain management issues being included in tenders and contracts. This resulted in at least £89 million being spent with over 100 SMEs.

Further information: *Handbook on Supplier Diversity in Europe* www.supplierdiversityeurope.eu/MyPictures/Handbook_on_Supplier_Diversity_in_Europe.pdf
www.msduk.org.uk www.weconnect.org.uk www.supplierdiversityeurope.eu

1.4 The benefits

When large organisations make the conscious decision to diversify their supply chains and to include more SMEs, there are normally many positive outcomes. SMEs generally are more innovative, more flexible, can offer higher levels of customer service and can contribute to their client's wider organisational objectives in relation to sustainability. The organisation gains a more flexible, nimble and diverse supply chain where risk is spread and hopefully a lower lifecycle cost is achieved.

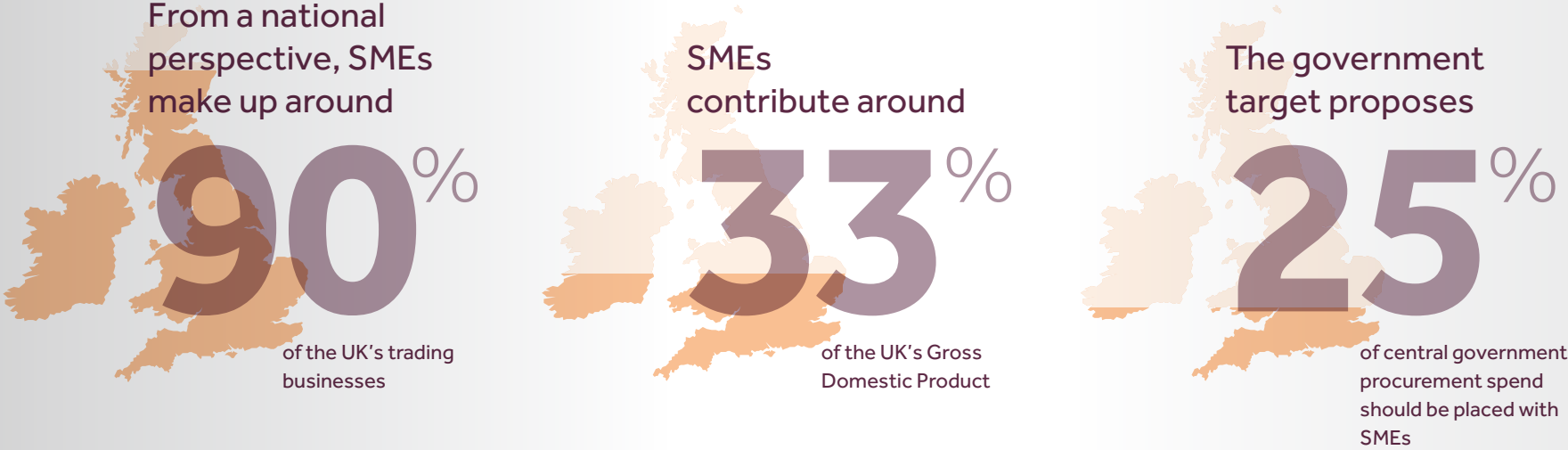
Policy makers and politicians believe that procuring more from SMEs will:

- strengthen the economy
- regenerate local communities
- generate stakeholder goodwill.

Ideally the private sector should strive to match commitments made in the public sector.

By diversifying the supply chain and offering opportunities to SMEs, you can easily contribute to wider organisational objectives such as:

- equality, diversity and inclusion
- corporate social responsibility
- environmental sustainability
- community development
- economic development.



Benefits

So, looking at the complete picture, there are many benefits associated with using SMEs:

- Lower lifecycle costs of goods or services
- Increased performance in relation to corporate social responsibility, which can directly help to secure more contracts in the future
- Greater innovation and creativity
- Possible reduction in transport and logistics costs, in turn increasing sustainability
- Greater degree of flexibility
- Better risk management
- Compliance with legislation
- Opportunity to build relations with communities within which you operate
- Opportunity to contribute to local strategic objectives
- Potential to strengthen the economy
- Potential to generate stakeholder goodwill
- Opportunity to develop new products and services for an increasingly, culturally diverse marketplace
- New solutions to your challenges may be found by widening your applicant pool.

