

The SME Engagement Handbook



The purpose of this document is to help microbusinesses and small to medium enterprises (“SMEs”) interact more effectively when bidding to supply goods or services to larger organisations and the public sector.



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Over 90% of large organisations, and the public sector, use either an in-house or third party procurement function to manage the buying process for almost every purchase. Increasingly, the procurement function is seen as a trusted advisor to management, offering operational and strategic guidance on more effective purchasing for all aspects of the business.

The Procurement Process

The procurement team are effectively the gate keepers for new suppliers and shall take into consideration the process and actions as detailed below. Large organisations have extensive governance structures and approval processes across the business so finalising a deal can typically require approval from legal, finance, the requesting department, IT, and Procurement.

It is essential that you understand the procurement and supplier on boarding process specific to the goods or services you wish to sell to the organisation well before starting work. It is important to determine who else needs to be involved in deciding whether you will be selected as a supplier going forward, and to understand what the prequalification process will be. Ultimately, you will need to be clear on who will sign off your engagement and who will be authorising your invoices for payment.

Whilst engagement happens across many business functions, and often budget holders can decide which suppliers they wish to use, potential contracts exceeding a certain threshold will usually need to follow a formal procurement process. Procurement plays a fundamental part in ensuring that the specification is fit for purpose, and are also responsible for further evaluation such as bidder credibility, whether they would fit with the company culture, financial stability, and pricing/contractual compliance.

SMEs should always observe the procurement timetable. Extensions to the procurement process timelines are rarely given unless the majority of participants request extensions due to a lack or absence of vital tender information or documentation.

Prequalification

All SMEs must be aware that a level due diligence needs to be undertaken by companies before they can invite SMEs to participate in a tender. This prequalification process is often undertaken informally through a few questions such as:

- 1) What is your turnover?
- 2) Are you able to provide the following goods or services?
- 3) Who are your relevant clients? Etc.

For higher value or/and more complex projects a more detailed prequalification process may be undertaken:

- Request for information (“RFI”) – Used by both public sector and private companies and should include a limited number of prequalifying questions. Usually this doesn’t include formal evaluation criteria and it is used to help the buyer scope the market capabilities to allow them to finalise their requirements.
- Prequalification Questionnaire (“PQQ”) – Predominantly used by the public sector (dependent on the contract spend) and should include a comprehensive number of prequalifying questions and evaluation criteria for shortlist to the tender stage. This is formally required by public sector procurement legislation so this is a formal part of the procurement process.

Any questions that SMEs have during the pre-qualification stage should be provided collectively in one email, or via the message board of the nominated e-procurement system, (not one by one) as the buyer will usually be unable to answer questions verbally. Furthermore, the buyer will have limited time to answer questions in writing, especially as they will have to circulate all questions to various business departments for answers.

Due diligence

Depending on the nature of the engagement, extensive due diligence may be conducted, the key areas reviewed are:

Financial Stability

All bidders should have up to date accounts available and ready to provide to the buyer. Not having access to or withholding such documentation raises suspicion about the short and long term stability of the company.

Due to a number of potential risks, such as bankruptcy, market risks, inflation, and insolvency, contracts awarded for certain goods or services (i.e. construction, IT/helpdesk support, software) should not represent more than a specific percentage of an SMEs annual turnover. The percentage varies according to an organisations’ procurement policy but all organisations will be required to ensure that the contract they are placing does not form a significant part of the supplier’s turnover.

This can cause a problem for SMEs bidding for high value contracts so the SMEs should confirm if this is a relevant prequalification criteria for the project they are bidding for at the earliest opportunity.

Indemnities & Insurance

SMEs should be aware that having access to up to date professional indemnity and public liability insurance certificates is critical and will normally be required at some stage during the procurement process. SMEs providing professional services (such as development, training, consulting, support etc.) should also ensure that they have a suitable professional indemnity policy that covers any reasonable risk of an infringement.

The Tender

Typically the potential contract value and complexity of the goods or services to be purchased determine the type of tender process to be followed. The tender process comprises of three sourcing approaches:

- The Request for Quotation (“**RFQ**”) - Used by private companies to obtain quotations from companies with a clear specification. There will be a less comprehensive evaluation undertaken. Also used by the public and private sectors to request quotations for a specific project from a panel of preferred or framework suppliers.
- The Request for Proposal (“**RFP**”) – Used by private companies to select suppliers for a larger project or for a preferred supplier relationship, and includes a comprehensive RFQ with a less defined specification and a more comprehensive requirements analysis and evaluation process. The RFP process is followed for higher contract value/profile procurement activity.
- Invitation to Tender (“**ITT**”) – Used by the public sector and some private companies, and forms a similar process to the RFP with clearly defined questions, requirements, pricing schedules, terms and conditions and a formal evaluation criteria.