Challenges

As already outlined, using SMEs brings clear benefits. However, there are also a number of barriers that need conscious effort by you and the top tiers of your supply chain if they are to be overcome.

Engaging SMEs usually means changing the way in which you deliver your procurement. SMEs are as a rule smaller, carry lower levels of insurance, may not have mature business policies and procedures, and may be put off by overly complex tendering processes.

But by making small, manageable changes and carrying out some basic supply market analysis against your spend profile and categories, there is a high probability that you can actively include more SMEs.

From the perspective of a large organisation, the main barriers to engaging with SMEs are usually a consequence of a lack of knowledge and information, including:

- understanding **what** companies exist in the local area
- understanding **when** to contact these companies to allow them to participate effectively in procurement exercises
- understanding **how** to use the best tools to contact these companies (other agencies, face-to-face events, press and multi-media advertisements etc).

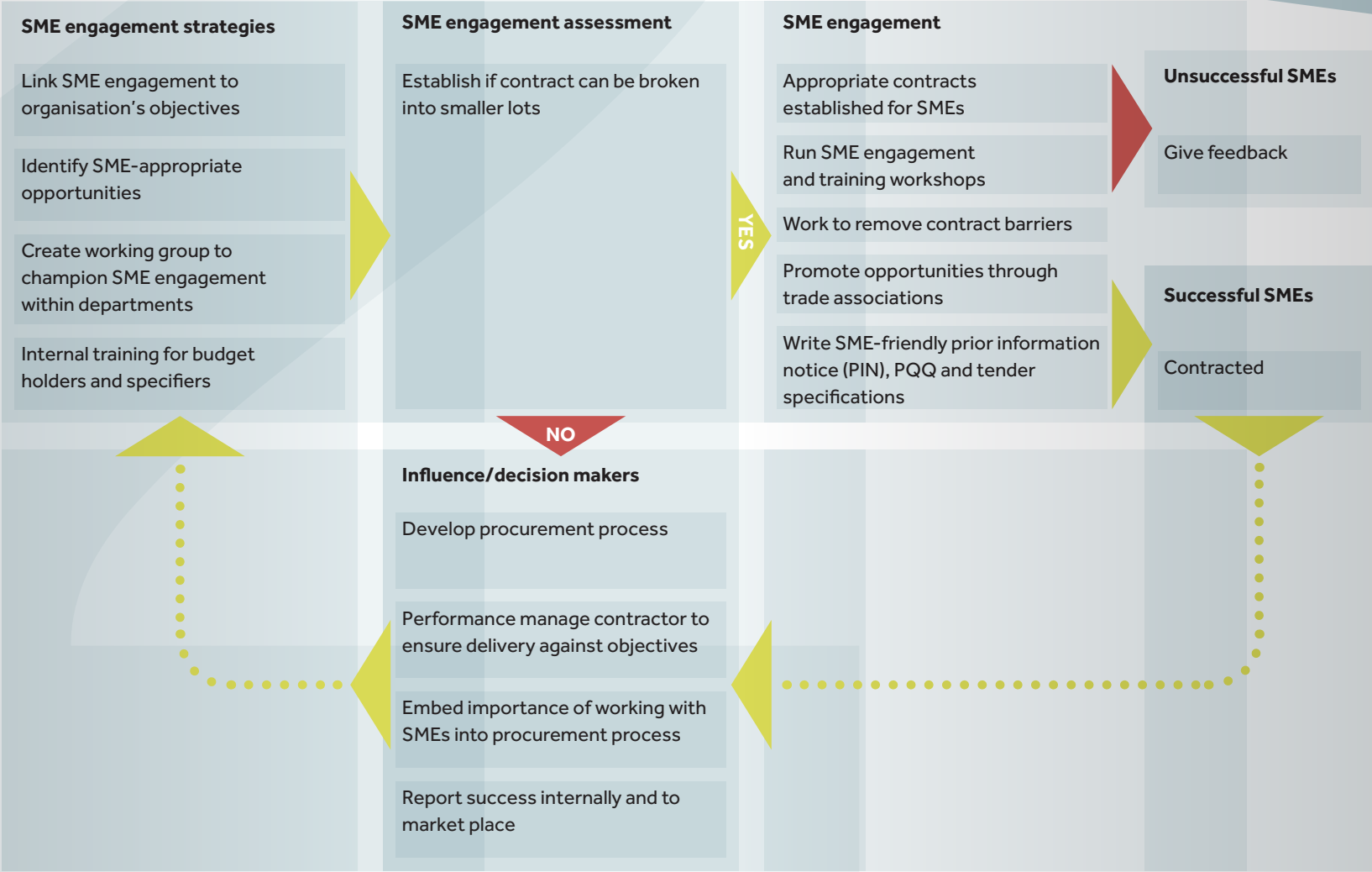
At the other end of the spectrum, the two main barriers for SMEs are:

- not having access to information about what is being bought and when (at first or second tier), meaning that an SME cannot participate or compete at the right times
- facing procurement processes and paperwork that are unnecessarily bureaucratic; an SME may not understand how to demonstrate compliance or how to market their services or competence in the first procurement stage, and therefore may never have the chance to progress to the full tender stages.

2. How to engage SMEs

2.1 The SME engagement process

The SME engagement process can be simple and highly effective. There are a number of different elements which, if executed in full, can make a significant difference to the number of SMEs in your supply chain. Even following just some of these steps can be highly effective. Right is an overview of the engagement process.



Example: Creating a link between corporate objectives and supply chain targets

Balfour Beatty's successful SME engagement strategy
Balfour Beatty plc, the international infrastructure and building contractor, created a 2020 Sustainability Vision and Roadmap for all of its operating companies called "Sustainability - a collective responsibility". It pledges support for the SME engagement agenda under the section entitled "Healthy communities; the communities we serve". And two sub headings have particular relevance to SME engagement: "Employing locally" and "Engage with communities". There is a clear link within Balfour Beatty's internal corporate policies to engaging with companies that are local to its projects. This implies that Balfour Beatty wishes to actively engage SMEs where possible.

This degree of high-level, highly visible corporate commitment is required in order to make this type of initiative successful. Without this, project teams will still see SME engagement as optional and find ways of doing what they have always done in the past, using suppliers that are already known to them rather than actively searching for new ones.

| Objective | 2012 Expectations | 2012 Excellence | 2020 Vision |
|-------------------------|---|--|--|
| Employing locally | Clear process to optimise the use of local labour force and suppliers | Provide training and skills to support the development of, and build capacity in, the local community and provide lasting employment opportunities | We are widely recognised as a sector leader in community inclusion, through local employment and skill development |
| Engage with communities | Receive, understand and act on local stakeholder views and aspirations for projects | Each project team actively involves the community and communicates the sustainability aspects of all projects effectively | We enhance project legacy by having lasting positive impacts on relevant communities |

SME engagement strategies

Inclusion as a corporate objective in corporate policy
A critical success factor for SME engagement is to have it explicitly written into policies and strategies, both at the top level and most importantly within the procurement department. If you declare either internally to your own staff or openly to the wider public that part of your strategy is to engage SMEs where appropriate, then the chances of success are much greater. This in turn creates a more strategic approach to the planning and execution of those policies and a greater likelihood that SME involvement will be carried through into individual category strategies and specific tender processes.

Engagement at all levels of the supply chain
It is important to be aware that SME involvement can happen at all levels of the supply chain. In fact, the further down your supply chain you go, the greater the number of SMEs there will be. It is typically more difficult for an SME to work directly for a large organisation; they will have more success by engaging with the first tier contractor to that organisation, or even lower down the supply chain.

For example, in a construction project if a client appoints a first tier contractor to undertake a £3 million project, that contractor will have to appoint a whole series of engineering companies and specialist trade contractors to actually carry out the work on site. This is where a client and first tier contractor can work together to measure and monitor SME involvement within the supply chain for their mutual benefit.

2.2 Critical success factors for SME engagement

To optimise SME involvement use these best practice steps detailed below. Once you have completed all 12 steps, then effective SME engagement at all levels is achievable.

1

Strategic planning for supplier diversity

Clearly articulated strategic plan for supplier diversity that links with organisational mission, objectives and business strategy.

Example: Robust contract management

BAA (the airport operator) wanted to start working with more SMEs and set up a robust contract management structure to deliver this ambition.

This had a hugely positive effect on the first tier contractors that became involved, which in turn increased the numbers of SMEs in their supply chains.

2

Supplier diversity policy

Clearly articulated supplier diversity policy in place that draws on the business case and links with the organisational mission, objectives and strategy.

3

Senior management support

There is senior management commitment with written statements endorsing supplier diversity efforts and allocation of resources, including financial, staff time and investment in facilitating infrastructure.