The tender process is critical and must be adhered to by SMEs. Whilst you may have built a strong relationship with the budget holder, the tender award will be subject to approval from a number of stakeholders across the business that may not meet you and will therefore be basing their evaluation on your written response. With this in mind it is essential that the SME follows all instructions in the tender documentation and provides a comprehensive and complete response.

Pay special attention to the evaluation criteria to determine what is important and should be focused on in the response. In public sector tenders the evaluation weighting and achievable scores per section and question will be displayed. For private sector tenders only the evaluation criteria, without scores, will be displayed in the documentation. Before submitting your response make sure your tender is checked by stakeholders, the team etc. before it is released.

SMEs should also ensure that when submitting their proposal they have attached all required documents, accounts, certificates and forms. Tender documentation can often be complicated and include an array of questions and response requirements, so it is recommended that SMEs draft a checklist to ensure nothing is missing. All it can take is for one document to be missing for it to affect the evaluation process and the scoring of the bid.

Remember to treat the tender process as an interview by clearly articulating your capability, and asking questions where appropriate.

Policies & supporting information

As part of the procurement process, specific documents to support the SME response will be requested and must be provided. Lack of supporting information and documentation will affect the shortlist and award process.

Dependent on the nature of the required goods or services, the minimum policies and supporting information required will be:

- Company accounts
- Case studies
- IT Security/Business continuity
- Service Level Agreement
- Privacy/Data Protection Policies
- Corporate Social Responsibility and/or Social Value Policies

Price

SMEs should always ensure that their pricing is clear and shows all pricing components. This should include an itemised breakdown, clearly showing what is included and excluded from the pricing proposal, and any assumptions should be clearly outlined.

All pricing templates must be completed in accordance with the tender instructions. SMEs should seek clarification if the template is unclear.

SMEs must also be aware that the price evaluation often constitutes a large part of the overall tender evaluation. Where specifically requested, SMEs should propose open book pricing or outline their net profit.

SMEs can gain extra merit for proposing commercial models that demonstrate rewards for growth, increased revenue, and loyalty (e.g. volume related discounts, continuous improvement etc.). The 'total cost of ownership' approach is used for certain types of engagement such as outsourcing, software, and capital investment and so, where appropriate, it is worth including scenarios demonstrating Return on Investment for other clients.

All 'value added' goods or services to be provided within the tender should be clearly articulated, and any cost savings that they may bring should be clearly outlined as an additional benefit.

Referencing

When proposing reference clients, SMEs should ensure that wherever possible the proposed contacts are either in the same, or similar industry, or of a comparable contract value or specification.

The referee should be of appropriate seniority and be made aware of who may be calling them. Common questions asked during reference calls may be:

- Overview of the contract
- What's working well and not so well
- What do your employees say about the supplier

Negotiation

SMEs need to pay particular attention to this critical part of the procurement process. Negotiation will typically be undertaken at shortlist stage and will involve contract and pricing negotiation.

It is advisable that all SMEs are familiar with their competitors pricing and overall market competitiveness. An uncompetitive price from the outset may result in your business not being shortlisted. SMEs that are uncompetitive at shortlist and unwilling to negotiate are unlikely to be awarded the business.

Throughout both contract and commercial negotiations, be consistent and clearly outline where concessions can be made and why.

Above all SMEs must ensure that their pricing is sustainable and can be honoured throughout the term of the agreement.

The Contract

The majority of tenders will be subject to the terms and conditions attached in the tender documentation and they will be non-negotiable. In some instances they will be negotiated during shortlist, although in certain circumstances key terms may require preapproval as part of the tender process. It is recommended that these are reviewed in detail prior to accepting the terms.

SMEs should be aware that big companies negotiate and sign off on numerous contracts every day, therefore the need to present precedent agreements, reflecting standard heads of terms, to potential suppliers is critical to the efficiency of every big company. In certain circumstances the proposed terms will not reflect the nature of the engagement to be entered into. As the supplier you must educate the big company on the key sections that do not represent industry standards, citing examples of where the challenges exist, and where possible, propose a form of wording that may overcome the issues in a relevant clause.