4

Designated person dealing specifically with supplier diversity

There is a designated person charged with supplier diversity in the organisation with access to the resources they need. Supplier diversity is their prime responsibility and they report directly to senior management.

5

Engaging with reputable supplier diversity intermediaries

To be an active member of a quality supplier diversity organisation or network and participate in the activities organised by that intermediary.

6

Assessing the baseline, setting targets and monitoring performance

Set timely objectives for planning and implementing supplier diversity activities.

Conduct an audit to assess (by percentage and spend) baseline target supplier participation.

Analyse target supplier participation by sectors, business units, to assess where participation could be stimulated.

Set quantitative performance milestones to drive progress, reflecting the use of diverse suppliers (eg percentage increase on annual spend, total purchase value etc).

Monitor progress systematically against set objectives and targets, which are periodically reviewed.

Example: Bringing innovation into the supply chain

A large construction company was put in touch with an SME from the catering sector in connection with a project that the construction company was involved in at a major airport. It was not particularly looking for catering services at the time, but the SME proposed a system for providing hot meals which would mean that workers could eat while staying “airside” on the runway.

This improved productivity by saving time which would otherwise be lost as workers moved in and out of the secure areas of the airport to access hot meals. This was a genuinely innovative solution of which the construction company was previously unaware, and is an excellent example of the benefit that SMEs can bring.

7

Reviewing procurement policies, procedures and practices

Review procurement policies and practices in order to reduce/remove existing barriers to under-represented suppliers. This could include finding ways to reduce bureaucratic demands, simplifying procedures, offering advice on participation throughout the procurement cycle and pre-procurement, where appropriate.

8

Making opportunities accessible to under-represented suppliers

There is a consistent flow of opportunities for which under-represented suppliers are given the chance to quote/bid, even if most of the opportunities identified relate to relatively small, low-value contracts at the lower risk threshold.

There are strong efforts to avoid unnecessary jargon.

Advance notice of contracts and relevant information is provided through supplier diversity portals or networks.

A website explains how to go about selling to the organisation.

9

Supporting procurement officers and other internal stakeholders

Show commitment to supplier diversity by actively providing information seminars/training for procurement officers, buyers and other internal stakeholders regarding supplier diversity.

10

Involving prime contractors and other suppliers

Work with current first tier prime contractors to stimulate supply chain opportunities for target suppliers as second and third tier suppliers.

Have systems in place to ensure that new, large suppliers have such an approach; through the use of evaluated supply chain clauses in tenders, contracts and contract monitoring.

11

Engaging with target/under-represented potential suppliers

Participate in mentoring, information seminars, workshops and business opportunity events aimed at enhancing the capacity of underrepresented suppliers to participate in its supply chains.

Involve procurement and functional staff, meaningfully, in business opportunity events, and one-to-one meetings.

Provide constructive feedback to unsuccessful businesses following quotation and tender processes.

12

Disseminating success stories

Progress reports and examples of good practice are communicated to senior management and all key internal and external stakeholders.

Positive behaviour is reinforced by recognising those who have done an outstanding job, especially procurement staff. Forms of recognition can include an awards ceremony and/or an article in the company’s newsletter or external publications.

Follow up

- Communicate with key suppliers and ask them to contribute to the policies and strategies.
- Develop a (voluntary) SME engagement code for first tier contractors.
- Ask key suppliers to sign up to the code and to incorporate it into their procurement processes.
- Undertake early market engagement to involve and educate SMEs prior to the tender process.
- Agree key performance indicators and measures with those key suppliers.
- Analyse spend data to understand current SME use.
- Identify key categories of spend or projects that best lend themselves to SME.
- Review tender documentation to make it more “SME friendly”, removing barriers.
- Undertake market research to understand the “SME landscape” within key categories of spend.
- Collaborate with intermediaries such as local business associations and chambers of commerce, which can communicate with the wider SME community and encourage them to tender for work in the supply chain.
- Offer to “coach” groups of SMEs in how best to prepare themselves to tender for and win work from your organisation or from your suppliers.

The ideal situation would be to carry out all these measures. However, it is a long list and some small beneficial effect can be achieved by merely addressing two or three of these success factors. Learning to date has shown us that large organisations can more easily increase SME engagement where there is:

- a clear business case
- the capability and appetite to achieve win-win outcomes
- an existing example of good practice or a model that can be adopted relatively easily
- the ability to tailor the approach according to each large organisation’s own needs
- an approach that drives right through tender evaluation, contracts and contract monitoring.



2.3 Overcoming the challenges of engaging SMEs

The most common barriers that large organisations come up against in relation to engaging SMEs and suggested methods of removing them are detailed below.

| Barrier | How to address barrier | |
|--|--|--|
| Perceived lack of SME capacity/capability or track record | <ul style="list-style-type: none">For services or works contracts, change the specification to a more “output” based structure. This gives more scope to the bidder to describe an outcome rather than respond to a more prescriptive specification based on what has been done on previous contracts. | <ul style="list-style-type: none">If the contract is awarded to a new SME, ensure that they have a close relationship with you or are assigned a mentor to ensure delivery of both the specific contract obligations and any more general business development requirements set out in the contract (eg improvements in health and safety or developing procedures). |
| Lack of mature business processes and procedures | <ul style="list-style-type: none">As above, assign a mentor to the successful SME to help them to develop their processes and procedures.In the tender, allow SMEs to submit “action plans to create procedures” in place of the completed procedures themselves, if they have not been fully developed. | <ul style="list-style-type: none">Along the same lines, ask for evidence of progress towards industry accreditation and standards (eg ISO14001) as well as any accreditation that has already been achieved.Or simply ask SMEs to explain their approach, or give them a policy statement against which they have to agree to deliver. |
| Lower level of insurance held | <ul style="list-style-type: none">Ensure that an appropriate level of insurance is aligned to the work package level and risk threshold. For example, reconsider the requirement for £10 million public liability insurance as standard in every tender because this will exclude a large number of SMEs. | <ul style="list-style-type: none">If it is not really required for a specific work package, develop an appropriate public liability insurance threshold that may draw more responses from the SME market. |
| Scant financial history and guarantees | <ul style="list-style-type: none">In the tender, allow for alternative proof of credit history or financial stability such as references from a bank or copies of management accounts rather than audited accounts. | <ul style="list-style-type: none">Highlight this issue on your risk register and carry out mitigating actions accordingly, such as avoiding single sourcing in favour of dual sourcing to spread the risk. Assign a mentor to the SME concerned and help them through any difficult situations to ensure a win-win scenario. |
| Perceived as a higher risk option (although this is not normally the case) | <ul style="list-style-type: none">As above, use a dual rather than a single source approach to spread the risk and minimise the chance of supply failure. | <ul style="list-style-type: none">Allow bidders to propose the use of associates as well as directly employed staff and assess the tender returns based on individuals’ experience and competence to deliver the job rather than that of the company. |
| Lack of knowledge about tendering process | <ul style="list-style-type: none">Publish information about your tendering process on your website.Create a “How to supply” section and populate it with relevant information.Provide guidance on how to tender and your expectations in terms of levels of accreditations, experience etc. | <ul style="list-style-type: none">Host SME bid writing seminars run by local business support agencies and offer advice and support if asked. |
| SME doesn’t know how to get their “foot in the door” | <ul style="list-style-type: none">As above, use your website to publish relevant information and contact details of local business support agencies.Communicate upcoming contract opportunities to business support agencies so that they can inform the wider SME community and/or local SMEs.Use services such as CompeteFor and your local press to publish upcoming contracts.Attend “Meet the Buyer” events and other similar brokerage-type sessions.Ask for “social considerations” and “SME involvement practices and action plans” in your larger contract tender documentation so that successful first tier contractors are selected and contracts awarded on the basis of their SME procurement credentials. | <ul style="list-style-type: none">Ask first tier contractors to sign a (voluntary) SME engagement code.Set a target on each project for the percentage of the contract value that you wish to be spent with SMEs and then work with the contractor to identify the most likely work packages that can be supplied by SMEs.Measure and monitor the percentages spent with SMEs by project and use this information as part of the performance metrics of your first tier contractors. |

3. Your toolkit

Example: Lend Lease and the Elephant and Castle regeneration – early engagement through partnership

Lend Lease, in partnership with Southwark Council, is delivering the Council's £1.5 billion regeneration of Elephant and Castle. The 15-year regeneration will provide almost 3,000 homes, as well as up to 16,750 m² of shops and restaurants, 5,000 m² of workspace and 10,000 m² for leisure, community and culture uses.