As a potential supplier it is important that you recognise any contractual challenges or areas that you are unable to contractually or commercially fulfil. If anything is unclear then you should seek clarification before signing an agreement.

However, SMEs should be equally aware that contractual compliance and the ease and speed in which the buyer can execute the contract will often be taken into account in the decision making process, either formally or informally, so SMEs should only propose changes to a standard contract where necessary and appropriate.

You will typically need to sign the agreement prior to supplying goods or services so it is important to understand the contract approval process from the outset to ensure there are no delays.

Risk & Liability

One of the key areas that may present a commercial and contractual challenge to SMEs is Intellectual Property ownership. This should be fairly black and white whereby your expertise, products and documents are yours, but if you are paid to draft, manufacture, design or customise something specific for your client then it is theirs, unless you agree to provide a licence only.

Often large company liability indemnities do not align themselves to the scope of the contract. Excluding everything governed under law, large companies must assess the level of risk, for example, if you are a sole trader consultant engaged to create software code, there are a number of potential risks, such as the software consultant inadvertently introducing a virus or malicious code from a corrupt USB which could affect the backbone of an organisation effectively causing the business to cease trading for an amount of time. Big company insurers require that all sub-contractors have a reasonable level of professional indemnity insurance to cover for such eventualities.

Your insurance policy should be checked to ensure that you have the ability to fulfil the contract terms you are about to sign up to. In most instances the tender process will require you to provide a copy of your insurance policy so make sure there are no inaccuracies in the indemnities you are signing your company up to.

Payment terms

Cash flow is important for both parties so be reasonable about payment terms. Just because you are an SME does not entitle you to unreasonably short terms. SMEs should bear in mind that large organisations process thousands of invoices every month and are therefore restricted to one or two payment runs per month.

Anything less than 30 days is unreasonable to ask for and may raise suspicion about your company's financial stability. Anything more than 60 days is unreasonable for a supplier to request from an SME and should be rejected.

Payment Process

Obtaining a Purchase Order ("**PO**") is just as critical as a signed agreement. Furthermore, SMEs should ensure they are familiar with the PO or Payment process:

- Internal requisition will be raised by the business and be approved
- Requisition converted to a PO

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- PO approved and sent to supplier
 - Once you have provided your goods or services the requestor may need to receipt the goods or services in the PO before any invoice can be processed
 - You submit the invoice to be processed within Accounts Payables (AP)
 - Assuming all of the above has been completed then the invoice should be paid by AP within the agreed payment terms.

It is recommended that you clarify the payment process in advance and clearly follow each step, otherwise your invoice may be paid late or your invoice will need to be paid through an exceptions process. This is not where you want your company to be classified; you want the payment process to be slick and painless for both yourself and your client.

You are also recommended to chase for a PO number as without this number you will not be paid. Request this from your contact if one is not provided.

Structure & Approvals

Remember your business has tens of staff the big company has 1000s. More staff and departments means more contract and purchase order approval processes. Dependent on the value contract approval may need to be signed off by the relevant department head, Legal, Procurement, and Finance. All of which will have numerous, similar, and higher priority contracts to review and approve.

Implementation

It goes without saying that an SME needs to deliver on its promise and ensure that it delivers the goods or services as expected.

Ensure that the implementation or client on boarding has senior level sponsorship, i.e. Director or Managing Director; this should be offered from the outset. It is always worth remembering that a poor implementation or delivery of faulty goods, at the start of a contract means your company will have to work doubly hard to secure customer satisfaction on future work.

Performance Reviews

Ongoing service or delivery performance reviews should form a key part of your agreement with your client. This essentially ensures that your client is happy and they have less reason to retender or look for a new supplier.

If such monitoring is not part of your agreement, it is worth anticipating how your service or product offering could be assessed and monitored for the duration of the agreement. Proposing high level key performance indicators (“KPIs”) can help provide confidence that your business is doing a good job and ensure you keep the relationship on track.

About the Author

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After 15 years of supporting and building global procurement functions within the telecommunications and retail industry, Phil founded Bridge Procurement in April 2013. Phil has personally helped a number of fast growing organisations become more profitable by improving procurement processes, contracts, and policies to make client and supplier engagement more efficient and productive. Phil is fast becoming one of the UK's leading experts in improving commercial engagement between blue chip organisations and SMEs. Bridge Procurement helps companies of all sizes to reduce their operating expenditure, as well as increasing their revenue and improving sales conversion through perfected bid responses.

Please click here to find out more: www.bridgeprocurement.com

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