Lend Lease hosted an event in conjunction with the Institute to engage with local SMEs and the low carbon business base in order to share its plans for Elephant and Castle and its approach to sustainability and procurement, and to understand more about these diverse businesses and what opportunities there might be for future working. The half-day event covered talks from key members of the Lend Lease sustainability, development and procurement teams, alongside workshops run by the Institute and Lend Lease's business-to-business team which focused on ways to enhance capacity to supply.

This introductory session was a success and signalled Lend Lease's intention to assess how its procurement processes could accommodate SME engagement and participation. More than 60 SMEs attended, many of which were from the local area (the London Boroughs of Southwark and Lambeth).

One of the attendees, from a local architectural fabricator, commented: "The workshop was thought provoking and it was great to meet key people within the Lend Lease team to hear their views and partnering plans, as well as network with other trades who were similarly motivated. I would happily attend these type of presentations for future projects."

3.1 "SME-friendly" procurement

There are various ways of making your tender and procurement processes more open to SMEs and encouraging first tier contractors to do the same. In fact, a collaborative approach with first tier contractors is the best way of making progress in this area. If you want more SMEs within your supply chain, then you must target and incentivise the first tier contractor to diversify their supply chain on your behalf.

The following pages look at each stage of the tender process and give suggestions about how to make it more accessible to SMEs.

The first step would be to analyse supply categories according to risk and spend (and therefore impact on profit).

Balancing value and risk

| | | | |
|-------------------------|------|---|--|
| SUPPLY RISK/CRITICALITY | HIGH | Bottleneck products Low profit impact High supply risk High sourcing difficulty | Strategic products High profit impact High supply risk High sourcing difficulty Long-term contracts Executive visibility |
| | | | |
| | | Routine products Low profit impact Low supply risk Low sourcing difficulty Low-level visibility Transactional focus | Leverage products High profit impact Low supply risk Medium-level visibility Focus on price competitiveness |
| | LOW | LOW | HIGH |
| PROFIT IMPACT | | | |

The Kraljic Portfolio Purchasing model (illustrated above) is a common tool that can be used to do this. For more information, see: www.supplymanagement.com/resources/how-to/guide-to-supplier-appraisal/using-the-kraljic-portfolio-purchasing-model/

To use this method, you should plot the annual amount spent onto the four-box model relative to the level of risk that you feel applies to each supply category. Once you have done this, you have a visual representation of all spend categories to which you can apply different strategies according to spend and risk levels.

You can now identify the categories that are appropriate for sourcing from SMEs. These opportunities are likely to be found mainly in the bottom left-hand corner of the model, with possibly a few in the top left and bottom right.

It is then advisable to assign minimum requirements to those category areas, which will feed into any procurement activity that you subsequently undertake. It is at this stage that you can have the most significant impact on achieving SME participation.

For example, for a number of categories within a construction project you could create the following type of list:

| Risk | Category | Minimum requirements of bidder |
|--------|---|--|
| Low | <ul style="list-style-type: none">• Painting and decorating• Hoarding• Man guarding• Site set-up | <ul style="list-style-type: none">• Health and safety procedures and good past track record• Good client references,• Acceptable Human Resources framework |
| Medium | <ul style="list-style-type: none">• Electricians• Plumbers• HVAC | <ul style="list-style-type: none">• Member of relevant industry body• Public liability insurance £5 million etc |
| High | <ul style="list-style-type: none">• Civils• Steelwork• Concrete | <ul style="list-style-type: none">• Full suite of business procedures• ISO14001/9001 accredited• Documented BREEAM/CEEQUAL approach etc |

These minimum requirements can then be made publicly available during tender processes and can be used to educate SMEs on the levels of performance and compliance needed in order to become part of your supply chain. They can also be posted on your website so that they can be easily accessed at all times.



3.2 Sample wording

OJEU advertisement

OJEU is the abbreviation for the Official Journal of the European Union, the publication where all European public sector bodies have to advertise their upcoming contracts that are above a certain financial threshold. It **only** applies to the public sector and certain nominated private sector companies.

Example: the following paragraph should be added to your contract notice:
“Please note that the [organisation] runs an SME involvement initiative (and has an SME/Local Procurement Code) which it may invite you to participate in.”

Prior information notice (PIN)

If you are using a PIN, this can signal early on your intention to seek community benefits from contractors. For example, where you have a preference for SME suppliers this can be communicated to the marketplace. A PIN can be used as a method of early market engagement and to provide an early warning.

Example: PIN issued by Croydon Council, 2006
“We would like to encourage the market to respond, including SMEs. We would welcome submissions relating to new and innovative products that may not yet be in commercial production. We would be open to assisting the market entry of such products through early adoption, pilots and a forward commitment to include such items on the schedule of works should performance criteria be met.”

PQQ questions

It is not always necessary to have a question on SME involvement in the initial PQQ. A PQQ is designed to test the eligibility and competence of the companies expressing an interest. A general statement and question to test their experience of delivering community benefits would suffice.

Example: PQQ question
“We require clear evidence of how you will deliver improved economic and social outcomes in relation to this contract and examples of where you have done this elsewhere. To help demonstrate this you should detail the following...”

If you do want to ask a more specific question, you could use this wording:

“Do you have any sort of local procurement/SME engagement/community benefit schemes/initiatives under way already? If so please provide details.”

Method statements and tender questions

Include method statements in part or in full or to form part of the contract – or use them as the basis for developing your own method to understand how prospective contractors will incorporate SME involvement within the contract.

“Please outline how your delivery of the service/goods/works will benefit the wider community with specific regard to the following social and economic issues: [List the social and economic objectives that are relevant to your contract].

“Please provide details of the methods you will use to provide an accurate measurement of the benefits detailed in the method statement above. The methods of measurement detailed will form part of the key performance indicators of the contract.”

You can give encouragement to bidders and ask them to use best endeavours, for example to offer supply chain opportunities to local SMEs but not directly ask for an engagement plan. Bidders are well versed in these kinds of requirement and eager to gain a competitive advantage, and so will come forward with their own proposals.

Example: tender questions
“Outline your policy for ensuring that full and fair opportunity is offered to all suppliers, particularly SMEs or those locally based in and around [insert local geographical area]. Please also detail how this is externally communicated and/or marketed.”

“Describe your company’s involvement in local partnerships, community groups and business organisations, as appropriate.”

Example questions issued by:
Camden Homes for Older People, London Borough of Camden, 2009
“Describe how the consortium will contribute to the delivery of the Council’s social and economic development objectives as set out in the Council’s Community Strategy and in particular in relation to targeted employment and training and skills development in construction.

“Camden’s Community Strategy contains the following objective:

- An economically successful place – for the benefit of local people
- Support for local businesses, as direct suppliers, in the supply chain, and through assistance to be ‘fit to compete’
- Work with main contractors to maximise the use of SMEs and local businesses in the supply chain.”

Decent Homes contract, London Borough of Camden, 2007
“Supply-chain initiative:

- What steps will you take to promote sub-contract and supply opportunities to small businesses?”

Contract conditions

When you write your contract, you can underline your requirements for SME involvement during the execution of the contract; that is, the implementation of the work packages. If this is a specific contract requirement, then the supplier is obliged to fulfil their obligations – this is the most explicit way of achieving SME involvement. Below is some suggested wording.

Suggested wording:
“The Client will maximise its options through the Contractor for purchasing from a diverse and competitive range of suppliers including minority businesses, voluntary and community sector groups, small firms and social enterprises. The Client has adopted an SME/Local Procurement Code which the Client will seek to agree with the Contractor during the procurement phase of the programme. Encouraging a supply base of SMEs in the execution of the contract is crucial to supporting local economic growth and employment. This objective is also detailed in the suggested Method Statements.

- The Contractor shall use all reasonable endeavours to recruit and engage SMEs as subcontractors and suppliers (where required) in the performance of the Works or Service.
- The Client shall use all reasonable endeavours to assist the Contractor in identifying potential SMEs as subcontractors and suppliers to the Contractor. The Client, in assisting the Contractor, does not warrant the suitability of any SME that the Client may suggest as a potential subcontractor or supplier to the Contractor in the provision of the Works or Service.”



3.3 Evaluation and weighting criteria

Each criterion should be assigned a weighting depending on its level of importance or criticality to ensure that greater emphasis is put on the more significant elements during the evaluation process. You should agree the weighting for each criterion with any relevant stakeholders. A weighting range as a percentage is recommended, but this range is not fixed and can be increased or decreased if appropriate so that more significant elements can be given greater emphasis.

It is recommended that the SME/local procurement criteria account for between 1% and 10% of the total tender evaluation criteria. A weighting of between 1% and 10% or higher is considered appropriate to communicate the importance of SME/local procurement to prospective contractors and to elicit a quality response. You will need to make your own judgement as to what weighting is proportionate and relevant for your contract.

| Evaluation criteria: SME/local procurement | | | |
|---|--|---|--|
| Poor | Satisfactory | Good | Excellent |
| Tenderer shows little understanding of commitment to SME/local procurement. No target level offered | SME/local procurement included in contract manager’s objectives but no specific target or approach | Target of 10% SME/local procurement company wide | Target of over 10% SME/local procurement exceeds the Code/Initiative requirements |
| No evidence of SME/Local Procurement Code or process in place | Few supply chain opportunities identified. SME/Local Procurement Code in place but no procedures to engage with SMEs | Adherence in full to the SME/Local Procurement Code/Initiative and demonstrable evidence of how to achieve it | Offers eg briefing session on project for local companies, mentoring of SMEs, workshops on tendering |
| | | | Offers to collect SME/local procurement outcomes from subcontractors |

3.4 Building SME relationships and capacity

Engaging successful contractors

Once a contractor is selected and appointed, you will need to identify the key contacts. This will generally be the contract manager and his/her procurement manager. Some larger public sector groups will also have a community liaison officer who is responsible for the community benefits aspects of the contract. In the private sector this is likely to be the corporate social responsibility manager.

- You will then need to do the following. You should explain the SME/local procurement initiative again along with the requirements of the contract, and discuss:
- your role and support in helping the contractor to meet the requirements of the contract, for example its knowledge of suitable local subcontractors and suppliers, programmes of events such as Meet the Buyer and brokerage services
 - broad details of the goods and services that the contractor intends to procure and over what period, and areas of the supply chain that are open to local bidders
 - a realistic target for SME/local procurement in terms of a percentage of contract value
 - suggested SME/local procurement clauses for inclusion in its tender documents issued to subcontractors
 - monitoring requirements and frequencies
 - communications – opportunities for good news stories etc.

The key to accessing SMEs and knowing what is available in the SME marketplace is through building relationships with business support agencies, as well as trade and professional bodies. There are few if any national business support agencies left but support is available locally, such as the local chambers of commerce, or other government-funded business support organisations and time-limited programmes such as the FLASH programme. These support agencies help SMEs to become either “fit to tender” or “fit to win” and thereby to become part of wider supply chains. However, there is a significant role for large organisations to play in terms of knowledge transfer or even mentoring in order to support SME capacity and capability development.

Monitoring and reporting

The contractor will find it straight forward to record the outcome of any subcontracts they let and to be able to track purchases from SMEs.

The key performance indicators (KPIs) will vary but those that are recommended for monitoring purposes are:

| KPI | Description |
|---------------------------|--|
| Tender inquiries | Where an informal approach is made to a local company to see if they are interested in bidding for an order |
| Tender invitations | Where formal tender documents go out to a tender list which includes one or more local companies |
| Tender outcomes | Whether the local company was successful, unsuccessful or declined to tender |
| Added to the supply chain | When an SME has met the criteria for working with the contractor and although not used on this contract can be considered for work elsewhere |
| Accounts opened | Accounts opened with SME trade suppliers and amounts purchased |

The contractor is normally asked to complete a monitoring log every quarter. Typically this will be in the form of a spreadsheet in which the contractor records all SME procurement activity by SME.

Conclusion

This guide provides practical checklists and suggested methods for how you can actively engage with SMEs. It is not always an easy process. It does take time and requires effort and dedication. However, it is achievable and great success is possible.

A systematic approach is required, taking into account everything from overall policy to set the general tone; category spend prioritisation to identify which areas of spend are most appropriate for SMEs; an overhaul of procurement policies and procedures to incorporate “SME-friendly” wording; and an organisation-wide belief that this can be done.

SMEs can be found at all levels of all supply chains; they are a fantastic source of innovation, providing cost-effective solutions and a high level of customer care. There is an increasing amount of legislation requiring both the private and public sectors to put in place policies on SME engagement and diversification of the supply chain.

More than 90% of companies registered within the UK are classified as SMEs; there is a wealth of choice and an extremely wide set of options open to purchasers of all types of goods, services and works.



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Best practice guidance for successful SME engagement



Your toolkit

How to engage SMEs

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